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## OMZ at a glance

**OMZ is one of the most dynamic** industrial companies in Russia. With less than nine years of operating history, OMZ has built on the tradition of the enterprises which it comprises of and is emerging as a fast growing international engineering company with strong positions at home and certain international markets.



**OMZ achieved** total sales of USD 523.8 million in 2004, a 54% increase compared with 2003, when sales constituted USD 340 million. Domestic sales in 2004 increased by 24% and amounted USD 252 million. International sales doubled during 2004 and reached USD 271.8 million which represents 52% of total sales. The Company's products are exported to over 30 countries throughout the world.

**The Company** has over 22,000 employees and is organized in four business segments:

- **Nuclear** Power Plant Equipment division (NPPEQ)
- **Specialty** Steels division (STEEL)
- **Mining** Equipment division (MINEQ)
- **Machinery** Manufacturing Services division (MMEQ)

**Located on** four production sites: Izhorskiye Zavody in St. Petersburg, Russia (Izhora), Uralmash Zavod in Ekaterinburg, Russia (Uralmash); Skoda JS in Plzen, Czech Republic, and Skoda Steel, also situated in Plzen, Czech Republic.

**Izhora and Uralmash** are multi-product manufacturing sites.

**Izhora is** a manufacturer of heavy engineering equipment, including equipment for nuclear power plants, mining equipment, equipment for the oil refining and petrochemical industries as well as specialty steel products.

**Uralmash is** a manufacturer of heavy machinery, including quarry shovels and draglines, metallurgical equipment, oil-drilling equipment as well as specialty steel products.

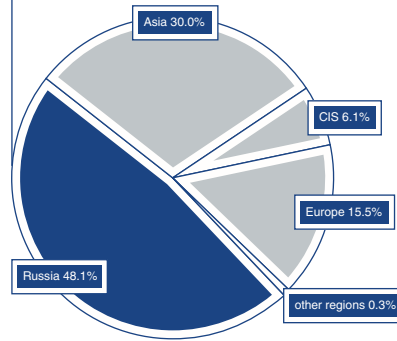
**Skoda JS and Skoda Steel** in the Czech Republic, which OMZ acquired in 2004, specialize in the manufacture of nuclear power plant equipment and specialty steel products, respectively.

**In addition** to its manufacturing sites OMZ has several representative offices throughout Russia as well as in Calcutta, India, and Beijing, China, to provide timely support to its customers.

**OMZ is** a public company whose shares are listed on the Russian Trading System (RTS) (ticker: OMZZ). In other to provide an efficient and transparent trading infrastructure for OMZ's shares the Company has created a Level-1 and 144A American Depositary Receipts (ADR) programs sponsored by the Bank of New York (ADR/common stock ratio – 1:1) which are traded over-the-counter in the US and Europe. In addition, in 2003 OMZ completed a listing of its ADRs on the London Stock Exchange (tickers: OMZD and OMZA) and became only the fourth Russian company to have its securities listed in the UK. As of July 2005 approximately 14% of OMZ's common shares are in the form of ADRs.

## sales

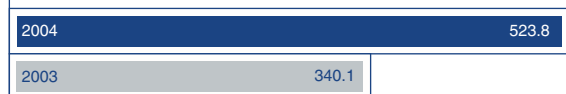
### sales by major geographic regions in 2004



## sales

### total sales

USD million



## sales

### international sales

USD million



## sales

### domestic sales

USD million



# letter to shareholders



## letter to shareholders

**2004 was** an eventful year for OMZ. The Company went through an intense period of changes both in its business structure and leadership.

**In December** of 2003 OMZ and Power Machines Group (PM) announced a plan to merge the two companies and create the largest power generation equipment enterprise in Russia with sales of USD 1+ billion and market capitalization of over USD 700 million. Consequently, during the first half of the year, top management focused on preparation for the merger and undertook a number of steps to facilitate the transaction.

**In February** 2004 we asked our shareholders to approve an additional issue of shares to effect the merger. A month later OMZ and PM announced a cross purchase of shares between the companies as a step further in the integration process that was eventually to lead to the official merger of the two companies.

**We gradually** passed operational control to PM's top management and in March 2004 the CEO of PM, Mr. Yakovlev, became the CEO of OMZ. Our longstanding CEO and founder of the Company, Mr. Kakha Bendukidze, remained the Chairman of the Board until June of 2004 when he was nominated by the Georgian President Mikhail Saakashvili as the Economics Minister.

**The new** top management continued to prepare OMZ for the upcoming merger. A decision was made to sell OMZ's Onshore&Offshore business (shipbuilding and oil drilling equipment) in a management buy-out as it was viewed as a non-core segment in the context of the merger strategy. The proceeds from the sale were used to strengthen the core businesses of the combined entity and in July 2004 OMZ acquired three subsidiaries of Skoda in the Czech Republic – Skoda JS (nuclear power plant equipment), Skoda Hute and Skoda Kovarny (both manufacturers of specialty steel).

**However, in** early August the merger negotiations with Power Machines broke off as it became apparent that the PM shareholders had received a bid from Siemens of Germany. This event had a significant destabilizing effect on our Company. Our stock price fell significantly on the news of the merger talks breaking off and by the end of December 2004 the stock price collapsed 65% as compared to the beginning of the year.

**Despite the** difficulties our 2004 results were satisfactory. Our sales grew 54% driven by continuing orders in the nuclear equipment business, demand for our specialty steel products, significant growth in our mining equipment business and our acquisition of Skoda JS and Skoda Steel. However, our margins fell considerably in all of our businesses primarily due to high metals prices and the significant appreciation of the ruble. We were squeezed between metals suppliers with near-monopolistic market positions and customers with strong buying power which made it difficult for us to pass on costs.

**The second** half of last year was a very challenging time for the team that took over the leadership of OMZ in August 2004 but we worked hard to bring the Company back on track. We had to regroup, build a new management team, review our strategy and put order in our sales and operations units.

### **Strengthen the team**

**Our major** task at OMZ is strengthening the management team. We realize that we would not be able to launch and successfully complete all of the new business initiatives and processes at OMZ described below if we do not have the right business culture and people for the job. Therefore, we have initiated a major drive to introduce new business practices and promote accountability on all levels of the organization.

**To support** these changes and ensure alignment of corporate and individual interests we developed an incentive program across all levels of management. Performance is measured according to achievement of certain operational and financial goals. Those include a targeted level of Group and divisional EBITDA, as well as Key Personal Indicators for each individual participating in the program that relate to business development, business process optimization, quality improvements, product development, etc.

**The challenges** of restructuring of our businesses and the pace of development of the industries we operate in require new types of managers: people who are energetic, capable of making edge decisions and executing them. We realize that we have a large pool of bright, capable people within the organization who need certain training for them to be able to use their full potential. At the same time we are actively hiring strong managers with experience and a track record of success from outside the organization. Since last August we have hired over 70 people in all areas of our operations: finance and HR, IT and MIS, business development, sales and marketing, services, purchasing and production planning, both on a headquarter and divisional level. And we are not done yet. You will see a lot of new faces at OMZ as we prepare for the future.

### **Sharpen the strategy**

**After the** merger talks with Power Machines broke off we had to rethink our strategy. We decided to focus on the four business segments in our portfolio: nuclear power plant equipment (NPPEQ), specialty steels (STEEL), mining equipment (MINEQ) and machinery manufacturing services (MMEQ); ensure stable earnings and increase the investment attractiveness of each business.

**We identified** several priority areas that we needed to focus on in order to achieve our goals.

**Increase the share of services** in our mining equipment and nuclear power plant equipment businesses in order to smooth revenues and deliver stable earnings that are not affected by the volatility of the original equipment business. Servicing of our equipment has not been an important business for us in the past as it has traditionally been done on-site by our customers. However, with the increasing specialization of mining companies and nuclear power plant operators on core activities, our customers are starting to look for full-service solutions. We are currently actively developing our service offering and have reached agreements on pilot projects with several of our customers. Developing the aftermarket sales is a priority for us as it is intrinsically a more stable and profitable business and could represent a significant growth leg for OMZ.

## letter to shareholders

**Finalize the business configuration** of our business segments. The Soviet-style production facilities that we inherited with the acquisition of Uralmash and the Izhora are burdened with a full range of in-house manufacturing processes and support services that make pricing non-transparent and prevent us from delivering internationally competitive products on a timely basis. Competitively, we are at the cross-road of three trends in our industries – an increasingly customized product offering, a demand for ever shorter delivery times and a developing competition from cheap manufacturing companies in China and other Asian countries. To stay competitive in such an environment we need to have flexible manufacturing processes and sales organizations, be prepared to respond faster to customer needs. Hence the need to restructure our facilities and review the configuration of our businesses.

### a) Segmentation

**We made** the first steps of restructuring a couple of years ago when we separated our business into different divisions, each with its asset base and P&L. This process is still ongoing and in 2004 we further capitalized our mining equipment and specialty steel businesses. The resulting transparency helped us to understand our businesses better in terms of sources of revenues, growth and profits.

### b) Sale of non-core businesses

**The sale** of non-core businesses, usually businesses that provide support products and services, is a major way for us to create a more flexible organization, unburdened by businesses that do not need to be kept in-house but can be used on an as-needed basis and procured on market terms. We made significant progress in 2004 and intensified the sale of non-core assets which had come to a halt during the merger negotiations.

**Divestitures during** 2004 totaled approximately USD 33 million and by June 2005 we had received USD 23 million in cash with the outstanding amount to be received by the end of 2005. We plan to sell further USD 20 million worth of non-core assets during 2005.

### c) Outsourcing

**It is** clear to us that to a large extent flexibility in all areas of the business can be achieved through outsourcing. Outsourcing will be a major priority for us in the coming years and it will involve significant restructuring of our asset base and business configuration.

**In this** connection we are currently conducting a thorough analysis of our operations as well as our product and service offerings in order to determine the key processes and components that give us a competitive advantage. Those will be the ones that we would keep in-house and invest in further. The remaining operations and/or components we would seek to outsource in order to shorten lead-times, reduce costs and increase flexibility. The acquisition of Skoda JS and Skoda Steel would help us tremendously as those two companies have excellent experience in this process having gone through similar restructuring a few years ago.

### Improve finances

**The immediate** concern of our team when we took over in August was our financial position. The majority of our debt was due by the end of the year and we had to work hard with our lenders to refinance our position. Our situation was further complicated by the put option and coupon reset auction on our ruble bonds in September 2004 when the unfavorable perception of our Company on the market led to an increase in the coupon rate we had to absorb. However, in August we promised our shareholders that we would reduce debt from USD 262 million to USD 220 million by December and we kept that promise by using all free cash available from operations, the sale of non-core assets and the optimization of working capital to pay down debt. We believe that through continuing improvements in working capital management, further sale of non-core assets and improvement in our operations we would be able to maintain debt at that level through the end of 2005.

**Our efforts** to rebalance the debt portfolio paid off: we worked closely with our bank lenders to strengthen our relationship with them, improved the information exchange to help them better understand our current business needs and managed to increase the average maturity of the debt portfolio from 178 days in August 2004 to 286 days at the end of December 2004. By all accounts this is not an impressive result, however in the absence of long-term credit for enterprises in our industry and of our size, constant refinancing to ensure funding for long-term contracts has turned into a routine transaction.

**Our liquidity** improved as well and as of July 2005 we have USD 132 million in credit lines, credit limits and deposits that cover about 80% of the debt due within one year. In order to further optimize the debt position we plan to increase the share of public debt instruments in our portfolio and are considering an issue of Credit Linked Notes to replace our short-term bank loans.

### **Optimize operations**

**After taking** a careful look at our operations and organization we identified two priority areas where small improvements could bring significant results:

- a) optimizing the structure of working capital
- b) improving operational efficiency through optimization of business processes and aggressive cost-cutting

**During 2004** we established tighter control over the purchasing and procurement functions within the OMZ production sites. Our efforts paid off and by the end of the year we managed to achieve positive cash-flow from operations for the first time in our history. We will continue our efforts in this area.

**Optimization of** our business processes is another field we need to plough through. We are currently finalizing technological audits of our manufacturing facilities with the aim of identifying possible areas of improvement in material handling, production processes, use of space, worker efficiency, etc.

### **Integrate our Czech acquisitions**

**The integration** of Skoda JS and Skoda Steel in the Czech Republic, which we acquired in August 2004, is an important task for us. We are eager to realize the synergies from the incorporation of these companies in our business model. One of the biggest benefits from this acquisition is the transfer of know-how in restructuring and outsourcing. Up until a few years ago Skoda JS and Skoda Steel had a very similar asset base to OMZ but they went through a major restructuring process as

a result of which productivity by employee went up by 60%, business processes were scrutinized and radically optimized. We currently draw heavily from this experience during the technological audits of our manufacturing facilities mentioned above and consider this experience a major synergy from the acquisition.

**Having the** Skoda JS and Skoda Steel facilities allows us to specialize our production sites on specific products and services. In our nuclear power plant equipment business we will build on the experience of Skoda JS in manufacturing spent nuclear fuel containers and providing services and upgrades to nuclear power plant operators in Eastern Europe and Russia. At the same time our facilities in St. Petersburg (Russia) will focus on manufacturing large modules for nuclear power plant equipment destined for the Russian and Asian markets.

**By the** time we acquired Skoda Steel last year the company had invested more than USD 45 million in capex over the preceding five years which made it one of the best equipped mechanical processing facilities in Europe. Therefore, we plan to channel a large part of the business that involves mechanical processing to Skoda Steel while our Russian facilities will focus mostly on casting and forging operations. Specialization of our facilities will allow us to take full advantage of the core capabilities and available skills at each site.

**We have** put ambitious goals for 2005-2007 before us and we are intensely focused on achieving them. Growing the business and improving operational efficiency will require a significant effort from our employees and the collaboration of our suppliers and customers. As we move to become a better company we are dedicated to doing the best possible job for our shareholders, customers, partners and employees.

**We thank** our shareholders for their continued support throughout the years. We will do our best to continue to earn that support in the future.



**Sergey Lipsky**

**CEO, OMZ**

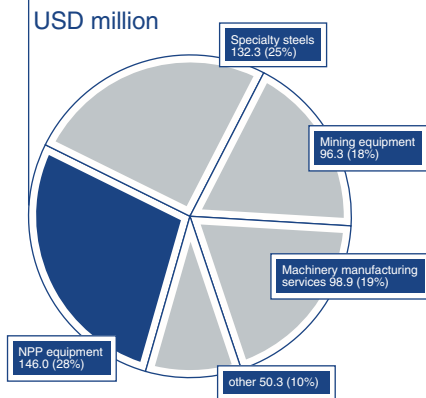


# business segments

## business segments

### sales

#### sales by business segments in 2004



**OMZ has** focused its operations on four core businesses:

- **manufacturing** and servicing of nuclear power plant equipment (NPPEQ)
- **production** of large size forgings, castings and other products from specialty steels (STEEL)
- **engineering**, manufacturing and servicing of mining equipment (MINEQ)
- **manufacturing** of a wide range of metallurgical, handling and oil-drilling equipment according to own and third party engineering (MMEQ)

**The goal** of the Company is to ensure stable profitability with maximum transparency of the four businesses and increase the investment attractiveness of each of them as a separate business.

## nuclear power plant equipment division

**The Nuclear Power Plant Equipment Division (NPPEQ)** is the largest business segment of OMZ contributing USD 146 million or 28% of the Company's 2004 sales.



**The NPPEQ** division provides the following products and services to the nuclear power industry:

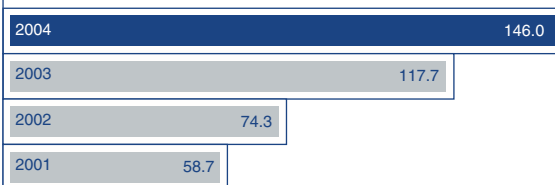
- **engineering**, procurement, installation and commissioning (EPIC) of the "nuclear island" for nuclear power plants, including the manufacture of primary circuit equipment for pressurized water nuclear reactors (VVER) with 440 MW and 1,000 MW capacity
- **upgrades**, maintenance and services of primary circuit equipment for pressurized water reactors
- **containers** for transportation and permanent storage of spent nuclear fuel
- **cranes** used for in-house handling of nuclear power equipment and refueling operations
- **oil** and gas processing equipment (as replacement products)

## nuclear power plant equipment division

### sales

#### sales of nuclear power plant equipment

USD million



**NPPEQ division** includes two production sites: Izhora, located in St. Petersburg and the recently acquired Skoda JS in the Czech Republic, as well as an engineering and sales company, Komplet-Atom-Izhora, based in St. Petersburg.

**The acquisition** of Skoda JS in 2004 was an important step for the division as it significantly strengthened our market profile.

**OMZ plans** to build on the experience of Skoda JS in the delivery of services and technical maintenance to nuclear power plants. Developing a comprehensive offering of full service solutions to nuclear power plant operators in Russia and Eastern Europe is a priority for OMZ.

**Engineering, procurement, installation and commissioning (EPIC) of the “nuclear island” for nuclear power plants, including the manufacture of primary circuit equipment for pressurized water nuclear reactors (VVER) with 440 MW and 1,000 MW capacity.**

**OMZ’s NPPEQ** division manufactures primary circuit equipment for pressurized water reactors VVER-440 and VVER-1000 which have been installed in 71 nuclear power plants throughout Russia, Ukraine, Bulgaria, Iran, Slovakia, Finland and Hungary.

**Four foreign** nuclear power blocks currently under construction are being outfitted with OMZ’s VVER-1000 reactors: the first and second blocks of the Tianwan NPP in China and the first and second blocks of the Kudankulam NPP in India.

**In 2004** NPPEQ shipped 124 tons of equipment for two pressurized water nuclear reactors of 1,000 MW capacity each to the Tianwan NPP and their installation is currently under way. Commissioning of the first reactor is scheduled for the fall of 2005 and the second reactor – for the beginning of 2006. The total amount of the Tianwan contract is approximately USD 142 million. The Tianwan station is prepared for four nuclear blocks in total. The decision for the construction of blocks #3 and #4 is expected to be taken after the launch of block #1 and OMZ is well positioned to receive the contract for these two additional blocks.

**During 2004** NPPEQ shipped the reactor vessel and a large volume of related equipment for the first block of the Kudankulam NPP in India. That block is scheduled to be commissioned by the end of 2007. During the first half of 2005 OMZ shipped the reactor vessel for the second unit of the NPP which is scheduled to be commissioned at the beginning of 2008. The total amount of the Kudankulam NPP contract exceeds USD 300 million.

**The Kudankulam** NPP contract gave OMZ an opportunity to develop its capability as an EPIC contractor for the so called “nuclear island” - the area of a nuclear power plant which holds the nuclear reactor and all related equipment. OMZ will continue to develop its competence in this area of our NPPEQ business.



**Developing a new** generation light water reactor with a 1,500 MW power generation capacity (VVER-1500) is a strategic priority for the Russian nuclear industry and OMZ participates in this project which is currently at the engineering and technical testing stage.

**Several significant** contracts have been awarded to our Czech subsidiary, Skoda JS, for the delivery of control drive rods, one of the major products manufactured at Skoda JS. Control drive rods were supplied to the South-Ukraine NPP (72 units), Zaporozhe NPP, Ukraine (58 units), and the Hungarian Paks NPP (76 units). Orders for control drive rods were also awarded to the Izhora in St. Petersburg and in 2004 we supplied 10 units to the Bohunice NPP in Slovakia.

**OMZ's NPPEQ** division cooperates with other manufacturers of nuclear power plant equipment and carries out sub-contract work. In 2004 Skoda JS completed two contracts for the supply of parts for VVER-type fuel assemblies on behalf of Westinghouse.

### **Upgrades, maintenance and services of primary circuit equipment for PWR**

**One of** the largest projects of our subsidiary, Skoda JS, in the Czech Republic is the instrumentation and control system upgrade of four VVER-440 blocks of the Dukovany NPP (Czech Republic), which Skoda JS signed in 2000. In June 2005 Skoda JS completed the upgrade of block #3 of the station. The refurbishment of the remaining units will be completed in stages as follows: block #1 – by the end of 2007, block #2 – by the end of 2008 and block #4 – by the end of 2009.

**During 2004** NPPEQ division (Izhora) completed the repair of two heat exchangers for the Kalinin NPP under a contract with Rosenergoatom, Russia's nuclear power plant operator.

**Last year** the NPPEQ division focused on strengthening its service business and continued to supply primary-circuit replacement parts for a number of nuclear power plants in the Czech Republic, Slovakia, Ukraine, Hungary and Finland.

### **Containers for transportation and permanent storage of spent nuclear fuel**

**The NPPEQ** division has recently expanded its product line and entered the growing market for nuclear waste management equipment and services. NPPEQ's main product catering to this market segment is a dual-purpose spent nuclear fuel transportation and storage container that allows the handling of spent nuclear fuel from pressurized water reactors and light-water graphite reactors, as well as reactors from research facilities and nuclear submarines.

**Skoda JS** cooperates with GNS, a German manufacturer of waste management products, on a cask production program for dry spent nuclear fuel storage. Throughout 2004 Skoda JS delivered Castor® 440/84 casks for the Dukovany NPP, Constor® RBMK casks for the Ignalina NPP and Castor® HAW 20/28 casks to GNS for customers in Germany. In addition, Skoda JS signed a contract with GNS for the supply of three Castor® HAW 20/28 casks for the German interim spent fuel storage EWN in Greifswald.

### **Cranes used for in-house handling of nuclear power equipment and refueling operations**

**In 2004** the NPPEQ division entered a new niche in the nuclear power plant equipment market with the introduction of polar cranes and refueling handling machines. OMZ delivered electric traveling rotary cranes for the Kudankulam NPP (India) and is currently working on a refueling machine for that station.

### **Oil and gas processing equipment (as replacement products)**

**Equipment** for the oil and gas processing industry can be manufactured in the same facilities as nuclear power plant equipment since the production processes for these two types of equipment are very similar.

**In December 2004** Skoda JS successfully completed the renovation, installation and commissioning of the liquefied gas-processing equipment at Severgasprom, a gas-processing plant in Sosnogorsk, Russia, a project which Skoda JS had begun in 2000.

## specialty steels division

### sales

#### sales of specialty steels products

USD million

Year	Total Sales	External Sales	Internal Sales
2004	180.5	132.3	48.2
2003	103.3	49.5	53.8
2002	104.6	46.4	58.2
2001	138.5	57.2	81.3

The Specialty Steels Division (STEEL) is the second largest business segment of OMZ contributing USD 132.3 million or 25% of the Company's 2004 sales.

The STEEL division specializes in the production of semi-finished metallurgical products from special-steel grades, such as high-tensile, stainless, corrosion and radiation resistant, high-alloy, heat-resistant, non-magnetic and low-temperature-resistant steels.

**Main products** of the STEEL division include:

- **vacuum-treated** ingots weighing up to 360 tons
- **electroslag** re-melting ingots weighing up to 60 tons
- **vacuum-arc** re-melting ingots weighing up to 40 tons
- **forgings** of weight up to 230 tons
- **castings** of weight up to 130 tons
- **sheets** of widths up to 4,600 mm and thickness from 10 to 450 mm
- **two-ply** and three-ply sheets and slabs of widths up to 4,000 mm and thickness from 8 to 150 mm, weighing up to 40 tons

The STEEL division comprises metallurgical facilities at Uralmash in Ekaterinburg and Izhora in St. Petersburg, as well as the recently acquired Skoda Steel (Hute and Kovarny) in Plzen, Czech Republic. Annual capacity of the division reaches 40,000 tons of castings and 80,000 tons of forgings. We estimate that we hold 35% market share in forgings and 30% share in castings within Russia and the CIS countries.

The acquisition of Skoda Steel in the Czech Republic in 2004 offered a unique opportunity for OMZ to strengthen our presence on the European market. The manufacturing facilities of Skoda Steel include steel, nodular and gray iron foundry, heat treatment facilities as well as state-of-the-art turn milling centers for precision machining.

The STEEL division serves both external customers and other entities within the Company. A considerable part of the STEEL division's output is consumed by OMZ's other business segments which use large amounts of steel elements as manufacturing components. As our STEEL business grows, we grow the share

of sales to external customers. In 2004 external sales almost tripled and contributed 73% to the output of the division as compared to 48% in 2003 and 44% in 2002.

The main external customers of the STEEL division are Russian engineering companies such as Electrosila and Leningradsky Metallichesky Zavod (both Power Machines facilities), Mashzavod ZIO Podolski, VSMPO-AVISMA (titanium-magnesium works), Sevmash. Traditional customers of Skoda STEEL are international companies such as GE Wind Energy, Hyundai Heavy Industries, Siemens AG, Aker Kvaerner Heavy Engineering and Caterpillar Engines.



**The production** technology of the STEEL division allows us to manufacture items to customers' specifications, such as:

- **castings** for large tankers, nuclear-powered ships and military vessels
- **large** propeller screw assemblies
- **forged** ship shafts up to 22 meters in length
- **castings** for hydraulic turbines, press-forging, rolling, petrochemical and other equipment
- **pressure** vessel shells
- **shafts** and rotors for the power generation industry
- **hot** and cold rolls (back-up and work rolls) for hot and cold rolling mills
- **retaining** rings for rotor and turbogenerators
- **moulds** for cast-iron pipes
- **mandrels** for tube-rolling mills

**Forgings and castings** have traditionally been a strong area of the STEEL division and OMZ is the only Russian company capable of producing solid-forged rotor blanks for steam turbines and turbo-generators with capacities of up to 1,200 MW. OMZ possesses the most powerful automated forg-

ing facility AKK-12000 in Russia and Europe. Our forging production is certified by DNV, Lloyd's Register, Bureau Veritas Quality International and the Russian Marine Register of Shipping. In addition, the Company recently obtained an ISO-9001 certification for all of its manufacturing facilities.

**Recently**, the STEEL division has experienced increased demand for casting and forging products which could be attributed to the growth in key industries such as power generation, ferrous and non-ferrous metals, chemical and petrochemical machine building, metallurgical and construction industries.

**Skoda Steel** is a world leader in main shafts for windmills as well as heavy crankshafts for 4-stroke diesel engines, with a 40% of the world market for these products. Other products of Skoda Steel include shafts for turbines and generators, compressor shafts, ship shafts, rudder stocks, engine frames, machine tools castings, rolls for rolling mills and other steel products.

**A significant** competitive advantage of Skoda Steel is the ability to manage the complete manufacturing cycle for shafts starting with the production of steel, ingot making and forging followed by the machining process including final painting.

**The STEEL division** produces two-ply and three-ply sheets using an in-house proprietary technology and methodology for rolling asymmetrical packs. Metal-clad sheets and plates are used in manufacturing vessels and pipelines, protective sheeting on offshore drilling platforms and for fabricating primary circuit equipment for nuclear power plants.

**Another product** of the STEEL division are moulds for cast-iron pipes. In 2004 the division exported over 70 moulds for centrifugal casting of pipes, including moulds 2,000 mm in diameter. OMZ is one of several companies in the world, capable of producing extra-strong solid-forged articles. The division's share of the pipe moulds world market reached 7% in 2004.

**Major products** of the STEEL division are hot and cold rolls. In 2004 rolls production increased by 24% and reached 11,800 tons. Rolls produced by STEEL are applied in hot-rolling and cold-rolling mills as back-up and work rolls. The main customers for rolls are the leaders of the Russian metallurgical industry: Lipetsky Metallurgical Works, Magnitogorsky Metallurgical Works, Severstal.

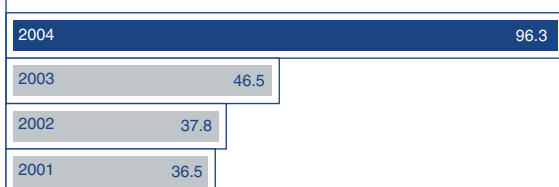
**The STEEL division** constantly expands its business geography and export sales. A third of the rolls we produced in 2004 were exported. We shipped 3,800 tons of rolls to customers in Kazakhstan, Pakistan, Romania, India, Spain, France, the Czech Republic and others. Approximately 80% of the output of Skoda Steel is exported to countries in Western and Eastern Europe. In addition to traditional export markets the division sought to increase its presence in the fast growing Chinese market and in 2004 STEEL signed long-term contracts with Chinese companies for the delivery of turbine rotors.

## mining equipment division

### sales

#### sales of mining equipment

USD million



The Mining Equipment Division (MINEQ) is the fastest growing business segment of OMZ contributing USD 96.3 million to the Company's 2004 sales, a 107% increase over 2003.

The MINEQ division specializes in engineering and manufacturing of equipment and machinery for open-cast mining and mineral processing. The division's core products include:

- **walking** draglines for overburden operations with bucket capacities from 11 to 100 cubic meters and boom length from 75 to 130 meters
- **crawler** draglines for overburden and loading operations with bucket capacities from 3 to 9 cubic meters
- **quarry** shovels with dipper capacities from 5 to 20 cubic meters
- **hydraulic** shovels for excavation and loading operations
- **rotary** blasthole drills ranging in hole diameter from 27 to 31 cm and drilling rocks of any hardness up to 32 meters in depth in preparation for open-cast mining operations
- **primary**, reduction, secondary and tertiary cone crushers as well as rod, ball and autogenous grinding equipment used at ferrous and non-ferrous mining and processing enterprises, in the diamond, chemical and construction-material mining industries

#### The MINEQ division

includes two production and engineering sites: Izhora, located in St. Petersburg and Uralmash in Ekaterinburg, as well as service centers in Kemerovo and Krasnoyarsk and representative offices in China and India.

The MINEQ division sells to four sub-sectors of the mining industry – coal, ferrous metals, non-ferrous metals and construction materials sectors.

The principal markets for our mining equipment are Russia and the CIS countries where the Company sells approximately 90% of the division's output. MINEQ's largest domestic customers are Kachkanarsky GOK (ore processing plant), Lebedinsky GOK, Stoylensky GOK, Karelsky Pellet Company, Yuzhny Kuzbass Coal Mines, Severstal and others.





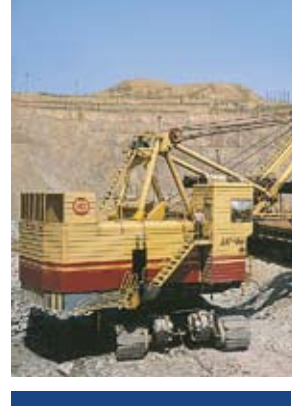
Over 60% of MINEQ's exports are destined to CIS countries, particularly Kazakhstan, Ukraine and Uzbekistan, with the balance going to China, India, Mongolia and Vietnam. In 2004 MINEQ supplied crushing equipment to Erdenet, an ore processing plant in Mongolia, a primary crusher to the Coal India Ltd. and spare parts to CIS and Asian customers.

To support sales to India and China the Company opened representative offices in Calcutta and Beijing at the beginning of 2004. Through these offices the MINEQ division is working with local authorities and clients to promote its presence in those markets. In addition, MINEQ is actively seeking alliance partners in order to establish a foothold in the Middle Eastern, North and South American markets.

2004 saw a 107% growth in mining equipment sales. A combination of factors contributed to the strength of the mining equipment market. The significant increase in commodities prices throughout 2004 led to a desire by operators to increase output which in turn resulted in substantial growth in demand for mining equipment, especially from customers in the iron ore, coal and construction materials industries. In addition, many customers have launched investment programs to upgrade and replace aging equipment and that resulted in growth in replacement equipment demand. The consolidation in the mining sector had a beneficial effect on capital expenditure in the industry and created positive conditions for long-term investments in equipment.

During 2004 the MINEQ division delivered to its clients 39 heavy mining shovels with dipper capacities from 5 to 18 cubic meters, as well as twelve complete sets of crushing and grinding equipment. Aftermarket replacement parts sales contributed 20% to the 2004 sales of the division.

An installed base of 8,000 shovels, 150 draglines, 17 rotary drilling rigs, 2,700 crushers and 1,000 mills around the world provides a strong foundation for aftermarket sales of services and spare parts. Developing the service component of our mining equipment business is a priority for the MINEQ division as it adds more stable and profitable operations to the business. Servicing of our equipment sold within Russia and the CIS has traditionally been done on-site by our customers. However, with the development of the mining industry and the increasing specialization of mining companies on core activities, our customers realize the need for full-service solutions. MINEQ is currently actively developing its service offering and has reached agreements with several existing clients on pilot projects whereby OMZ would take on the full servicing of the client's equipment, guaranteeing a pre-agreed coefficient of availability of the equipment. We expect the aftermarket component of our business to contribute significantly in the next few years as the market for services and spare parts develops further.



The MINEQ division is seeking to optimize its product line and source a larger proportion of electric and control systems from international suppliers. In 2004 MINEQ completed R&D work of two new models of quarry shovels. EKG-1500R (rack shovel) has dipper capacity of 18 cubic meters (with detachable dippers of 15 to 25 cubic meters) and EKG-1500K (rope shovel) has dipper capacity of 26 cubic meters (with detachable dippers of 18 to 40 cubic meters). The large dipper capacity increases the shovel's output by 40% as compared to traditional models. The new shovels will be outfitted with state-of-the-art control systems, provided by leading international suppliers.



## machinery manufacturing services division

### sales

#### sales of machinery manufacturing services

USD million

<b>2004</b>	<b>160.1</b>
external sales	98.9
internal sales	61.2
<b>2003</b>	<b>105.2</b>
external sales	55.3
internal sales	49.9

### The Machinery Manufacturing Services

#### Division (MMEQ) of OMZ contributed USD

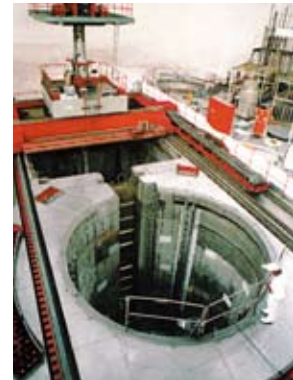
98,9 million or 19% to 2004 total sales.

The MMEQ division specializes in manufacturing and assembling of large-size parts and components according to its own as well as third party engineering. A major part of the division's sales are contributed by sales to other divisions within OMZ. The main products of MMEQ are:

- **metallurgical** equipment including sinter equipment, blast furnace equipment, continuous casting machines, rolling mills and heavy hydraulic presses
- **industrial** cranes and handling equipment for different industries, including general purpose overhead traveling cranes, metallurgical cranes, portal cranes as well as special-purpose cranes for NPPs

- **equipment** for heat-power and hydropower generation: parts for hydroturbines and related steel structures
- **oil** drilling equipment including light and heavy oil drilling rigs
- **equipment** for the cement industry: basic parts of rotary kilns, reducers, large shafts and rims
- **coke-chemical** equipment, including coal loaders, coke pushers, etc.

**MMEQ comprises** the engineering and manufacturing capabilities of Uralmash in Ekaterinburg. The division includes a steel structure plant, machining and assembling facilities and a scientific research and design institute for the design of handling equipment.



In 2004 MMEQ manufactured on behalf of our nuclear power plant equipment division a polar crane of a unique design for the first unit of the Kudankulam NPP in India. The crane weighs about 600 tons and has a maximum hoisting capacity of 450 tons. MMEQ manufactured a second polar crane for the second block of the Kudankulam NPP as well as two re-fueling machines and two trestle cranes. During 2004, more than 40 units of handling equipment of hoisting capacities from 1 to 32 tons were manufactured by MMEQ on behalf of the NPPEQ division for the Kudankulam NPP.

**MMEQ's most** important external clients are metallurgical enterprises that wish to acquire new or upgrade their existing equipment. In 2004 the MMEQ division delivered a continuous casting machine and a blast-furnace jacket to Severstal and two turnaround charging cranes to Asha Metallurgical Works. On several large metallurgical equipment projects MMEQ works closely with such engineering companies as Danieli&C. Officine Meccaniche S.p.A.

**Another product** that contributes significantly to MMEQ's sales is oil drilling equipment. MMEQ continues to manufacture a large range of oil drilling rigs under engineering of MNP – Onshore&Offshore, a business that we sold last year in a management buy-out.

**MMEQ also** works actively in the field of power generation equipment supplying parts and modules to other equipment manufacturers. In 2004 OMZ signed a frame agreement with Power Machines for the supply of equipment for the modernization of the turbines at the Volzhsky Cascade (a series of hydroelectric power stations on Russia's Volga River).

**Currently the** division is in the process of manufacturing a casting crane of 520 tons hoisting capacity for Severstal and 20 special-purpose trestle cranes for OMK (United Metallurgical Company).

## geographic coverage



**Headquarter:**  
Moscow (Russia)

**Production sites:**  
St. Petersburg (Russia)  
Ekaterinburg (Russia)  
Pízen (Czech Republic)

**Mining equipment service centers:**  
Kemerovo (Russia)  
Krasnoyarsk (Russia)

**Representative offices:**  
Calcutta (India)  
Beijing (China)

**Geographical segments,**  
in USD million

Sales

2004      2003

	2004	2003
Russian Federation	252.0	203.8
Commonwealth of Independent States	31.7	9.7
Asia	157.4	108.7
Europe	81.2	14.2
Other regions	1.5	3.7
<b>Total</b>	<b>523.8</b>	<b>340.1</b>

## financial highlights

**Despite a challenging** global marketplace for the heavy engineering and machine-building industry, OMZ grew sales by 54% in 2004 to USD 523.8 million and increased EBITDA by 22% to USD 39.5 million.

**The following** summarises OMZ's results of operation for the year ended December 31, 2004 and 2003.

**All figures** are in USD million, unless indicated otherwise.

	2004	2003
Sales	523.8	340.1
Gross profit	102.0	104.8
EBITDA*	39.5	32.4
EBIT*	21.8	24.6
Net income	61.0	16.4
Total assets	901.0	649.5
Cash-flow from operations	16.4	(52.7)
Share of international sales, %	52	48

\* adjusted for non-cash items

source: OMZ IFRS audited financial statements

Business segment	2004	Share of total sales in 2004, %	2003	Change, %
NPPEQ	146.0	28	117.7	+24
MINEQ	96.3	18	46.5	+107
STEEL	132.3	25	49.5	+167
MMEQ	98.9	19	55.3	+79
Other	50.3	10	71.1	-29
Total	523.8	100	340.1	+54

source: OMZ IFRS audited financial statements

**Our key segments** experienced significant organic growth during 2004, due to higher demand for equipment resulting from higher commodities prices and acquisitive growth due to additions to the Specialty Steels and Nuclear Power Plant Equipment divisions of the Czech subsidiaries Skoda Steel and Skoda JS, respectively.

## corporate highlights

### December 2003

OMZ and Power Machines Group announce plans to merge the two companies, a move designed to create the largest power generation equipment manufacturer in Russia.

### January 2004

OMZ's MMEQ division wins a tender to supply 2,440 tons of equipment for a continuous casting machine to Severstal-mash (Severstal-Group).

### February 2004

OMZ redeems the 2nd series of its local bonds with a total nominal value of 390 million rubles. The bonds were issued in September of 2001, had a 900 day maturity and paid semi-annual coupons.

### March 2004

In line with the OMZ – Power Machines merger plans, Yevgeny Yakovlev (CEO of PM) is appointed as CEO of OMZ.

OMZ's MINEQ division ships 13 heavy excavators (EKG-10, EKG-5A, EKG-12) and 6 crushers to Severstal, Vestprom (Razrez Kiselevsky), South Kuzbass, Kachkanarsky GOK (mining company), Poltavsky GOK and others.

OMZ redeems the 3rd series of its local bonds with a total nominal value of 390 million rubles. The bonds were issued in October of 2001, had a 900 day maturity and paid semi-annual coupons.

A casting crane of 450 tons hoisting capacity manufactured by OMZ's MMEQ division is commissioned at the Magnitogorsk Iron and Steel Works.

### April 2004

The Audit Committee at the Board of Directors of OMZ approves the decision of management to adopt International Financial Reporting Standards (IFRS) in preparing the Company's financial statements. Previously OMZ had prepared its financial statements under US GAAP.

OMZ is recognized as the best Russian Engineering Company by Global Finance magazine.

OMZ's MMEQ division is awarded a USD 1 million contract for the manufacture of two turnaround charging cranes for the Asha Steel Mill (Chelyabinsk Region).

### May 2004

OMZ divests its division OMZ Onshore&Offshore (shipbuilding and oil-drilling equipment). The sale is conducted within the framework of the merger plans with Power Machines and the strategy of the combined company to focus on power generation equipment.

OMZ's MMEQ division signs a contract with Power Machines for supply of equipment for the modernization of two turbines at the Volzhsky Cascade.

Pressure vessel R-1000, produced by Izhorskiye Zavody, is delivered to the Ryazan Oil Refinery (a TNK-BP company).

### June 2004

OMZ's MMEQ division is awarded a contract for the production of a casting crane of 520 tons hoisting capacity for Severstal.

The MINEQ division delivers 8 heavy excavators and 1 crusher to KMA-Holdingtrans, Poltavsky GOK and Karelsky Pellet Company.

Band mill MEBA 560GA-3300 (Germany) automated line is launched into operation at Uralmash .

### July 2004

OMZ acquires three subsidiary companies from Skoda Holding (Czech Republic): Skoda JS (nuclear power plant equipment) and Skoda Steel (Skoda Hute and Skoda Kovarny) (both specialty steels).

OMZ completes trials of reactor vessel VVER-1000 for the first block of the Kudankulam NPP (India).

OMZ's MMEQ division ships 1,000 tons of rolls for Ispat-Karmet (Kazakhstan), Lloyd Steel and Jindal (India) and Pak Steel (Pakistan).

## August 2004

Negotiations between the major shareholders of OMZ and Power Machines regarding the merger of the two companies are terminated by mutual agreement.

OMZ's Board of Directors appoints Sergey Lipsky as CEO of OMZ.

OMZ's MMEQ division completes trials of the rotary crane for the first block of the Kudankulam NPP (India).

## September 2004

OMZ sets the annual coupon rate for the 4-7 coupons of its 4th series ruble bonds at 14.25% at an auction on the Moscow Interbank Currency Exchange.

The MINEQ division ships 7 heavy excavators (EKG-10 and EKG-15) and 2 crushers to Karel'sky Pellet Company, Kuzbassrazrezugol and Inguletsky GOK.

## October 2004

Expert Rating Agency recognizes OMZ as the leader in sales growth during the past 10 years among 400 largest Russian enterprises with a CAGR of 56.3% (analysis done under Russian Accounting Standards).

OMZ's STEEL division obtains Det Norske Veritas (DNV, Norway) certificate for production of steel

forgings, including the production of stainless steel forgings.

OMZ's NPPEQ division signs a contract for the repair of the VVER-1000 reactor lid at the fifth block of the Novo-Voronezhskaya NPP.

## November 2004

OMZ redeems USD 30 million Credit-Linked Notes (CLNs) which it had placed in November 2002.

Standard & Poor's Ratings Services affirms its 'CCC+' ratings on OMZ and removes the Company from CreditWatch, where it was placed on December 19, 2003. The outlook is stable.

Reactor vessel VVER-1000, produced at Izhorskiye Zavody, is awarded first place at the "100 best goods of Russia – 2004" award.

OMZ's MMEQ division is awarded a 10 million euro contract for the delivery of equipment for two continuous casting machines to the Taganrog Metallurgical Works and Seversky Tube Works (part of Trubnaya Metallurgical Works). The equipment is designed by SMS Demag (Germany).

OMZ's NPPEQ division ships reactor vessel VVER-1000 for the first block of the Kudankulam NPP (India).

OMZ's NPPEQ division is awarded a contract for the delivery of 10 PRO-M drives to Bohunice NPP (Czech Republic). The drives are produced at Izhorskiye Zavody.

Skoda JS (NPPEQ division) signs a contract for the upgrade of the polar cranes at the Kozloduy NPP (Bulgaria).

OMZ signs a USD 6.5 million contract with Severstal for the delivery of 1,000 tons of equipment for plate mill 5,000.

## December 2004

A new manipulator of 40 tons hoisting capacity is put into operation at Skoda Kovarny (STEEL division).

Skoda JS (NPPEQ division) signs a 20 million euro contract for the supply of PRO-M drives for the Paks NPP (Hungary).

OMZ's MMEQ division ships an electric traveling rotary crane for the first block of the Kudankulam NPP (India).

The Severgasprom Gas Processing Plant in Sosnogorsk (Komi Republic) (part of Gasprom) is commissioned. Skoda JS (NPPEQ division) acted as the general contractor on this reconstruction project.

The third block of the Kalinin NPP is commissioned. Izhorskiye Zavody has manufactured a large amount of equipment for this nuclear power plant throughout the years, including the reactor vessel itself.

Skoda JS (NPPEQ division) wins the award in the "2002-2003 Export Increase" category of the "2004 Exporter of the Year" competition organized under the auspices of the Chamber of Commerce of the Czech Republic.

The MINEQ division delivers 11 heavy excavators and 3 crushers to Magnitogorsky Iron and Steel Works, Energometmash, Limos-M, Stoilenky GOK and Krivorozhstal.

OMZ divests OMZ Instrument, a subsidiary providing tools and instruments to machine-building plants in a management buy-out as part of its initiative to sell-off non-ore assets.



first six  
months of 2005

**January 2005**

As part of the ongoing segmentation of the businesses the Mining Equipment and Specialty Steels divisions were further capitalized.

**February 2005**

The NPPEQ division wins a tender for the delivery of two pressure vessels for Salavatnefteorgsintez (Bashkortostan).

The MMEQ division carries out tests of the polar crane for the second block of the Kudankulam NPP (India).

**March 2005**

OMZ's NPPEQ division is awarded a 2 million euro contract for the upgrade of a research reactor IRT 2000 in Bulgaria. Skoda JS will design, deliver and install the new equipment.

The MMEQ division ships two turnaround charging cranes to the Asha Steel Mill (Chelyabinks Region).

**April 2005**

OMZ wins a 1 million euro tender for the delivery of 24 ball gasholders to Surgutneftegaz.

**May 2005**

OMZ completes the design and launches the production of a refueling machine for the Kudankulam NPP (India).

OMZ wins a USD 4 million tender for the delivery of equipment destined for the modernization of Severstal's 5,000 mill.

OMZ signs a contract with Power Machines for the production of 350 tons of steel structures for electrical equipment.



**June 2005**

Skoda JS (NPPEQ division) completes the instrumentation and control system refurbishment project for the third block of the Dukovany NPP (Czech Republic).

OMZ completes the 17th shipment of equipment for the Kudankulam NPP (India). The shipment includes the reactor vessel for the second block of the nuclear station.

OMZ completes the manufacture of two metal-concrete casks for spent nuclear fuel for the Lenin-grad NPP.

The MINEQ division ships 10 heavy excavators and 1 crusher to Energomet-mash, Stoilenky GOK, Poltavsky GOK and others.

corporate  
governance

Since its foundation in 1996 OMZ has been committed to good corporate governance and transparency. We were one of the first Russian companies to adopt a Corporate Governance Code, introduce independent directors on the Board and create committees at the Board level.

**In compliance** with our Corporate Governance Code we currently have three independent, three non-executive and three executive directors on our Board. We are aiming to reduce the number of executive directors and appoint a majority of independent directors as we believe that directors with rich business experience, who are independent from management, can contribute substantially to the strategy-making and oversight process.

**OMZ has** two committees at the Board level – an Audit Committee and a Compensation Committee, both chaired by independent Board directors. In compliance with the requirements of the Russian Trading System (RTS) where our shares are listed, these committees are made up entirely of Board members. The Audit Committee plays an active role in overseeing the work of the external auditors and holds regular meetings to discuss issues relating to the auditing process.

**In April** 2004 the Audit Committee approved the decision of management to adopt International Financial Reporting Standards (IFRS) in preparing the Company's financial statements. OMZ had prepared its accounts under US GAAP during the three preceding years, however after analyzing the difference between US GAAP and IFRS the Audit Committee concluded that IFRS better reflects the specifics of OMZ's business since IFRS

applies the "substance over form" principle more widely. In addition, since most Russian companies will be required to adopt IFRS standards as of 2005, the Committee considered that keeping accounts under two different standards would put an additional unnecessary strain on the organization.

**Internal control** is an area where the Audit Committee has become actively involved during 2005. Together with management, the Committee has identified opportunities for improvement in our internal control organization and is currently in the process of preparing recommendations to enhance the system.

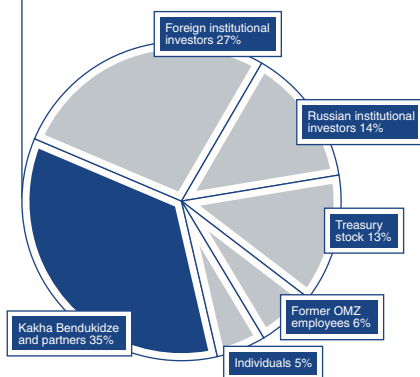
**The Compensation** Committee was instrumental in preparing the incentive program for top management for the 2005-2007 period and making sure that management's interests were aligned with those of our shareholders.

**In order** to increase transparency and provide additional trading infrastructure for our securities we listed our ADRs on the London Stock Exchange in 2003 and OMZ became the first Russian machine-building company whose shares were introduced to the Official List of the LSE. Currently, OMZ is fully compliant with the ongoing information disclosure requirements of the exchange.

## shareholder structure

### structure

#### ownership structure



**Mr. Kakha Bendukidze** was one of the architects of the consolidation of the Russian engineering sector that resulted in the creation of OMZ in 1996. Together with his partners, Mr. Bendukidze has been OMZ's largest shareholder since the Company's foundation. Mr. Bendukidze was the Chief Executive Officer of the Company until April 2004 and a member of the Board of Directors until June 2004 when he was nominated as the Economics Minister in the government of Georgia.

**The treasury stock** held by the Company resulted from the reversal of cross-ownership between OMZ and Power Machines after the two companies decided to cancel their merger plans. In accordance with the Corporate Governance Code, OMZ does not vote the shares held in treasury at the Company's AGM/EGMs, other than to elect independent directors.

**One of the largest** Russian institutional investors with approximately 13% of common shares is ZAO Lider, an asset management company for investors such as Gasfond, the largest non-state pension fund in Russia.

**Foreign institutional** investors include: Firebird, Libra Adviosrs, Alfred Berg, Lloyd George, Trust Company of the West, Hagstromer&Oviberg, GMO Emerging Markets and others.

**OMZ's share capital** is made up of 35,480,186 ordinary shares and 2,750,000 non-voting preferred shares with a par value of 0.1 ruble each. As of 1 July 2005, OMZ had approximately 4,300 shareholders.

# shareholder structure

# Board of Directors

## Independent Directors

### Seppo Remes

President, Kiuru Partners LLC



Mr. Remes was one of the founders of the European Business Club in Russia. He was the Chairman of its Board and is currently a member of its Council of National Representatives. Mr. Remes also served as the Chairman of the Finnish Business Association in Moscow between 1994 and 2000 and the corporate Vice President for Russian Affairs and Head of the Neste/Fortum office in Moscow between 1993 and 2001. Between 2001 and 2004 Mr. Remes was the CEO of Vostok Energy Investment Ltd. and later the Director of Vostok Nafta Investment Ltd. Currently Mr. Remes is a member of the Board of Directors of RAO UES and a Chairman of its Audit Committee. Mr. Remes joined the OMZ Board in 2002 and has been the Chairman of the OMZ Audit Committee since 2003.

### Horst Wiesinger

Managing Director, Horst Wiesinger Consulting GmbH



Dr. Wiesinger served as President of Voest-Alpine Industrieanlagenbau between 1995 and 1999. He was Deputy Chairman of VA Technologie AG between 1999 and 2001. Currently Mr. Wiesinger is a Managing Director of Horst Wiesinger Consulting GmbH. Mr. Wiesinger joined OMZ's Board of Directors in 2002 as an independent director.

### Boris Zubarev

General Director, First Mining Company



Mr. Zubarev was the First Deputy to the Minister of Geology of the Russian Federation between 1967 and 1976. He then was appointed as the First Deputy to the Minister of Geology of the USSR. In 1988 he became the Chief Specialist of the Geological Department of Glavalmazoloto of USSR and in 1993 became an Advisor to the President of the Russian Center for conversion of the aerospace manufacturing complex. Mr. Zubarev has been the General Director of the First Mining Company since 1998. Mr. Zubarev joined the OMZ Board of Directors in 2004 as an independent director.

## Non-executive Directors

### Anatoly Gavrilenko

General Director, ZAO Lider



Prior to joining ZAO Lider (a pension fund management company) as general director Mr. Gavrilenko was Director for strategic planning of ZAO Alor-Invest and later Deputy General Director of OOO Alor+. Mr. Gavrilenko joined the OMZ Board of Directors in 2004 as a non-executive director.

## Executive Directors

**Alan Kazbekov**



Based in Moscow, Mr. Kazbekov was actively involved in the creation and development of the Company. He served as Chief Executive Officer of the Moscow based investment company BioProcess prior to being appointed as Chief Operating Officer of OMZ in 2000. Mr. Kazbekov joined the OMZ Board of Directors in 1997. In June 2003 Mr. Kazbekov withdrew from active management and has been a non-executive director of the Board since then.

**Sergey Skaterschikov**



Managing Director, IndexAtlas Ltd.

Mr. Skaterschikov co-founded IndexAtlas Ltd. in 2001 to provide corporate finance services in emerging markets. Mr. Skaterschikov is a member of the Audit Committee of the Board of Directors of RAO UES, Severstal-Auto and Lenenergo. In addition, he serves on the Boards of Directors of Kunst Asset Management GmbH and ZAO Olma Press. Mr. Skaterschikov joined the OMZ Board of Directors in 2005 as a non-executive director and is currently a member of the Audit Committee of the Board of Directors of OMZ.

**Liudmila Buyak**



Corporate Secretary

Ms. Buyak was the head of the information department of PromTorg Bank between 1998 and 1999. Between 1997 and 2003 she was the General Director of ZAO Novie Vozmozhnosti. Ms. Buyak has been OMZ's Corporate Secretary since 2000. She joined the OMZ Board of Directors in 2001 and again in 2004 as an executive director.

**Yakov Kop**



Deputy CEO, Head of HR

Mr. Kop launched his career at Uralmash, one of OMZ's main production sites, as a shop supervisor in 1983 and later became Sales Director. In 2001 Mr. Kop became the Head of the metallurgical division of OMZ. Since 2002 Mr. Kop has been the Head of the Human Resources Department at OMZ's head office. Mr. Kop was appointed as Deputy CEO of OMZ in 2004 and joined the OMZ Board of Directors as an executive director.

**Sergey Lipsky**



Chief Executive Officer

Mr. Lipsky started his career as a manager at Coopers&Lybrand, St. Petersburg, in 1994 and later joined Uniland, a large distribution company, as a Chief Financial Officer. In 1999 Mr. Lipsky became the Chief Financial Officer of Technosila, a national electronics retail chain, and a year later was appointed as its Chief Executive Officer. Mr. Lipsky joined OMZ in 2003 as Chief Operating Officer and was appointed to the Chief Executive Officer position in August 2004. Mr. Lipsky joined the OMZ Board of Directors in 2004 as an executive director.

**Sergey Lipsky**

Chief Executive Officer



Mr. Lipsky started his career as a manager at Coopers&Lybrand, St. Petersburg, in 1994 and later joined Uniland, a large distribution company, as a Chief Financial Officer. In 1999 Mr. Lipsky became the Chief Financial Officer of Technosila, a national electronics retail chain, and a year later was appointed as its Chief Executive Officer. Mr. Lipsky joined OMZ in 2003 as Chief Operating Officer and was appointed to the Chief Executive Officer position in August 2004. Mr. Lipsky joined the OMZ Board of Directors in 2004 as an executive director.

**Sergey Filatov**

Deputy CEO, Chief Financial Officer



Between 1996 and 1997 Mr. Filatov worked as a financial analyst for Russian Credit and later for Procter&Gamble. In 1998 he was appointed as the General Director of AK Nalogovoe Bureau. In 2001 Mr. Filatov became the Financial Director of the Ruspromavto Holding. He joined OMZ in 2004 as a Deputy CEO and Chief Financial Officer.

**Yakov Kop**

Deputy CEO, Head of HR



Mr. Kop launched his career at Uralmash, one of OMZ's main production sites, as a shop supervisor in 1983 and later became Sales Director. In 2001 Mr. Kop became the Head of the metallurgical division of OMZ. Since 2002 Mr. Kop has been the Head of the Human Resources Department at OMZ's head office. Mr. Kop was appointed as Deputy CEO of OMZ in 2004 and joined the OMZ Board of Directors as an executive director.

**Evgeny Sergeev**

Deputy CEO, Head of the NPPEQ division



Mr. Sergeev launched his career at Izhorskiye Zavody, one of OMZ's main production subsidiaries, in 1974 as a shop supervisor and, after eleven years of operational management experience, was appointed as the plant's Deputy General Director in 1985. Mr. Sergeev has been a member of the Board of Izhorskiye Zavody since 1996 and the General Director of the plant since 1998. Mr. Sergeev was appointed as Deputy CEO of OMZ in 2004 and served as an executive Board member during 2004.

**Igor  
Gorsky**

Deputy CEO,  
Head of the STEEL  
division



Mr. Gorsky launched his career at Deloitte&Touche and the Sputnik Fund in Moscow and later became the President and member of the Board of Directors of the National Timber Company where he was responsible for strategy, operations and business development. Mr. Gorsky joined OMZ in 2002 as Deputy CEO and Head of the STEEL division of OMZ.

**Ivan  
Lazarko**

Head of the MINEQ  
division



Mr. Lazarko was the General Director of Alexander Investment Company between 1992 and 1997. In 1997 he became the President and Chairman of the Board of the National Association of Capital Markets Participants (NAUFOR). Mr. Lazarko was a member of the Board of Directors of RAO UES from 1999 till 2001 and a member of the Board of Directors of OMZ in 2001 and 2002. Mr. Lazarko joined OMZ's management team in 2002 as Head of the MINEQ division of the Company.

**Mikhail  
Matvienko**

Head of the MMEQ  
division



Mr. Matvienko launched his career at Uralmash, one of OMZ's main production sites, in 1973 as a shop supervisor and was quickly promoted to Production Director and later to First Deputy General Director. In 2000 Mr. Matvienko was appointed as acting General Director of Uralmash. From 2001 until May 2004 Mr. Matvienko served at the Director for Quality at OMZ. In May 2004 Mr. Matvienko left OMZ to become the Deputy Minister of Industry, Energy and Science of the Sverdlovsk Region. In December 2004 Mr. Matvienko re-joined OMZ as Head of the MMEQ division.

**Yuri  
Utochkin**

Head of R&D



Mr. Utochkin has had a successful academic career as a Doctor of Science and an associate professor at the Moscow Steel and Alloys Institute and a visiting professor at the Imperial College of Science, Technology and Medicine of London University. In 2000 Mr. Utochkin joined OMZ's management team as Head of Research and Development.



# consolidated financial statements

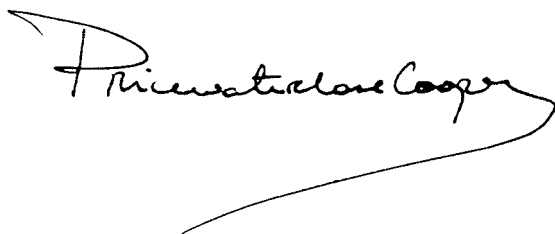
# auditors' report

## **To the Shareholders of OAO OMZ (Uralsmash-Izhora Group):**

**1** We have audited the accompanying consolidated balance sheet of OAO OMZ and its subsidiaries (the Group) as of 31 December 2004 and the related consolidated statements of income, of cash flow and of changes in shareholders' equity for the year then ended. These financial statements, as set out on pages I to 43, are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

**2** We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2004, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

A handwritten signature in black ink, appearing to read "PricewaterhouseCoopers", with a long, sweeping underline that extends to the right and then curves back towards the left.

29 April 2005  
Moscow, Russian Federation

# consolidated balance sheet at 31 december 2004

USD thousand

	2004	2003		Entity
	Continuing operations	Continuing operations	Discontinued operations	
<b>assets</b>				
<b>Current assets:</b>				
Cash and cash equivalents	24,393	8,049	16,012	24,061
Trade and other receivables	443,236	281,868	115,939	356,138
Inventories	145,295	132,782	61,841	194,623
Other current financial assets	3,512	4,780	6,385	8,253
<b>Total current assets</b>	<b>616,436</b>	<b>427,479</b>	<b>200,177</b>	<b>583,075</b>
<b>Non-current assets:</b>				
Property, plant and equipment	201,298	133,569	80,355	213,924
Deposit on investments	–	5,031	10	5,041
Intangible assets	41,951	9,805	4,409	14,214
Negative goodwill	(22,379)	(26,977)	(15,519)	(42,496)
Deferred tax asset	7,071	8,895	2,274	11,169
Non-current financial assets	56,667	6,990	42,861	49,851
Investments in discontinued operations	–	84,754	–	–
<b>Total non-current assets</b>	<b>284,608</b>	<b>222,067</b>	<b>114,390</b>	<b>251,703</b>
<b>Total assets</b>	<b>901,044</b>	<b>649,546</b>	<b>314,567</b>	<b>834,778</b>
<b>liabilities</b>				
<b>Current liabilities:</b>				
Trade and other payables	461,892	254,146	100,054	323,496
Short-term borrowings	122,045	195,036	24,228	205,387
<b>Total current liabilities</b>	<b>583,937</b>	<b>449,182</b>	<b>124,282</b>	<b>528,883</b>
<b>Non-current liabilities:</b>				
Long-term borrowings	97,438	43,503	183	43,686
Long-term taxes payable	10,447	27,739	2,585	30,324
Deferred tax liability	29,126	8,121	14,227	22,348
Other long-term liabilities	8,877	1,905	37,610	39,515
<b>Total non-current liabilities</b>	<b>145,888</b>	<b>81,268</b>	<b>54,605</b>	<b>135,873</b>
<b>Total liabilities</b>	<b>729,825</b>	<b>530,450</b>	<b>178,887</b>	<b>664,756</b>
<b>equity</b>				
<b>Equity and reserves attributable to the Company's equity holders:</b>				
Share capital	419	394	86,568	394
Share premium	104,081	96,487	–	96,487
Treasury shares	(44,507)	(33)	–	(33)
Hedging reserve	812	–	–	–
Currency translation reserve	14,773	388	935	3,137
Retained earnings (deficit)	70,251	(1,325)	6,624	5,299
	<b>145,829</b>	<b>95,911</b>	<b>94,127</b>	<b>105,284</b>
Minority interest	25,390	23,185	41,553	64,738
<b>Total equity</b>	<b>171,219</b>	<b>119,096</b>	<b>135,680</b>	<b>170,022</b>
<b>Total liabilities and equity</b>	<b>901,044</b>	<b>649,546</b>	<b>314,567</b>	<b>834,778</b>

## consolidated income statement for the year ended 31 december 2004

USD thousand	2004			2003		
	Continuing operations	Discontinued operations	Entity	Continuing operations	Discontinued operations	Entity
Sales	523,797	137,594	661,391	340,109	206,126	546,235
Cost of sales	(421,783)	(100,007)	(521,790)	(235,315)	(157,664)	(392,979)
<b>Gross profit</b>	<b>102,014</b>	<b>37,587</b>	<b>139,601</b>	<b>104,794</b>	<b>48,462</b>	<b>153,256</b>
Selling expenses	(21,158)	(2,613)	(23,771)	(12,193)	(2,782)	(14,975)
General and administrative expenses	(83,083)	(19,359)	(102,442)	(85,762)	(30,663)	(116,425)
Other operating income and expenses	13,651	301	13,952	24,958	(6,417)	18,541
<b>Operating profit before negative goodwill</b>	<b>11,424</b>	<b>15,916</b>	<b>27,340</b>	<b>31,797</b>	<b>8,600</b>	<b>40,397</b>
Negative goodwill	113,907	–	113,907	–	–	–
<b>Operating profit</b>	<b>125,331</b>	<b>15,916</b>	<b>141,247</b>	<b>31,797</b>	<b>8,600</b>	<b>40,397</b>
Finance income/(expense) – net	2,390	(16)	2,374	(12,562)	4,054	(8,508)
Loss from equity accounted investments	–	–	–	(4,707)	(256)	(4,963)
<b>Profit before taxation and sale of discontinued operations</b>	<b>127,721</b>	<b>15,900</b>	<b>143,621</b>	<b>14,528</b>	<b>12,398</b>	<b>26,926</b>
Income tax benefit (expense)	(12,724)	(7,219)	(19,943)	1,882	(6,120)	(4,238)
<b>Profit for the year before loss from sale of discontinued operations</b>	<b>114,997</b>	<b>8,681</b>	<b>123,678</b>	<b>16,410</b>	<b>6,278</b>	<b>22,688</b>
Loss from sale of discontinued operations	(53,975)	–	(53,975)	–	–	–
<b>Profit for the year</b>	<b>61,022</b>	<b>8,681</b>	<b>69,703</b>	<b>16,410</b>	<b>6,278</b>	<b>22,688</b>
<b>Attributable to:</b>						
Equity holders of the Company	59,116	4,398	63,514	20,246	4,737	24,983
Minority interest	1,906	4,283	6,189	(3,836)	1,541	(2,295)
	<b>61,022</b>	<b>8,681</b>	<b>69,703</b>	<b>16,410</b>	<b>6,278</b>	<b>22,688</b>
<b>Earnings per share attributable to the equity holders of the Company (in USD):</b>						
basic	1.85	0.14	1.99	0.64	0.14	0.78
diluted	1.82	0.13	1.95	0.61	0.14	0.75

## consolidated cash flow statement for the year ended 31 december 2004

USD thousand	2004			2003		
	Continuing operations	Discontinued operations	Entity	Continuing operations	Discontinued operations	Entity
<b>cash flows from operating activities</b>						
Profit before taxation and sale of discontinued operations	127,721	15,900	143,621	14,528	12,398	26,926

<b>Adjustments for:</b>						
Depreciation and amortization	17,713	5,544	23,257	7,776	8,598	16,374
Change in provisions for impairment and other provisions	25,070	(572)	24,498	(1,865)	5,615	3,750
Gain on sale of non-core business units	(21,352)	(12)	(21,364)	(14,666)	–	(14,666)
Negative goodwill, recognized in profit	(113,907)	–	(113,907)	–	–	–
Gain from disposal of property, plant and equipment	(6,831)	(263)	(7,094)	(3,149)	209	(2,940)
Gain on release from government financing and tax penalties	(9,613)	159	(9,454)	(2,738)	(356)	(3,094)
Net finance cost adjusted for foreign exchange differences	19,377	1,311	20,688	20,890	455	21,345
Loss from equity accounted investments	–	(161)	(161)	4,707	256	4,963
Unrealized foreign exchange effect on non-operating items	(9,806)	(1,004)	(10,810)	(3,920)	(860)	(4,780)
Adjustments for non-cash investing activities	–	–	–	3,999	–	3,999
<b>Operating cash flows before working capital changes</b>	<b>28,372</b>	<b>20,902</b>	<b>49,274</b>	<b>25,562</b>	<b>26,315</b>	<b>51,877</b>
Decrease (increase) in accounts receivable and prepayments	(90,387)	(32,919)	(123,306)	(95,981)	(44,920)	(140,901)
Decrease (increase) in inventories	16,832	(21,446)	(4,614)	(24,133)	(11,448)	(35,581)
Increase (decrease) in trade and other accounts payable	62,717	16,701	79,418	44,616	8,002	52,618
<b>Cash provided from (used in) operations</b>	<b>17,534</b>	<b>(16,762)</b>	<b>772</b>	<b>(49,936)</b>	<b>(22,051)</b>	<b>(71,987)</b>
Income taxes paid	(1,082)	(3,171)	(4,253)	(2,735)	(1,668)	(4,403)
<b>Net cash provided from (used in) operating activities</b>	<b>16,452</b>	<b>(19,933)</b>	<b>(3,481)</b>	<b>(52,671)</b>	<b>(23,719)</b>	<b>(76,390)</b>

<b>Cash flows from investing activities:</b>						
Proceeds from sale of non-core business units, including discontinued operations	58,946	4,876	63,822	14,664	–	14,664
Cash of discontinued operations at the date of disposal	–	(17,125)	(17,125)			
Purchases of property, plant and equipment, intangibles	(6,840)	(4,667)	(11,507)	(13,292)	(3,958)	(17,250)
Proceeds from the sale of property, plant and equipment, intangibles and development costs	7,453	396	7,849	5,427	174	5,601

# consolidated cash flow statement for the year ended 31 december 2004 (continued)

USD thousand	2004			2003		
	Continuing operations	Discontinued operations	Entity	Continuing operations	Discontinued operations	Entity
Net sale/(purchases) of financial assets	(6,039)	(337)	(6,376)	744	1,604	2,348
Deposit on investments	–	–	–	(5,041)	–	(5,041)
Business combinations	5,819	–	5,819	(32,290)	10,902	(21,388)
Purchase of associates	–	–	–	(4,963)	–	(4,963)
Net change in deposits	4,744	1,759	6,503	(1,937)	1,492	(445)
Interest received	2,477	201	2,678	252	1,750	2,002
Net proceeds from loans issued	9,567	–	9,567	(7,042)	(7,211)	(14,253)
<b>Net cash provided from (used in) investing activities</b>	<b>76,127</b>	<b>(14,897)</b>	<b>61,230</b>	<b>(43,478)</b>	<b>4,753</b>	<b>(38,725)</b>

<b>Cash flows from financing activities:</b>						
Proceeds from borrowings	144,043	33,182	177,225	110,920	27,520	138,440
Repayment of borrowings	(149,769)	(12,392)	(162,161)	(4,199)	–	(4,199)
Repayment of long-term taxes payable	(5,324)	(688)	(6,012)	(7,035)	–	(7,035)
Sale/(purchase) of treasury shares	(42,500)	–	(42,500)	418	–	418
Interest paid	(26,996)	(1,513)	(28,509)	(19,171)	(2,073)	(21,244)
Dividends paid	(1)	–	(1)	(1)	–	(1)
<b>Net cash (used in) provided from financing activities</b>	<b>(80,547)</b>	<b>18,589</b>	<b>(61,958)</b>	<b>80,932</b>	<b>25,447</b>	<b>106,379</b>
Effect of exchange rate changes	4,312	229	4,541	1,030	911	1,941
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>16,344</b>	<b>(16,012)</b>	<b>332</b>	<b>(14,187)</b>	<b>7,392</b>	<b>(6,795)</b>
Cash and cash equivalents at the beginning of the period	8,049	16,012	24,061	22,236	8,620	30,856
<b>Cash and cash equivalents at the end of the period</b>	<b>24,393</b>	<b>–</b>	<b>24,393</b>	<b>8,049</b>	<b>16,012</b>	<b>24,061</b>

## consolidated statement of changes in equity for the year ended 31 december 2004

USD thousand	Attributable to shareholders						Minority interest	Total equity
	Share capital	Share premium	Treasury shares	Hedging reserve	Currency translation reserve	Retained earnings		
<b>Balance at 31 December 2002</b>	<b>366</b>	<b>83,662</b>	<b>(38)</b>	<b>–</b>	<b>1,998</b>	<b>(18,244)</b>	<b>64,369</b>	<b>132,113</b>
Currency translation	28	6,615	–	–	1,139	(1,439)	4,977	11,320
Net income/(expense) recognised directly in equity	28	6,615	–	–	1,139	(1,439)	4,977	11,320
Profit for the year	–	–	–	–	–	24,983	(2,295)	22,688
Total recognised income	28	6,615	–	–	1,139	23,544	2,682	34,008
<b>Employees share option scheme:</b>								
value of employees services	–	3,999	–	–	–	–	–	3,999
proceeds from sale of treasury shares	–	416	2	–	–	–	–	418
Dividends	–	–	–	–	–	(1)	–	(1)
Acquisition of additional shares in subsidiaries	–	1,795	3	–	–	–	(7,753)	(5,955)
Disposal of subsidiaries	–	–	–	–	–	–	(459)	(459)
Business combinations	–	–	–	–	–	–	5,899	5,899
<b>Balance at 31 December 2003</b>	<b>394</b>	<b>96,487</b>	<b>(33)</b>	<b>–</b>	<b>3,137</b>	<b>5,299</b>	<b>64,738</b>	<b>170,022</b>
Currency translation	25	5,932	(2,079)	–	14,397	1,439	(2,174)	17,540
Net income/(expense) recognised directly in equity	25	5,932	(2,079)	–	14,397	1,439	(2,174)	17,540
Profit for the year	–	–	–	–	–	63,514	6,189	69,703
Total recognised income	25	5,932	(2,079)	–	14,397	64,953	4,015	87,243
Disposal of non-core businesses, including discontinued operations	–	–	–	–	(2,761)	–	(42,164)	(44,925)
Additional issue of shares	–	1,662	–	–	–	–	–	1,662
<b>Employees share option scheme:</b>								
proceeds from sale of treasury shares	–	–	105	–	–	–	–	105
Purchase of treasury shares	–	–	(42,500)	–	–	–	–	(42,500)
Cash flow hedges, net of tax	–	–	–	812	–	–	–	812
Acquisition of additional shares in subsidiaries	–	–	–	–	–	–	(1,199)	(1,199)
Dividends	–	–	–	–	–	(1)	–	(1)
<b>Balance at 31 December 2004</b>	<b>419</b>	<b>104,081</b>	<b>(44,507)</b>	<b>812</b>	<b>14,773</b>	<b>70,251</b>	<b>25,390</b>	<b>171,219</b>

## 2004 segment information continuing operation

USD thousand	2004						
	NPPEQ	STEEL	MMEQ	MINEQ	Other	Eliminations and unallocated items	Total continuing operations
Total sales	145,955	180,518	160,143	96,306	105,326	(164,451)	523,797
Less intersegment sales	–	(48,236)	(61,187)	–	(55,028)	164,451	–
External sales	145,955	132,282	98,956	96,306	50,298	–	523,797
Gross margin	33,983	18,181	19,359	15,866	16,479	(1,854)	102,014
<b>Gross margin, %</b>	<b>23%</b>	<b>10%</b>	<b>12%</b>	<b>16%</b>	<b>16%</b>	–	<b>19%</b>
Segment result	10,084	(2,447)	(23,562)	3,321	1,161	293	(11,150)
Unallocated operating income and expenses						22,574	22,574
<b>Operating profit before negative goodwill</b>	<b>10,084</b>	<b>(2,447)</b>	<b>(23,562)</b>	<b>3,321</b>	<b>1,161</b>	<b>22,867</b>	<b>11,424</b>
Negative goodwill, recognized in profit	–	–	–	–	–	113,907	113,907
<b>Operating profit</b>	<b>10,084</b>	<b>(2,447)</b>	<b>(23,562)</b>	<b>3,321</b>	<b>1,161</b>	<b>136,774</b>	<b>125,331</b>
Finance income/(expense) – net	–	–	–	–	–	2,390	2,390
Loss from equity accounted investments							–
<b>Profit before taxation and sale of discontinued operations</b>	<b>10,084</b>	<b>(2,447)</b>	<b>(23,562)</b>	<b>3,321</b>	<b>1,161</b>	<b>139,164</b>	<b>127,721</b>
Income tax benefit (expenses)	–	–	–	–	–	(12,724)	(12,724)
<b>Profit for the year before loss from discontinued operations</b>	<b>10,084</b>	<b>(2,447)</b>	<b>(23,562)</b>	<b>3,321</b>	<b>1,161</b>	<b>126,440</b>	<b>114,997</b>
Segment assets	414,679	207,080	115,559	47,257	37,407	(4,978)	817,004
Unallocated assets	–	–	–	–	–	84,040	84,040
<b>Total assets</b>	<b>414,679</b>	<b>207,080</b>	<b>115,559</b>	<b>47,257</b>	<b>37,407</b>	<b>79,062</b>	<b>901,044</b>
Segment liabilities	244,021	73,845	56,669	24,956	25,094	–	424,585
Unallocated liabilities	–	–	–	–	–	305,240	305,240
<b>Total liabilities</b>	<b>244,021</b>	<b>73,845</b>	<b>56,669</b>	<b>24,956</b>	<b>25,094</b>	<b>305,240</b>	<b>729,825</b>
Capital expenditure	19,100	31,282	1,722	1,081	383	–	53,568
Depreciation and amortisation	2,989	8,263	4,027	123	2,311	–	17,713
Change in other provisions	(433)	(4,969)	1,691	(909)	(1,410)	955	(5,075)
Change in provisions for impairment of property, plant and equipment and intangible assets	47	(462)	(17,275)	–	(2,305)	–	(19,995)
Gain from release on government financing and tax penalties	–	–	–	–	–	9,613	9,613

## 2003 segment information continuing operation

USD thousand	2003						
	NPPEQ	STEEL	MMEQ	MINEQ	Other	Eliminations and unallocated items	Total continuing operations
Total sales	117,640	103,325	105,191	46,541	100,711	(133,299)	340,109
Less intersegment sales	–	(53,798)	(49,889)	–	(29,612)	133,299	–
External sales	117,640	49,527	55,302	46,541	71,099	–	340,109
Gross margin	47,478	12,051	15,782	10,892	16,677	1,914	104,794
<b>Gross margin, %</b>	<b>40%</b>	<b>12%</b>	<b>15%</b>	<b>23%</b>	<b>17%</b>	–	<b>31%</b>
Segment result	20,665	1,058	(671)	2,819	2,305	1,607	27,783
Unallocated operating income and expenses	–	–	–	–	–	4,014	4,014
<b>Operating profit before negative goodwill</b>	<b>20,665</b>	<b>1,058</b>	<b>(671)</b>	<b>2,819</b>	<b>2,305</b>	<b>5,621</b>	<b>31,797</b>
Negative goodwill, recognized in profit							–
<b>Operating profit</b>	<b>20,665</b>	<b>1,058</b>	<b>(671)</b>	<b>2,819</b>	<b>2,305</b>	<b>5,621</b>	<b>31,797</b>
Finance income/(expense) – net						(12,562)	(12,562)
Loss from equity accounted investments	(4,707)						(4,707)
<b>Profit before taxation and sale of discontinued operations</b>	<b>15,958</b>	<b>1,058</b>	<b>(671)</b>	<b>2,819</b>	<b>2,305</b>	<b>(6,941)</b>	<b>14,528</b>
Income tax benefit (expenses)						1,882	1,882
<b>Profit for the year before loss from discontinued operations</b>	<b>15,958</b>	<b>1,058</b>	<b>(671)</b>	<b>2,819</b>	<b>2,305</b>	<b>(5,059)</b>	<b>16,410</b>
Segment assets	224,955	59,921	109,998	44,802	67,600	(2,476)	504,800
Unallocated assets	–	–	–	–	–	144,746	144,746
<b>Total assets</b>	<b>224,955</b>	<b>59,921</b>	<b>109,998</b>	<b>44,802</b>	<b>67,600</b>	<b>142,270</b>	<b>649,546</b>
Segment liabilities	124,882	25,065	38,722	12,006	29,410	–	230,085
Unallocated liabilities	–	–	–	–	–	300,365	300,365
<b>Total liabilities</b>	<b>124,882</b>	<b>25,065</b>	<b>38,722</b>	<b>12,006</b>	<b>29,410</b>	<b>300,365</b>	<b>530,450</b>
Capital expenditure	3,610	802	14,632	112	6,989	–	26,145
Depreciation and amortisation	1,987	1,572	1,756	–	2,461	–	7,776
Change in other provisions	(34)	(2,708)	144	109	(86)	–	(2,575)
Change in provisions for impairment of property, plant and equipment and intangible assets	–	–	7,365	–	(2,925)	–	4,440
Gain from release on government financing and tax penalties	–	–	–	–	–	2,738	2,738

The full contents of OMZ's 2004 consolidated audited IFRS financial accounts can be viewed at [www.omz.ru/eng/financial/statements](http://www.omz.ru/eng/financial/statements).

corporate  
information**Corporate Headquarter**

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**Stock Exchange Information**

In Russia, OMZ common stock is listed on the Russian Trading System (RTS) with a ticker OMZZ. OMZ maintains a 144A and a Level 1 ADR program (ADR:common stock ratio 1:1) traded over-the-counter in the US. Both ADR programs are listed on the London Stock Exchange, tickers OMZA (144A ADRs) and OMZD (Level 1 ADRs).

**ADR Depository Information**

The Bank of New York Company Inc.  
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**Registrar Information**

ZAO Novi Registrator  
License #10-000-1-00288 from 4 April 2003 issued by the Russian Federal Service of Financial Markets  
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