Open Joint Stock Company Power machines and subsidiaries

Pro-forma consolidated Financial Statements

for the year ended 31 December 2002

Contents

KPMG

Independent Auditor's Report

To the shareholders of Open Joint Stock Company Power machines:

1. We have audited the accompanying pro-forma consolidated balance sheets of Open Joint Stock Company Power machines – ZTL, LMZ, Electrosila, Energomachexport and its subsidiaries (the "Pro-forma Group") as at 31 December 2002, 2001 and 2000 and the related pro-forma statements of income, changes in shareholders' equity and cash flows for 2002 and 2001. These pro-forma consolidated financial statements, as set out on pages 4 to 34, are the responsibility of the Group's management. Our responsibility is to express an opinion on these pro-forma financial statements based on our audit.

2. Except as described in paragraphs 4 and 5 below, we conducted our audit in accordance with International Standards on Auditing as issued by the International Federation of Accountants. 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.

3. The accompanying pro-forma consolidated financial statements have been prepared for the purpose of presenting the consolidated financial position as at 31 December 2002, 2001 and 2000, results of operations, changes in equity and cash flows of the Pro-forma Group for 2002 and 2001 as if the transactions described in the basis of preparation in note 1 to the financial statements had taken place as at 31 December 2000. These pro-forma consolidated financial statements are not necessarily indicative of the results or related effects on the financial position that would have been attained, had the above-mentioned transactions actually taken place as at 31 December 2000.

4. As disclosed in note 3 (b) to the pro-forma consolidated financial statements, management have estimated fair value of equipment at 31 December 2000, the first date of application of International Financial Reporting Standards and have used this amount as deemed historical cost. The net book value of this equipment was USD 64,115 thousand as at 31 December 2000. We have not been able to satisfy ourselves as to the fair value of this equipment as at 31 December 2000 due to the absence of an independent equipment appraisal. Adjustments, if any, to be made on the basis of such a equipment appraisals may impact the balances of property, plant and equipment, deferred taxation, minority interest, and shareholders' equity as at 31 December 2002, 2001 and 2000.

5. We have not been able to satisfy ourselves as to the carrying values used by management for recording of certain investments, for which there is no readily obtainable market value, stated at USD 26,073 thousand as at 31 December 2002 (2001: USD 24,415 thousand, 2000: nil) and included in other non-current investments. Adjustments, if any, to be made had we been able to satisfy ourselves as to these fair values may impact the balances of non-current investments, deferred taxation, minority interest and shareholders' equity as at 31 December 2002 and 2001.

6. In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary, had we been able to extend our auditing procedures to the balances described in paragraphs 4 and 5, the pro-forma consolidated financial statements present fairly, on the basis described in paragraph 3 above, the financial position of the Pro-forma Group as at 31 December 2002, 2001 and 2000 and the pro-forma results of its operations, changes in shareholders equity and cash flows for 2002 and 2001 in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

KPMG

KPMG Ellwood Partner
St. Petersburg, Russian Federation
17 July 2003

Pro-forma consolidated balance sheet

As at 31 December 2002 *In thousands of US dollars*	Note	2002	2001	2000
Assets				
Property, plant and equipment	11	190,163	185,075	177,294
Intangible assets		4,626	1,791	1,135
Investments in associates	12	65	65	41
Other investments	13	42,853	41,194	8,588
Trade receivables available-for-sale	14	-	55,549	9,407
Other non-current receivables	15	43,109	33,172	47,934
Total non-current assets		280,816	316,846	244,399
Inventories	16	117,456	98,723	95,500
Trade receivables	17	84,161	79,561	131,166
Other receivables	18	71,116	58,446	62,425
Trade receivables available-for-sale	14	91,144	-	-
Other investments	13	15,444	13,058	10,499
Cash and cash equivalents	19	20,430	7,426	14,960
Total current assets		399,751	257,214	314,550
Total assets		680,567	574,060	558,949
Equity	1			
Share capital		10,231	10,231	10,231
Treasury shares		-	(5,425)	-
Retained earnings		203,292	201,791	194,459
Total equity		213,523	206,597	204,690
Minority interest		65,323	66,431	62,546
Total equity and minority interest		278,846	273,028	267,236
Liabilities				
Loans and borrowings	20	22,362	15,435	4,005
Deferred tax liabilities	23	49,497	48,471	63,396
Other non-current liabilities	25	36,041	26,035	26,715
Total non-current liabilities		107,900	89,941	94,116
Loans and borrowings	20	110,244	89,132	45,920
Trade and other payables	24	183,577	121,959	151,677
Total current liabilities		293,821	211,091	197,597
Total liabilities		401,721	301,032	291,713
Total equity, minority interest and liabilities		680,567	574,060	558,949

The pro-forma consolidated financial statements were approved on 17 July 2003 and signed by:

E.K.Yakovlev
General Director

A.V. Raskatov
Finance Director

The pro-forma consolidated balance sheet is to be read in conjunction with the notes to and forming part of the pro-forma consolidated financial statements set out on pages 8 to 34.

Pro-forma consolidated income statement

For the year ended 31 December 2002
In thousands of US dollars

	Note	2002	2001
Revenues	5	276,444	244,664
Cost of sales		(170,350)	(162,006)
Gross profit		106,094	82,658
Distribution expenses		(11,777)	(8,517)
Administrative expenses	6	(75,417)	(58,583)
Social costs		(1,578)	(1,839)
Other operating income/(expenses)	7	64	(6,766)
Profit from operations		17,386	6,953
Net financing expenses	9	(6,650)	(5,567)
Profit before tax and minority interest		10,736	1,386
Income tax (expense)/benefit	10	(10,123)	9,830
Profit before minority interest		613	11,216
Minority interest		888	(3,884)
Net profit for the year		1,501	7,332

The pro-forma consolidated income statement is to be read in conjunction with the notes to and forming part of the pro-forma consolidated financial statements set out on pages 8 to 34.

Pro-forma consolidated statement of cash flows

For the year ended 31 December 2002
In thousands of US dollars

	2002	2001
Operating activities		
Net profit for the year	1,501	7,332
Adjustments for:		
Depreciation and amortisation	15,481	14,408
Loss on disposal of property plant and equipment	748	135
Interest income	(7,004)	(5,044)
Interest expense	15,925	10,567
Income tax expense/(benefit)	10,123	(9,830)
Minority interests	(888)	3,884
Operating profit before changes in working capital	35,886	21,452
(Increase)/decrease in inventories	(18,733)	(3,223)
(Increase)/decrease in trade and other receivables	(63,368)	22,205
Increase/(decrease) in trade and other payables	67,984	(28,866)
Cash flows from operations before taxes and interest paid	21,769	11,568
Interest paid	(15,690)	(10,411)
Income tax paid	(5,346)	(4,783)
Cash flows from operating activities	733	(3,626)
Investing activities		
Proceeds from sale of property, plant and equipment	2,158	2,200
Interest received	7,004	5,044
Acquisition of property, plant and equipment and intangible assets	(26,310)	(25,180)
Net change in loans made to third and related parties	7,346	(6,937)
Acquisition of other investments	(11,391)	(28,252)
Cash flows from investing activities	(21,193)	(53,125)
Financing activities		
Proceeds from borrowings	202,479	221,096
Repayments of borrowings	(174,440)	(166,454)
Sale/(repurchase) of treasury shares	5,425	(5,425)
Cash flows from financing activities	33,464	49,217
Net increase/(decrease) in cash and cash equivalents	13,004	(7,534)
Cash and cash equivalents at 1 January	7,426	14,960
Cash and cash equivalents at 31 December	20,430	7,426

The pro-forma consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the pro-forma consolidated financial statements set out on pages 8 to 34.

Pro-forma consolidated statement of changes in shareholders' equity

For the year ended 31 December 2002

In thousands of US dollars	**Share capital**	**Treasury shares**	**Retained earnings**	**Total**
Balance at 1 January 2001	10,231	-	194,459	204,690
Acquisition of treasury shares	-	(5,425)	-	(5,425)
Net profit for the year	-	-	7,332	7,332
Balance at 31 December 2001	10,231	(5,425)	201,791	206,597
Balance at 1 January 2002	10,231	(5,425)	201,791	206,597
Sale of treasury shares	-	5,425	-	5,425
Net profit for the year	-	-	1,501	1,501
Balance at 31 December 2002	10,231	-	203,292	213,523

The pro-forma consolidated statement of changes in shareholders' equity is to be read in conjunction with the notes to and forming part of the pro-forma consolidated financial statements set out on pages 8 to 34.

Notes to the pro-forma consolidated financial statements

1. Group structure – basis of preparation

The pro-forma consolidated financial statements were prepared by management of Open Joint Stock Company Power machines – ZTL, LMZ, Electrosila, Energomachexport ("Company" or "Parent Company") to present the financial position of a number of energy equipment production companies that did not have formal structure in 2002 and 2001, but were brought under the common control of one parent during last quarter 2002 and first quarter 2003 ("Pro-forma Group"). The objective of these pro-forma financial statements is to show what the financial position might have been if the transactions to bring the companies included in these financial statements under common control had occurred as of 31 December 2000.

Listed below are all the significant companies included in the pro-forma balance sheet. The equity interests in the companies below were owned by the Company as of 31 December 2002, except for 20.4% in OAO Leningradskiy Metalicheskiy Zavod (LMZ), 14.48% in OAO Electrosila (Electrosila) and 26.83% in OAO Zavod Turbinich Lopatok (ZTL) that were acquired by the Company subsequent to 31 December 2002 (refer note 2(b)).

	Country of incorporation	Interest assumed controlled by Power Machines Pro-forma Group %	Consolidated interest %
OAO Leningradskiy Metalicheskiy Zavod	Russia	78.20%	78.20%
OAO Electrosila	Russia	66.79%	66.79%
OAO Zavod Turbinich Lopatok	Russia	76.89%	76.89%
OOO Reostat *	Russia	100.00%	66.79%
ZAO Gazovie Turbini *	Russia	100.00%	78.20%
ZAO LMZ Invest *	Russia	100.00%	78.20%
LMZ Energy Limited *	Ireland	100.00%	76.64%
OOO Interturbo *	Russia	55.12%	43.11%
OAO SK Selecta	Russia	96.43%	96.43%
Energomachimpex Czech Republic	Czech Republic	80.00%	80.00%
EMEC LTDa Columbia	Columbia	99.99%	99.99%
Energomach Handels GMBH	Germany	100.00%	100.00%

* The consolidated interest is less due to minority interests at the level of LMZ, Electrosila and ZTL.

Notes to the pro-forma consolidated financial statements

2. Background

(a) Organisation and operations

The Company is an open joint stock (public) company as defined in the Civil Code of the Russian Federation. The Parent Company was established as a state owned enterprise in 1966. It was incorporated as a closed joint stock company on 21 June 1991, as part of the Russian Federation privatisation program and as an open joint stock company on 28 June 2002. The principal activity of the Pro-forma Group is power and automation technologies including production of turbines, generators and other energy generating equipment at the subsidiaries' plants located in the city of St. Petersburg, Russian Federation. The products are sold in the Russian Federation and abroad. The Parent Company participates in international and national tenders for the supply of energy generating equipment and further places orders for production of the equipment to Pro-forma Group companies and other subcontractors.

(b) Reorganisation

During 2002 the Pro-forma Group was in process of organising a formal ownership structure that continued into 2003 during which shareholders of the Pro-forma Group have transferred to the Parent Company their shares in subsidiaries in exchange for newly issued shares of the Company or cash. The reorganisation process consisted of the following major stages:

During late 2002 the Parent Company issued additional shares in exchange for shares which were held by the entities under control of the majority shareholder of the Parent Company in OAO Leningradskiy Metalicheskiy Zavod and OAO Electrosila. Shares held by entities under the control of majority shareholders of the Parent Company in Zavod Turbinich Lopatok were purchased by the Parent Company for cash. At the end of this stage a formal ownership structure existed with the Company holding of 57.8% in LMZ, 52.31% in Electrosila and 50.06 % in ZTL as of 31 December 2002.

During first quarter of 2003 certain shares held by unrelated companies in LMZ and Electrosila were converted into newly issued shares of the Parent Company or sold to the Company. At the end of this stage that was finalised by the end of first quarter 2003 the ownership interest of the Parent Company increased to 78.2% in LMZ, 66.79% in Electrosila and 76.89 % in ZTL.

It is planned that during 2003 additional shares will be issued by the Parent Company and all minority interests in LMZ, Electrosila and ZTL will be converted into newly issued shares of the Company. When such transactions are effected, legal processes will be commenced so that LMZ, Electrosila and ZTL will cease to operate as separate legal entities and become branches of the Company.

(c) Russian business environment

The Russian Federation has been experiencing political and economic change which has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks which do not typically exist in other markets. The accompanying financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Pro-forma Group. The future business environment may differ from management's assessment.

Notes to the pro-forma consolidated financial statements

3. Basis of preparation

(a) Statement of compliance

The Pro-forma Group maintains it's accounting records in accordance with the legislative requirements of the countries in which the individual entities are located (the Russian Federation, Ireland, Germany, Columbia and Czech Republic). The accompanying financial statements have been prepared from those accounting records and adjusted as necessary to comply with the requirements of International Financial Reporting Standards ("IFRS"), as promulgated by the International Accounting Standards Board ("IASB").

(b) First-time application of IFRS

The Pro-forma Group first adopted IFRS as a primary basis of accounting as of 31 December 2000.

Following the IFRS 1 exemptions for first-time adoption of IFRS the Pro-forma Group elected:

- to measure property, plant and equipment at the date of transition to IFRS at its fair value and use that fair value as its deemed cost at that date.
- not to apply IAS 22 Business Combinations retrospectively to past business combinations that occurred before the date of transition to IFRS.

(i) Associates

Associates are those enterprises in which the Pro-forma Group has significant influence, but does not have control over the financial and operating policies. The consolidated financial statements include the Pro-forma Group's share of the total recognised gains and losses of associates accounted for on an equity accounting basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Pro-forma Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Pro-forma Group has incurred obligations in respect of the associate.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains and losses arising from transactions with associates are eliminated to the extent of the Pro-forma Group's interest in the enterprise. Unrealised gains and losses are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

(c) Historical cost basis

The financial statements are prepared on a historical cost basis except that assets available for sale are stated at their fair value.

Notes to the pro-forma consolidated financial statements

3. Basis of preparation continued

(d) Measurement and Presentation Currency

The national currency of the Russian Federation is the Russian rouble ("RUR"). The measurement and presentation currency used in the preparation of these financial statements is the United States dollar ("USD"). Management have determined the US dollar to be the measurement currency as they consider that the US dollar reflects the economic substance of the underlying events and circumstances of the Pro-forma Group. In making this assessment, management have considered the following matters:

- A significant portion of the Pro-forma Group's revenues are earned from exports which are invoiced and collected in US dollars;
- A significant portion of the Pro-forma Group's property, plant and equipment purchases are imported and are invoiced and settled in US dollars;
- A significant portion of the Pro-forma Group's expenses are denominated and settled in US dollars; and

All financial information presented in US dollars has been rounded to the nearest thousand.

The Russian rouble is not a convertible currency outside the Russian Federation and, accordingly, any conversion of Russian rouble amounts to US dollars should not be construed as a representation that Russian rouble amounts have been, could be, or will be in the future, convertible into US dollars at the exchange rate shown, or at any other exchange rate.

(e) Going concern

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. The recoverability of the Pro-forma Group's assets, as well as the future operations of the Pro-forma Group, may be significantly affected by the current and future economic environment (refer note 2 (c)). The accompanying financial statements do not include any adjustments should the Pro-forma Group be unable to continue as a going concern.

(f) Use of estimates

Management of the Pro-forma Group have made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with IFRS. Actual results could differ from those estimates.

Notes to the pro-forma consolidated financial statements

4. Significant accounting policies

The following significant accounting policies have been consistently applied by the Pro-forma Group in the preparation of the financial statements.

(a) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated into US dollars at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into US dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to US dollars at the foreign exchange rate ruling at the date of the transaction.

(ii) Financial statements of foreign operations

The operations of the Pro-forma Group's foreign entities are integral to those of the Pro-forma Group. Accordingly, the assets and liabilities of these entities are translated into US dollars as set out in paragraph (i) above. There are no foreign operations which operate in hyperinflationary economies. Foreign exchange differences are recognised in the income statement.

(b) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (refer accounting policy (h)). The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. Furthermore, borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are included in the cost.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

Borrowing costs attributed to acquisition of property, plant and equipment are capitalised as incurred until the asset is put in use.

(ii) Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as incurred.

Notes to the pro-forma consolidated financial statements

4. Significant accounting policies continued

(iii) Depreciation

Depreciation is charged to the income statement on a straight line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated.

Depreciation is charged as follows:

■ buildings	15-45 years
■ machinery and equipment	6-21 years
■ transport equipment	7-10 years
■ other property and equipment	7-20 years

(c) Intangible assets

(i) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Pro-forma Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

(ii) Other intangible assets

Other intangible assets, which are acquired by the Pro-forma Group, are stated at cost less accumulated amortisation (refer below) and impairment losses (refer accounting policy (h). Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

(iii) Subsequent expenditure

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(iv) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets from the date they are available for use.

Notes to the pro-forma consolidated financial statements

4. Significant accounting policies continued

(d) Investments

Investments held for trading are classified as current assets and are stated at fair value, with any resultant gain or loss being recognised in the income statement. Where the Pro-forma Group has the positive intent and ability to hold debt securities to maturity, they are stated at amortised cost less impairment losses (refer accounting policy (h)). Other investments held by the Pro-forma Group are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognised in the income statement.

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

Investments held for trading and available-for-sale investments are recognised/derecognised by the Pro-forma Group on the date it commits to purchase/sell the investments. Investments held-to-maturity are recognised/ derecognised on the day they are transferred to/by the Pro-forma Group.

(e) Trade and other receivables

Trade and other receivables are stated at their cost less impairment losses (refer accounting policy (h)) except for trade receivables available for sale that are stated at fair value.

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is calculated on the weighted average basis or using a specific identification of individual costs method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

(g) Cash and cash equivalents

Cash and cash equivalents comprises cash balances, call deposits and liquid bank promissory notes. Bank overdrafts that are repayable on demand and form an integral part of the Pro-forma Group's cash management are included as a component of cash and cash equivalents in the statement of cash flows.

(h) Impairment

The carrying amounts of the Pro-forma Group's assets, other than inventories (refer accounting policy (f)) and deferred tax assets (refer accounting policy (p)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds it's recoverable amount. Impairment losses are recognised in the income statement.

Notes to the pro-forma consolidated financial statements

4. Significant accounting policies continued

(i) Calculation of recoverable amount

The recoverable amount of the Pro-forma Group's investments in held to maturity securities and receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss in respect of a held-to-maturity security or receivable is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(i) Share capital

(i) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity.

(ii) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(j) Loans and borrowings

Loans and borrowings are recognised initially at cost, net of any transaction costs incurred. Subsequent to initial recognition, loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

When borrowings are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is recognised immediately in the income statement.

Notes to the pro-forma consolidated financial statements

4. Significant accounting policies continued

(k) Employee benefits

(i) Short-term employee benefits

The Pro-forma Group pays into the Russian Federation State Pension Fund a percentage of each employee's wage based on a scale as specified in, and required by the Russian Tax Code. These amounts are expensed when they are incurred.

(ii) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

(l) Provisions

A provision is recognised in the balance sheet when the Pro-forma Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(m) Trade and other payables

Trade and other payables are stated at their cost.

(n) Revenue

(i) Goods sold and services rendered

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenues from long-term construction projects are recognised under the percentage-of-completion method based on contractual stages of performance. Revenues under fixed-price long-term service contracts are recognized under the percentage-of-completion method, based on the percentage of costs to date compared to the total estimated contract costs. Management determines the method to be used for each contract based on its judgment as to which method best measures actual progress towards completion. No revenue is recognised if there are significant uncertainties with regard to recovery of the consideration due, associated costs or the possible return of goods.

(ii) Rental income

Rental income from property is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income to be received.

Notes to the pro-forma consolidated financial statements

4. Significant accounting policies continued

(iii) Non-cash transactions

The Pro-forma Group has a significant level of non-cash transactions as is common with many Russian companies. Non-cash transactions consist of mutual settlements arising from the exchange of goods and services, and transactions which are settled by means of promissory notes. Approximately 11% (2001: 9%) of revenues and 18% (2001: 17%) of purchases in 2002 were received and paid for in the form of non-cash transactions. Prices are usually fixed in contracts with the mutual settlement transactions valued and recorded at market prices for the goods involved in the transaction. Non-cash sales and purchases are accounted for on an accruals basis in the same manner as traditional cash transactions.

(o) Expenses

(i) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease payments made.

(ii) Social costs

Capital expenditure of a social nature which benefits the community as a whole and is not expected to bring significant future economic benefits to the Pro-forma Group is recognised in the income statement as incurred.

Expenditure related to the operation and maintenance of sports complexes, holiday and recreational facilities, medical centres, public housing, kindergartens and restaurants is recognised in the income statement as incurred.

(iii) Net financing costs

Net financing costs comprise interest on borrowings, interest income, dividend income, results of revaluation of fair value of available-for-sale and held for trading assets and foreign exchange gains and losses.

Interest is recognised in the income statement as it accrues, taking into account the effective yield on the asset and the liability. Dividend income is recognised in the income statement on the date that the dividend is declared.

Notes to the pro-forma consolidated financial statements

4. Significant accounting policies continued

(p) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

5. Revenues

In thousands of US dollars	**2002**	**2001**
Energy generating equipment	187,676	174,867
Other products	44,823	46,236
Services provided	33,478	13,218
Sales of spare parts	10,467	10,343
	276,444	244,664

Percentage of sales by location of customer

	2002	**2001**
Russia and the CIS	75%	67%
Asia	15%	18%
Latin America	1%	3%
Europe	3%	2%
Other	6%	10%
	100%	100%

Notes to the pro-forma consolidated financial statements

6. Administrative expenses

In thousands of US dollars	**2002**	**2001**
Wages, salaries and related taxes	33,733	21,336
Taxes other than income tax	8,452	6,870
Services consumed	6,011	3,238
Depreciation	5,133	4,728
Penalties	3,406	603
Research and development costs	1,073	2,573
Amortisation of intangibles	187	428
Other administrative expenses	17,422	18,807
	75,417	58,583

7. Other operating (income)/expenses

In thousands of US dollars	**2002**	**2001**
Net loss/(gain) on sale of investments	88	(86)
Bad debts and change in accounts receivable provision	(865)	4,724
Loss on disposal of property, plant and equipment	748	136
Net loss/(gain) on disposal of other assets	(35)	1,992
	(64)	6,766

8. Personnel expenses

In thousands of US dollars		**2002**	**2001**
Wages, salaries and related taxes included in:			
cost of sales		34,906	37,058
distribution costs		3,638	2,240
administrative expenses		33,733	21,336
Contributions to defined contribution plan	22	64	-
		72,341	60,634

The average number of employees during the year ended 31 December 2002 was 13,737 (2001: 13,490).

9. Net financing expenses

In thousands of US dollars	**2002**	**2001**
Interest expense	15,925	10,567
Interest income	(7,004)	(5,044)
Net foreign exchange loss	2,445	2,278
Revaluation to fair value of assets available for sale	(4,716)	(2,234)
	6,650	5,567

Notes to the pro-forma consolidated financial statements

10. Income tax (benefit)/expense

In thousands of US dollars	2002	2001
Current tax expense		
Current year expense	9,097	5,095
	9,097	5,095
Deferred tax benefit		
Origination and reversal of temporary differences	1,026	(260)
Change in tax rate	-	(14,665)
	1,026	(14,925)
	10,123	(9,830)

The applicable tax rates are 24% (2001: 35%) and 24% for measuring deferred taxes (2001: 24%, 2000: 29% for Pro-forma Group companies located in St. Petersburg and 35% for all other companies).

Reconciliation of effective tax rate

In thousands of US dollars		2002		2001
Profit/(loss) before tax		10,736		1,386
Income tax using corporate tax rate	24%	2,577	35%	485
Non-deductible expenses	40%	4,242	1990%	27,588
Tax incentives not recognised in the income statement	(0%)	(14)	(1663%)	(23,054)
Effect of change of tax legislation	31%	3,318	-	-
Impact of lower tax rates for subsidiaries	-	-	(13%)	(184)
Impact of change in tax rate	-	-	(1058%)	(14,665)
	94%	10,123	(709%)	(9,830)

Notes to the pro-forma consolidated financial statements

11. Property, plant and equipment

In thousands of US dollars	Land and Buildings	Machinery and equipment	Transportation equipment	Other PPE	Assets under construction	Total
Cost						
Balance at 1 January 2001	298,140	86,126	8,365	22,155	16,375	431,161
Additions	386	7,319	497	2,822	12,942	23,966
Transfers	3,439	8,625	339	425	(12,828)	-
Disposals	(2,083)	(13,135)	(165)	(4,734)	(575)	(20,692)
Balance at 31 December 2001	299,882	88,935	9,036	20,668	15,914	434,435
Balance at 1 January 2002	299,882	88,935	9,036	20,668	15,914	434,435
Additions	79	5,792	880	1,664	13,784	22,199
Transfers	(1,709)	10,316	33	3,490	(12,130)	-
Disposals	(633)	(344)	(131)	(166)	(1,318)	(2,592)
Balance at 31 December 2002	297,619	104,699	9,818	25,656	16,250	454,042
Depreciation/Amortisation						
Balance at 1 January 2001	(184,961)	(50,226)	(6,617)	(12,063)	-	(253,867)
Charge for the year	(8,242)	(4,590)	(224)	(1,029)	-	(14,085)
Disposals	1,425	12,946	12	4,209	-	18,592
Balance at 31 December 2001	(191,778)	(41,870)	(6,829)	(8,883)	-	(249,360)
Balance at 1 January 2002	(191,778)	(41,870)	(6,829)	(8,883)	-	(249,360)
Charge for the year	(7,416)	(5,810)	(572)	(1,354)	-	(15,152)
Transfers	1,920	(694)	-	(1,226)	-	-
Disposals	137	294	92	110	-	633
Balance at 31 December 2002	(197,137)	(48,080)	(7,309)	(11,353)	-	(263,879)
Carrying amount						
At 1 January 2001	113,179	35,900	1,748	10,092	16,375	177,294
At 1 January 2002	108,104	47,065	2,207	11,785	15,914	185,075
At 31 December 2002	100,482	56,619	2,509	14,303	16,250	190,163

Borrowing costs

Borrowing costs of USD 3,683 thousand were capitalised during 2002 as part of the cost of qualifying assets (2001: USD 3,653 thousand).

Notes to the pro-forma consolidated financial statements

12. Investments in associates

The Pro-forma Group has the following significant investments in associates:

	Country of	Ownership			Voting interest		
	incorporation	2002	2001	2000	2002	2001	2000
ZAO Interplast	Russia	50%	50%	50%	50%	50%	50%
ZAO Atomkomplectpostavka	Russia	33%	-	-	33%	-	-

13. Other investments

In thousands of US dollars	2002	2001	2000
Non-current investments			
Loans given to related parties	1,116	1,143	2,297
Loans given to third parties	972	725	32
Equity securities available-for-sale	38,159	37,344	4,829
Debt securities held to maturity	2,606	1,982	1,430
	42,853	41,194	8,588
Current investments			
Loans given to related parties	100	9,774	722
Loans given to third parties	4,140	2,032	3,636
Equity securities available-for-sale	3,833	78	716
Debt securities held to maturity	7,371	1,174	5,425
	15,444	13,058	10,499

Equity securities available-for-sale comprise principally non-marketable equity securities, which are not publicly traded or listed on the Russian stock exchange and, due to the nature of the local financial markets, it is not possible to obtain current market values for these investments. These investments have been recorded at cost less any necessary impairment provision.

Debt securities held to maturity of USD 1,077 thousand have been pledged to third parties as collateral with respect to borrowings (2001: USD 2,471 thousand, 2000: USD 3,178 thousand) (refer note 21).

Transactions with related parties

OAO Kalugskiy Turbiniy Zavod

In 2002, the Pro-forma Group has sold a 14% investment in share capital of OAO Kalugskiy Turbiniy Zavod to an entity under the control of the majority shareholder of the Parent Company for USD 38 thousand. The cost of the investment was USD 355 thousand. As at the end of 2002 the Pro-forma Group still owned a 7% investment in OAO Kalugskiy Turbiniy Zavod that was acquired from an unrelated party during 2002.

Notes to the pro-forma consolidated financial statements

13. Other investments continued

Two members of the board of directors of the Parent Company are members of the board of directors of OAO Kalugskiy Turbiniy Zavod. OAO Kalugskiy Turbiniy Zavod is a Russian company, located in Kaluga that produces turbines and other energy generating equipment. A significant portion of shares in OAO Kalugskiy Turbiniy Zavod are held by Russian Government, so the cost method subject to an impairment test has been considered by management to be the most appropriate for recording of this investment in 2002, 2001 and 2000.

At 31 December 2002, the Pro-forma Group also had an outstanding loan receivable from OAO Kalugskiy Turbiniy Zavod in the amount of USD 566 thousand (2001: USD nil, 2000: nil).

ZAO LMZ Engineering
At 31 December 2002, the Pro-forma Group had a 17% investment in the share capital of ZAO LMZ Engineering amounting to less than USD 1 thousand at cost (2001: USD 1 thousand, 2000: USD 1 thousand). LMZ Engineering is an entity under control of majority shareholders of the Parent Company. ZAO LMZ Engineering is a Russian based company, the primary activity of which is provision of engineering and installation services. At 31 December 2002, the Pro-forma Group also had an outstanding loan receivable from ZAO LMZ Engineering in the amount of USD 1,116 thousand (2001: USD 10,917 thousand, 2000: USD 3,019 thousand).

ZAO Atomkomplectpostavka
In 2002 the Pro-forma Group has provided an interest free short-term loan to its associate ZAO Atomkomplectpostavka in amount of USD 100 thousand that was still outstanding at period end.

14. Trade receivables available-for-sale

In thousands of US dollars	**2002**	**2001**	**2000**
Non-current receivables			
Trade accounts receivable	-	18,788	5,130
Notes receivable	-	36,761	4,277
	-	55,549	9,407
Current receivables			
Trade accounts receivable	5,638	-	-
Notes receivable	85,506	-	-
	91,144	-	-

Trade receivables available-for-sale comprise trade accounts receivable and notes receivable initially originated by the Pro-forma Group with the intention of sale immediately or in the short term.

Notes to the pro-forma consolidated financial statements

15. Other non-current receivables

In thousands of US dollars	**2002**	**2001**	**2000**
Trade accounts receivable	37,320	23,488	31,700
Notes receivable	6,986	9,527	11,720
Loans to employees for purchase of flats	544	603	751
Other non-current receivables	93	1,388	664
Shareholders receivables	-	-	4,933
Less provision for doubtful debts	(1,834)	(1,834)	(1,834)
	43,109	33,172	47,934

Notes receivable and notes available for sale (refer note 14) in amount of USD 14,278 thousand have been pledged to third parties as a collateral with respect to borrowings (2001: USD 14,306 thousand, 2000: nil) (refer note 21).

As of period end the Pro-forma Group had USD 110,032 thousand of trade and note receivables (note 14 and 15) from one significant customer (2001: USD 58,223 thousand, 2000: USD 11,335 thousand). The recoverability of the receivable is secured by the guarantee of Indian Government.

16. Inventories

In thousands of US dollars	**2002**	**2001**	**2000**
Work in progress	49,677	33,036	26,089
Raw materials and consumables	31,304	17,663	17,990
Finished goods and goods for resale	27,985	41,343	45,161
Supplies	2,512	4,551	2,394
Contract inventories	954	1,194	-
Other inventories	5,024	936	3,866
	117,456	98,723	95,500

At 31 December 2002 the Pro-forma Group included into finished goods and goods for resale USD 3,087 thousand of equipment produced for a customer located in Iraq (2001: USD 2,382 thousand, 2000: USD 1,402 thousand) and USD 3,374 thousand of equipment produced for a customer located in Argentina (2001: USD 2,609 thousand, 2000: nil) and waiting delivery. The Company is not allowed to deliver the equipment to the Iraq customers until permission is received from the United Nations. As at the date of preparation of these Pro-forma financial statements no permission to deliver this equipment has yet been received. In 2001 Argentina customers delayed delivery due to the financial crisis which occurred in Argentina.

Notes to the pro-forma consolidated financial statements

17. Trade receivables, current

In thousands of US dollars	2002	2001	2000
Trade account receivable	54,453	52,310	92,193
Notes receivable	1,265	5,531	35,529
Less provision for doubtful debts	(4,877)	(7,220)	(6,833)
	50,841	50,621	120,889
Costs and earnings in excess of billings on uncompleted contracts	40,024	67,438	41,890
Advance payments received related to contracts	(6,704)	(38,498)	(31,613)
	33,320	28,940	10,277
	84,161	79,561	131,166

At 31 December 2002 trade receivables include contractual retention amounts billed to customers amounting to USD 15,320 thousand (2001: USD 9,486 thousand, 2000: USD 5,697 thousand). Management expects the majority of related contracts will be completed and substantially all of the billed amounts retained by the customer will be collected within two to three years of balance sheet date.

Costs and earnings in excess of billings on uncompleted contracts represent sales earned and recognized under the percentage-of-completion method.

Notes receivable in amount of USD 28 thousand have been pledged to third parties as a collateral with respect to borrowings (2001: USD 4,561 thousand, 2000: USD 4,423 thousand) (refer note 21).

18. Other receivables

In thousands of US dollars	2002	2001	2000
Prepayments	16,951	21,226	23,253
VAT receivable	18,082	9,824	5,517
Pledged deposits and cash equivalents	8,149	5,693	8,659
Deferred expenses	4,009	2,752	1,247
Income tax receivable	2,356	356	10
Receivables from employees	971	544	309
Loans to employees for purchase of flats	23	83	90
Shareholders receivables	-	4,933	7,372
Other receivables	20,575	13,035	15,968
	71,116	58,446	62,425

At 31 December 2002 foreign currency bank deposits were pledged as collateral for guarantees issued on the Pro-forma Group's behalf in the amount of USD 4,855 thousand (2001: USD 4,772 thousand, 2000: USD 6,451 thousand). In addition, cash equivalents in the amount of USD 3,294 thousand (2001: USD 921 thousand, 2000: USD 2,208 thousand) have been pledged as a collateral for letters of credit.

Notes to the pro-forma consolidated financial statements

19. Cash and cash equivalents

Cash and cash equivalents comprise local and foreign currency bank balances, call deposits and bank promissory notes.

In thousands of US dollars	2002	2001	2000
Foreign currency bank accounts	4,320	3,772	7,792
Rouble bank accounts	10,435	2,610	4,508
Foreign currency bank deposits	459	400	1,375
Other Rouble denominated cash equivalents	5,216	644	1,285
	20,430	7,426	14,960

20. Loans and borrowings

In thousands of US dollars	Effective interest rate	2002	Effective interest rate	2001	Effective interest rate	2000
Current liabilities						
Secured loans: - RUR, fixed	18%	40,061	19%	21,389	35%	6,391
- USD, fixed	13%	35,674	12%	46,540	14%	19,626
- EURO, fixed	13%	814		-	10%	998
Current portion of secured loans:						
- RUR, fixed	22%	720		-		-
- CHF, fixed	14%	585	14%	336		-
Unsecured loans: - RUR, fixed	15%	390	0%	1,011	0%	644
- USD, fixed	12%	20,528	13%	10,271	15%	10,135
- DM, fixed		-		-	13%	51
Loan from Ministry of Finance, USD	0%	11,472		-		-
Current portion of loan from Ministry of Finance USD		-	0%	9,585	0%	8,075
		110,244		89,132		45,920
Non-current liabilities						
Secured loans: - USD, fixed	10%	20,516	12%	13,068		-
- EURO, fixed	11%	1,073	-	-		-
- RUR, variable		-	14%	472		-
Unsecured loans: - RUR, fixed	0%	613	0%	8	0%	8
- USD, fixed	10%	160		-	13%	600
Loan from Ministry of Finance, USD		-	0%	1,887	0%	3,397
		22,362		15,435		4,005

Notes to the pro-forma consolidated financial statements

20. Loans and borrowings continued

At 31 December 2002 the balance of short-term unsecured loans includes USD 11,472 thousand of loan repayable to Ministry of Finance of Russian Federation of which USD 9,585 thousand is overdue (2001: USD 8,075 thousand, 2000: USD 6,253 thousand). Contingent penalties for overdue loan repayments amounted to USD 6,278 thousand (2001: USD 4,264 thousand, 2000: USD 2,344 thousand) (refer note 29 (ii)).

Non-current debt repayment schedule
Presented below is the debt repayment schedule for non-current debts outstanding at 31 December 2002.

In thousands of US dollars	**Total**	**Current portion**	**2004**	**2005**	**2006**	**2007**	**2008 thereafter**
Secured bank loans							
- USD, fixed	20,442	-	13,766	933	4,307	1,436	-
- EUR, fixed	1,073	-	690	383	-	-	-
- RUR, fixed	720	720	-	-	-	-	-
- CHF, fixed	585	585	-	-	-	-	-
Unsecured loans							
- USD, fixed	339	105	234	-	-	-	-
- RUR, fixed	613	-	7	-	-	-	606
	23,772	1,410	14,697	1,316	4,307	1,436	606

Transactions with related parties
Rosbank
Three members of the board of directors of OAO Rosbank are members of the board of directors of the Company. During 2002, OAO Rosbank provided loans to the Pro-forma Group which remained outstanding at the balance sheet date in the amount totalling USD 12,537 thousand (2001: USD 14,357 thousand, 2000: USD 5,015 thousand). OAO Rosbank also provided loans totalling USD 20 thousand to third parties, such loans being guaranteed by the Pro-forma Group. The interest expense to OAO Rosbank for 2002 amounted to USD 1,742 thousand (2001: USD 355 thousand).

Notes to the pro-forma consolidated financial statements

21. Pledges provided by the Pro-forma Group

Companies within the Pro-forma Group are subject to the following pledges of assets:

In thousands of US dollars	Note	2002	2001	2000
Property, plant and equipment		55,372	24,468	11,670
Inventories		84,540	33,825	10,985
Equity securities available for sale		-	2	-
Notes receivable, current	17	28	4,561	4,423
Notes receivable, non-current and available for sale	15	14,278	14,306	-
Debt securities held to maturity current	13	105	545	2,310
Debt securities held to maturity non-current	13	972	1,926	868
Investments in Affiliates		-	-	301
Revenue from planned supplies of equipment in the future		7,598	9,923	23,074
		162,893	89,556	53,631

The distribution of the assets pledged of the Pro-forma Group is as follows:

In thousands of US dollars	Note	2002	2001	2000
Current loans and borrowings				
Pledges provided for the debt of the Pro-forma Group	20	135,639	70,599	51,309
Pledges provided for the debt of third parties		-	11	2,217
Non-current loans and borrowings				
Pledges provided for the debt of the Pro-forma Group	20	27,254	18,946	105
		162,893	89,556	53,631

22. Employee benefits

The Pro-forma Group voluntarily makes contributions to a defined contribution plan. The contributions are made to an independent insurance company, which provides life insurance to management of the Company. Contributions of RUR 1,986 thousand (USD 64 thousand) were recognised as an expense in 2002 (2001: nil).

Notes to the pro-forma consolidated financial statements

23. Deferred tax liabilities

Recognised deferred tax assets and liabilities
Deferred tax assets and liabilities are attributable to the following:

In thousands of US dollars	Assets			Liabilities			Net		
	2002	**2001**	**2000**	**2002**	**2001**	**2000**	**2002**	**2001**	**2000**
Cash and cash equivalents	(19)	(37)	(71)	-	-	-	(19)	(37)	(71)
Property, plant and equipment	(81)	-	-	20,849	21,368	26,975	20,768	21,368	26,975
Intangible assets	-	-	-	219	49	113	219	49	113
Other investments	(1,873)	(1,042)	(264)	1,287	4,421	2,560	(586)	3,379	2,296
Inventories	(6,209)	(4,446)	(1,844)	5,549	-	1,339	(660)	(4,446)	(505)
Trade and other accounts receivable	(19,644)	(16,876)	(17,241)	33,750	34,714	22,545	14,106	17,838	5,304
Trade and other accounts payable	(2,115)	(3,142)	(3,509)	17,381	13,627	32,695	15,266	10,485	29,186
Loans and borrowings	(382)	(165)	-	785	-	98	403	(165)	98
Tax (assets)/liabilities	(30,323)	(25,708)	(22,929)	79,820	74,179	86,325	49,497	48,471	63,396
Set-off of tax	30,323	25,708	22,929	(30,323)	(25,708)	(22,929)	-	-	-
Net tax liabilities	-	-	-	49,497	48,471	63,396			

At 31 December 2002 a deferred tax liability of USD 7,092 thousand (2001: USD 3,149 thousand, 2000: USD 3,167 thousand) relating to investments in subsidiaries has not been recognised as the Pro-forma Group controls whether the liability will be incurred and is satisfied that it will not be incurred in the foreseeable future.

24. Trade and other payables

In thousands of US dollars	**2002**	**2001**	**2000**
Advances from customers	74,714	40,265	58,016
Trade accounts payable	54,217	37,140	47,661
Taxes payable	15,738	12,903	15,165
Payable for shares purchased	8,584	17,071	11,265
Employee related liabilities	6,398	3,880	2,829
Notes payable	3,959	1,047	478
Provision for warranties	3,200	2,183	389
Deferred income	932	686	1,648
Accrued liabilities	343	529	142
Contract related reserves	81	256	1,427
Other current liabilities	15,411	5,999	12,657
	183,577	121,959	151,677

Notes to the pro-forma consolidated financial statements

24. Trade and other payables continued

Transactions with related parties

Lenenergo

At 31 December 2002, the Pro-forma Group had an outstanding payable to OAO Lenenergo in amount of USD 818 thousand (2001: USD 670 thousand, 2000: USD 3,260 thousand). This is an amount primarily related to fees for supply of electricity services. OAO Lenenergo has one representative on the board of directors of LMZ. Lenenergo is a public electricity services provider located in St. Petersburg where major subsidiaries of the Pro-forma Group are located.

OAO Kalugskiy Turbiniy Zavod

At 31 December 2002, the Pro-forma Group had outstanding payable to OAO Kalugskiy Turbiniy Zavod in amount of USD 257 thousand (2001: USD 228 thousand; 2000: USD 73 thousand) (refer note 13).

25. Other non-current liabilities

In thousands of US dollars	**2002**	**2001**	**2000**
Trade accounts payable	35,789	17,396	1,148
Other non-current liabilities	252	178	35
Payable for shares purchased	-	8,461	25,532
	36,041	26,035	26,715

26. Financial instruments

Exposure to credit, interest rate and currency risk arises in the normal course of the Pro-forma Group's business. The Pro-forma Group does not use derivative financial instruments to reduce exposure to fluctuations in foreign exchange rates and interest rates.

Credit risk

Financial instruments that potentially subject the Pro-forma Group to significant credit risk consist primarily of accounts receivable. Credit evaluations are performed for all banks in which the Pro-forma Group holds deposits, and all customers requiring credit over a certain amount. The Pro-forma Group requires collateral in respect of financial assets in the form of government guarantees or letters of credit. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

Interest rate risk

The Pro-forma Group incurs interest rate risk primarily on accounts receivable, accounts payable, loans and borrowings.

Foreign currency risk

The Pro-forma Group incurs foreign currency risk on transactions that are denominated in a currency other than the US dollar. The currency giving rise to this risk is primarily the Russian rouble. Management consider the Pro-forma Group's major foreign currency risk as being the devaluation of the Russian rouble against it's measurement currency.

Notes to the pro-forma consolidated financial statements

26. Financial instruments continued

Fair value

The Pro-forma Group's financial instruments include cash and cash equivalents, current and non-current receivables, payables, other liabilities, current and non-current investments, and short and long-term loans and borrowings. The carrying amounts of cash and cash equivalents, current investments, current loans and borrowings, current receivables and payables approximate their fair value due to the short-term nature of these instruments.

Non-current investments consist primarily of equity and debt securities for which the fair value could not be determined as the securities are not publicly traded, and are recorded at historical cost, subject to impairment.

The fair values of non-current trade receivables, loans receivable, liabilities, and loans and borrowings are determined using discounted cash flow methodology based upon rates of similar instruments. As current market rates are not dissimilar to those used at initial recognition of these fair values, the carrying amounts approximate fair values.

27. Related party transactions

Sales & purchases to/from related parties

	Sales		Purchases		Interest expense	
In thousands of US dollars	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**
OAO Kalugskiy Turbiniy Zavod	369	325	911	1,263	-	-
ZAO LMZ Engineering	346	1,106	801	1,808	-	-
OAO Lenenergo	533	265	5,436	4,624	-	-
OAO Rosbank	-	-	-	-	1,742	355
	1,248	1,696	7,148	7,695	1,742	355

Notes to the pro-forma consolidated financial statements

27. Related party transactions continued

Amounts due to/from related parties

	Receivable			Payable		
In thousands of US dollars	**2002**	**2001**	**2000**	**2002**	**2001**	**2000**
OAO Kalugskiy Turbiniy Zavod – advances, current	935	340	177	1,342	-	-
OAO Kalugskiy Turbiniy Zavod – advances, non-current	91	1,026	553	-	-	-
OAO Kalugskiy Turbiniy Zavod – creditors	-	-	-	257	228	73
OAO Kalugskiy Turbiniy Zavod – loans given, current	566	-	-	-	-	-
OAO Kalugskiy Turbiniy Zavod – loans received, current	-	-	-	79	-	-
ZAO LMZ Engineering – debtors	16	309	2,756	-	-	-
ZAO LMZ Engineering – creditors	-	-	-	-	-	106
ZAO LMZ Engineering – loans given, current	-	9,774	722	-	-	-
ZAO LMZ Engineering – loans given, non-current	1,116	1,143	2,297	-	-	-
OAO Lenenergo – debtors	334	54	2,739	-	-	-
OAO Lenenergo – other debtors	100	44	118	-	-	-
OAO Lenenergo – creditors	-	-	-	818	670	3,260
ZAO Atomkomplectpostavka – loans given, current	100	-	-	-	-	-
OAO Rosbank – promissory notes	-	20	-	-	-	-
OAO Rosbank – loans received	-	-	-	12,537	14,357	5,015
	3,258	12,710	9,362	15,033	15,255	8,454

Financial guarantees provided to related parties
Details of financial guarantees and assets pledged against loans provided to related parties are disclosed in notes 21 and 29.

28. Commitments

(i) ***Capital commitments***
The Pro-forma Group is committed to capital expenditure of approximately USD 6,703 thousand (2001: USD 1,875 thousand, 2000: USD 463 thousand).

(ii) ***Social commitments***
The Pro-forma Group makes contributions to mandatory and voluntary social programs. The Pro-forma Group's social assets, as well as local social programs, benefit the community at large and are not normally restricted to the Pro-forma Group's employees. The Pro-forma Group has transferred certain social operations and assets to local authorities; however, management expects that the Pro-forma Group will continue to fund these social programs for the foreseeable future. These costs are recorded in the year they are incurred.

Notes to the pro-forma consolidated financial statements

29. Contingencies

(i) Financial Guarantees

The Pro-forma Group has provided financial guarantees for loans obtained by certain related and third party suppliers of the Pro-forma Group. Amounts related to the Pro-forma Group's financial guarantees are as follows.

In thousands of US dollars	2002	2001	2000
Maturity in one year or more			
Third party suppliers	15,842	-	402
Maturity in less than one year			
Related party supplier – ZAO LMZ Engineering	-	350	2,628
Third party suppliers	1,329	80	3,937
	17,171	430	6,967

The Pro-forma Group's estimated maximum exposure to credit losses in the event of non-performance by the other parties to these financial guarantees is represented by the contractual amounts represented above. Assets of the Pro-forma Group were also pledged against certain of the third party supplier guarantees (note 21). Management believes that the likelihood of material payments being required under these agreements is remote. As at 31 December 2002 the Pro-forma Group did not have any contractual commitments to extend financial guarantees, credit or other assistance.

(ii) Contingencies

The Company may be liable for penalties on an overdue loan payable to Ministry of Finance of Russia which amount to USD 6,278 thousands at 31 December 2002 (2001: USD 4,264 thousand and 2000: USD 2,344 thousand). These penalties were not recorded as liabilities in these financial statements as the Company expects that new Provisions of the Ministry of Finance on restructuring of loans will be issued in July-August 2003, with terms which will waive these penalties if all conditions of restructuring are met by the Company. Management is confident that all conditions will be met and that the penalties will be waived.

(iii) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Company does not have full coverage for it's plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Company property or relating to Company operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company's operations and financial position.

(iv) Litigation

Unresolved claims and litigation against the Pro-forma Group as at 31 December 2002 amounted to USD 52 thousand (2001: USD 1,042 thousand, 2000 USD 475 thousand). In addition to that one company of the Pro-forma Group, OAO Electrosila, is involved in litigation raised by minority shareholders. Based on this claim, OAO Electrosila may be obliged to return share capital contributions of USD 800 thousand and to compensate the claimants for market value increases to some extent.

Notes to the pro-forma consolidated financial statements

29. Contingencies continued

Other claims include a number of small claims and litigation relating to sales made to domestic customers. Based on experience in resolving such matters, management believes that these will be resolved without significant loss to the Pro-forma Group and, accordingly, no provision has been made for these unresolved claims and litigation.

(v) Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by numerous taxes and frequently changing legislation, which is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among the numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges.

These facts may create tax risks in Russia substantially more significant than in other countries. Management believes that it has adequately provided for all tax liabilities based on it's interpretation of the tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

(vi) Environmental liabilities

Environmental regulations are currently under consideration in the Russian Federation and the Pro-forma Group is continuously evaluating it's obligations relating to new and changing legislation. The likelihood and amount of liabilities relating to environmental obligations under proposed or any future legislation cannot be reasonably estimated at present and could become material.

Under existing legislation, management believes that there are no significant unrecorded liabilities or contingencies, which could have a significant adverse effect on the operating results or financial position of the Pro-forma Group.

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