

**Open Joint Stock Company Power  
Machines and subsidiaries**

Consolidated Financial Statements  
for the year ended 31 December 2003

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## Independent Auditor's Report

To the management of Open Joint Stock Company Power machines:

We have audited the accompanying consolidated balance sheet of Open Joint Stock Company Power machines – ZTL, LMZ, Electrosila, Energomachexport and its subsidiaries (the “Group”) as of 31 December 2003 and the related statements of income, changes in equity and cash flows for the year then ended. The consolidated financial statements, as set out on pages 4 to 37, are the responsibility of the Group’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

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.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2003, and the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as promulgated by the International Accounting Standards Board.

Comparative information set out throughout these financial statements have been based on combined financial statements prepared for the Group in accordance with the structure of the Group at 31 December 2002 as described within Note 1(c) of these financial statements, and have been changed where necessary to be consistent with current year disclosures.

  
KPMG  
Bellwood, Partner

ZAO KPMG  
St. Petersburg, Russian Federation  
05 July 2004

## Consolidated balance sheet

As at 31 December 2003

*In thousands of US dollars*

|  | Note | 2003           | 2002           |
|--|------|----------------|----------------|
| <b>Assets</b>  |      |                |                |
| Property, plant and equipment                          | 9    | 218,242        | 191,559        |
| Intangible assets                                      | 10   | 14,416         | 4,626          |
| Investments in associates                              | 11   | 10,918         | 5,126          |
| Other investments                                      | 12   | 17,921         | 38,663         |
| Trade receivables available-for-sale                   | 13   | 85,360         | -              |
| Other non-current receivables                          | 14   | 31,891         | 37,765         |
| <b>Total non-current assets</b>                        |      | <u>378,748</u> | <u>277,739</u> |
| Inventories  | 15   | 115,130        | 113,752        |
| Trade receivables                                      | 16   | 88,773         | 79,343         |
| Other receivables                                      | 17   | 147,713        | 70,233         |
| Trade receivables available-for-sale                   | 13   | 15,530         | 89,172         |
| Other investments                                      | 12   | 14,563         | 14,522         |
| Cash and cash equivalents                              | 18   | 65,973         | 20,841         |
| <b>Total current assets</b>                            |      | <u>447,682</u> | <u>387,863</u> |
| <b>Total assets</b>                                    |      | <u>826,430</u> | <u>665,602</u> |
| <b>Equity</b>  |      |                |                |
|  | 19   |                |                |
| Ordinary shares  |      | 7,789          | 7,198          |
| Preference shares                                      |      | 2,181          | 2,345          |
| Additional paid-in capital                             |      | 125,873        | 33,704         |
| Treasury shares  |      | (27)           | -              |
| Translation reserve                                    |      | 18,132         | -              |
| Retained earnings                                      |      | 138,226        | 134,989        |
| <b>Total equity</b>                                    |      | <u>292,174</u> | <u>178,236</u> |
| <b>Minority interest</b>                               |      | 1,284          | 98,748         |
| <b>Total equity and minority interest</b>              |      | <u>293,458</u> | <u>276,984</u> |
| <b>Liabilities</b>                                     |      |                |                |
| Loans and borrowings                                   | 20   | 31,910         | 22,362         |
| Deferred tax liabilities                               | 22   | 47,579         | 40,798         |
| Other non-current liabilities                          | 24   | 31,413         | 42,411         |
| <b>Total non-current liabilities</b>                   |      | <u>110,902</u> | <u>105,571</u> |
| Loans and borrowings                                   | 20   | 200,018        | 110,244        |
| Trade and other payables                               | 23   | 222,052        | 172,803        |
| <b>Total current liabilities</b>                       |      | <u>422,070</u> | <u>283,047</u> |
| <b>Total liabilities</b>                               |      | <u>532,972</u> | <u>388,618</u> |
| <b>Total equity, minority interest and liabilities</b> |      | <u>826,430</u> | <u>665,602</u> |

The consolidated financial statements were approved on 05 July 2004 and signed by:

  
 \_\_\_\_\_  
 E.K. Yakovlev  
 Chief Executive Officer

  
 \_\_\_\_\_  
 N.A. Kuznetsov  
 Chief Financial Officer

The consolidated balance sheet is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 8 to 37.

## Consolidated income statement

For the year ended 31 December 2003

*In thousands of US dollars*

|  | Note | 2003                | 2002                  |
|--|------|---------------------|-----------------------|
| Revenues                                       | 3    | 352,305             | 276,652               |
| Cost of sales                                  |      | <u>(223,309)</u>    | <u>(166,028)</u>      |
| <b>Gross profit</b>                            |      | 128,996             | 110,624               |
| Distribution expenses                          |      | (14,896)            | (11,939)              |
| Administrative expenses                        | 4    | (80,423)            | (73,181)              |
| Social costs                                   |      | (4,287)             | (2,924)               |
| Other operating income/(expenses)              | 5    | <u>(2,137)</u>      | <u>(1,760)</u>        |
| <b>Profit from operations</b>                  |      | 27,253              | 20,820                |
| Net financing expenses                         | 7    | (16,278)            | (15,332)              |
| (Loss)/income from associates                  |      | (62)                | 667                   |
| <b>Profit before tax and minority interest</b> |      | 10,913              | 6,155                 |
| Income tax expense                             | 8    | <u>(6,397)</u>      | <u>(9,103)</u>        |
| <b>Profit before minority interest</b>         |      | 4,516               | (2,948)               |
| Minority interest                              |      | (1,279)             | 1,570                 |
| <b>Net profit for the year</b>                 |      | <u><u>3,237</u></u> | <u><u>(1,378)</u></u> |

The consolidated income statement is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 8 to 37.

## Consolidated statement of cash flows

For the year ended 31 December 2003

*In thousands of US dollars*

|  | <b>2003</b>     | <b>2002</b>     |
|--|-----------------|-----------------|
| <b>Operating activities</b>  |                 |                 |
| Net profit for the year  | 3,237           | (1,378)         |
| Adjustments for:   |                 |                 |
| Depreciation and amortisation                                      | 17,640          | 13,421          |
| (Gain)/loss on disposal of property plant and equipment            | (404)           | 1,115           |
| (Gain)/loss from disposal of investments                           | (282)           | 629             |
| Revaluation of investments to fair value                           | 588             | 2,876           |
| Loss/(income) from associates                                      | 62              | (667)           |
| Interest income  | (6,372)         | (7,004)         |
| Interest expense   | 24,203          | 15,937          |
| Income tax expense   | 6,397           | 9,103           |
| Unrealised foreign exchange (gains)/losses                         | (3,336)         | 3,450           |
| Minority interests   | 1,279           | (1,570)         |
| <b>Operating profit before changes in working capital</b>          | <b>43,012</b>   | <b>35,912</b>   |
| (Increase)/decrease in inventories                                 | 7,307           | (16,683)        |
| (Increase)/decrease in trade and other receivables                 | (66,772)        | (52,622)        |
| Increase/(decrease) in trade and other payables                    | 20,696          | 79,124          |
| <b>Cash flows from operations before taxes and interest paid</b>   | <b>4,243</b>    | <b>45,731</b>   |
| Interest paid  | (24,420)        | (15,700)        |
| Income tax paid  | (4,599)         | (7,744)         |
| <b>Cash flows from operating activities</b>                        | <b>(24,776)</b> | <b>22,287</b>   |
| <b>Investing activities</b>  |                 |                 |
| Proceeds from sale of property, plant and equipment                | 4,722           | 1,944           |
| Interest received  | 6,372           | 7,004           |
| Acquisition of property, plant and equipment and intangible assets | (35,470)        | (25,923)        |
| Acquisition of investments in associates                           | (5,138)         | -               |
| Net change in loans given to third and related parties             | 3,792           | (2,314)         |
| Net cash flow from other investments                               | 20,161          | (13,503)        |
| <b>Cash flows from investing activities</b>                        | <b>(5,561)</b>  | <b>(32,792)</b> |
| <b>Financing activities</b>  |                 |                 |
| Proceeds from borrowings   | 554,439         | 202,115         |
| Repayments of borrowings   | (472,242)       | (174,440)       |
| Acquisition of minority shareholdings                              | (10,111)        | (11,893)        |
| Sale/(repurchase) of treasury shares                               | (26)            | 6,727           |
| <b>Cash flows from financing activities</b>                        | <b>72,060</b>   | <b>22,509</b>   |
| Net increase/(decrease) in cash and cash equivalents               | 41,723          | 12,004          |
| Cash and cash equivalents at 1 January                             | 20,841          | 8,837           |
| Effect of exchange rate fluctuations                               | 3,409           | -               |
| <b>Cash and cash equivalents at 31 December</b>                    | <b>65,973</b>   | <b>20,841</b>   |

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 8 to 37.

## Consolidated statement of changes in shareholders' equity

For the year ended 31 December 2003

| <i>In thousands of US dollars</i>  | <b>Ordinary shares</b> | <b>Preference shares</b> | <b>Additional paid-in capital</b> | <b>Treasury shares</b> | <b>Translation reserve</b> | <b>Retained earnings</b> | <b>Total</b>   |
|------------------------------------|------------------------|--------------------------|-----------------------------------|------------------------|----------------------------|--------------------------|----------------|
| Balance at 1 January 2002          | 7,198                  | 2,345                    | 31,325                            | (6,727)                | -                          | 136,367                  | 170,508        |
| Net loss for the year              | -                      | -                        | -                                 | -                      | -                          | (1,378)                  | (1,378)        |
| Sale of treasury shares            | -                      | -                        | -                                 | 6,727                  | -                          | -                        | 6,727          |
| Contributions from shareholders    | -                      | -                        | 2,379                             | -                      | -                          | -                        | 2,379          |
| <b>Balance at 31 December 2002</b> | <b>7,198</b>           | <b>2,345</b>             | <b>33,704</b>                     | <b>-</b>               | <b>-</b>                   | <b>134,989</b>           | <b>178,236</b> |
| Balance at 1 January 2003          | 7,198                  | 2,345                    | 33,704                            | -                      | -                          | 134,989                  | 178,236        |
| Currency translation differences   | -                      | -                        | -                                 | -                      | 18,132                     | -                        | 18,132         |
| Net profit for the year            | -                      | -                        | -                                 | -                      | -                          | 3,237                    | 3,237          |
| Issue of share capital             | 721                    | -                        | -                                 | -                      | -                          | -                        | 721            |
| Repurchase of shares               | (130)                  | (164)                    | -                                 | -                      | -                          | -                        | (294)          |
| Acquisition of treasury shares     | -                      | -                        | -                                 | (27)                   | -                          | -                        | (27)           |
| Contributions from shareholders    | -                      | -                        | 92,169                            | -                      | -                          | -                        | 92,169         |
| <b>Balance at 31 December 2003</b> | <b>7,789</b>           | <b>2,181</b>             | <b>125,873</b>                    | <b>(27)</b>            | <b>18,132</b>              | <b>138,226</b>           | <b>292,174</b> |

The consolidated statement of changes in shareholders' equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 8 to 37.

## **Notes to the consolidated financial statements**

### **1. Basis of preparation**

#### **(a) Organisation and operations**

Open Joint Stock Company "Power machines – ZTL, LMZ, Electrosila, Energomachexport" ("the Company" or "the Parent Company") is a company domiciled in Russia. It 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 Group is power and automation technologies including production of turbines, generators and other energy generating equipment at plants located in St. Petersburg, Russia. The products are sold in the Russian Federation and abroad. The Group participates in international and national tenders for the supply of energy generating equipment and further places orders for production of the equipment with Group companies and other subcontractors.

#### **(b) 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 Group. The future business environment may differ from management's assessment.

#### **(c) Group structure**

The consolidated financial statements of the Company for the year ended 31 December 2003 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

Major entities composing the Group are EME which is the Parent Company, LMZ, Electrosila and ZTL which are subsidiaries of the Group.

Major entities composing the Group were under common control of the Parent Company during 2002 and 2003 while the Group did not have formal controlling shareholdings in those subsidiaries as of 1 January 2002. As at 1 January 2002 the Group held 10% in LMZ, none of the shares in Electrosila and 37% of shares in ZTL. The remaining shares bringing the controlling interest to 58% in LMZ, 52% in Electrosila and 57% in ZTL were held directly by entities under the control of the majority shareholder of the Parent Company.

During 2002 and 2003 the shares held as of 1 January 2002 or purchased during 2002 and 2003 by entities under the control of the majority shareholder of the Parent Company were transferred to the Group for cash or by means of shares exchanged for the shares of the Parent Company. As at 31 December 2003 the Parent Company owned 100% in each of the major subsidiaries.

For the purposes of these financial statements, the shares held by entities under the control of the majority shareholder of the Parent Company in major subsidiaries as of 1 January 2002 were treated as held by the Parent Company. All the successive purchases of shares during 2002 and 2003, made by entities under the control of the majority shareholder of the Parent Company from unrelated sellers and sold to the Group, were recorded by the Group as contributions by shareholders to the extent that these contributions exceeded the amounts paid by the Group.



## Notes to the consolidated financial statements

### 1. Basis of preparation continued

Listed below are all the significant companies included in the consolidated balance sheet:

|                                       | Country of incorporation | Consolidated interest | Consolidated interest |
|---------------------------------------|--------------------------|-----------------------|-----------------------|
|                                       |                          | %                     | %                     |
|                                       |                          | 2003                  | 2002                  |
| OAo Leningradskiy Metalicheskiy Zavod | Russia                   | 100.00%               | 57.58%                |
| OAo Electrosila                       | Russia                   | 100.00%               | 52.31%                |
| OAo Zavod Turbinich Lopatok           | Russia                   | 100.00%               | 57.29%                |
| OOO Reostat                           | Russia                   | 100.00%               | 100.00%               |
| ZAO Gazovie Turbini                   | Russia                   | 100.00%               | 100.00%               |
| ZAO LMZ Invest                        | Russia                   | 100.00%               | 100.00%               |
| ZAO LMZ Engineering                   | Russia                   | 100.00%               | 100.00%               |
| LMZ Energy Limited                    | Ireland                  | 100.00%               | 98.00%                |
| OOO Interturbo                        | Russia                   | 55.12%                | 55.12%                |
| 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%               |

#### (d) Statement of compliance

The Group maintains its 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").

#### (e) First-time application of IFRS

The Group first adopted IFRS as a primary basis of accounting from 1 January 2002.

Following the IFRS 1 exemptions for first-time adoption of IFRS the Group elected to measure property, plant and equipment at the date of transition to IFRS at its fair value (adjusted for impairment) and use that fair value as its deemed cost at that date.

## **Notes to the consolidated financial statements**

### **1. Basis of preparation continued**

#### **(f) 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 2002 financial statements was the United States dollar ("USD"). Management determined the US dollar to be the measurement currency prior to 2003 as they considered that the US dollar reflected the economic substance of the underlying events and circumstances of the Group that existed prior to 2003. In making this assessment, management considered the following matters:

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

As from 1 January 2003 the Group has conducted an assessment of its operations and determined the Russian Rouble to be its measurement currency. Management of the Group have elected to use US Dollar as the presentation currency for these financial statements. The following factors were taken into account in making the decision to change the measurement currency from US dollar to Rouble:

- The portion of Group's revenues invoiced and collected in Rouble, property, plant and equipment purchases nominated in Roubles and expenses nominated in Roubles increased significantly during 2003. That is, effectively more than 50% of revenue, purchases of property, plant and equipment and expenses were Rouble based during 2003. Such a change is explained by the fact that counter parties of the Group became favourable to concluding Rouble based contracts following the trend of stabilisation of Rouble during 2003.
- The forecasts demonstrate that such a shift from USD to Rouble in operations of the Group may be considered as a long-term.

As a result of the change in the measurement currency to the RUR, the carrying values of all non-monetary assets and equity items were translated and fixed in RUR at the rates effective at the date of transition to RUR as the measurement currency, 1 January 2003, and all subsequent additions to non-monetary assets and equity, accounted for using RUR as the measurement currency.

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.

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

## **Notes to the consolidated financial statements**

### **2. Significant accounting policies**

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

#### **(a) Associates**

Associates are those enterprises in which the Group has significant influence, but does not have control over the financial and operating policies. The consolidated financial statements include the 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 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 Group has incurred obligations in respect of the associate.

#### **(b) 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 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) Foreign currency translation**

##### **(i) *Measurement currency***

Transactions in foreign currencies are translated 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 to measurement currency 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 that are stated at fair value are translated to measurement currency at foreign exchange rates ruling at the dates the values were determined.

##### **(ii) *Presentation currency***

All assets and liabilities are translated from measurement currency to presentation currency at the exchange rate effective at the reporting date. For the purposes of these financial statements, the provisions of IAS 21 (Revised) have been applied.

Equity items are translated from measurement currency to presentation currency at the historical exchange rate.

Income statement transactions are translated from measurement to presentation currency with application of a period weighted average rate approximating the rate ruling at the dates of the transactions. Translation adjustments arising from translation of equity are included in translation reserve.

The closing rate of exchange effective at 31 December 2003 and 2002 was 1 USD to 29.45 Roubles and 1 USD to 31.78 Roubles, respectively.

## **Notes to the consolidated financial statements**

### **2. Significant accounting policies continued**

#### **(d) 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 Group's assets, as well as the future operations of the Group, may be significantly affected by the current and future economic environment (refer note 1(b)). The accompanying financial statements do not include any adjustments should the Group be unable to continue as a going concern.

#### **(e) Use of estimates**

Management of the 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.

#### **(f) Property, plant and equipment**

##### **(i) Owned assets**

Items of property, plant and equipment are stated at cost or deemed cost (for assets acquired prior to 1 January 2002) less accumulated depreciation and impairment losses (refer accounting policy (l)). 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.

Property, plant and equipment that had been stated at fair value (adjusted for impairment) on 1 January 2002, the date of application of IFRS, which represents deemed cost under IFRS 1, additions since this date are measured at 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.

##### **(ii) Leased assets**

Leases in terms of which the Group assume substantially all the risks and rewards of ownership are classified as finance leases. Plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payment at inception of the lease less accumulated depreciation and impairment losses (see accounting policy (l)).

##### **(iii) 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.

##### **(iv) 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.

## Notes to the consolidated financial statements

### 2. Significant accounting policies continued

Depreciation is charged as follows:

|                                |             |
|--------------------------------|-------------|
| ■ buildings                    | 70-90 years |
| ■ machinery and equipment      | 25-30 years |
| ■ transport equipment          | 15-18 years |
| ■ other property and equipment | 8-28 years  |

#### (g) 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 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 Group, are stated at cost less accumulated amortisation (refer below) and impairment losses (refer accounting policy (l)). 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.

The estimated useful lives are as follows:

|                           |             |
|---------------------------|-------------|
| ■ development costs       | 7 years     |
| ■ other intangible assets | 5-20 years. |

## **Notes to the consolidated financial statements**

### **2. Significant accounting policies continued**

#### **(h) 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 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 (l)). Other investments held by the 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.

Investments held for trading and available-for-sale investments are recognised/derecognised by the 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 Group.

#### **(i) Trade and other receivables**

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

#### **(j) 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.

#### **(k) 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 Group's cash management are included as a component of cash and cash equivalents in the statement of cash flows.

#### **(l) Impairment**

The carrying amounts of the Group's assets, other than inventories (refer accounting policy (j)) and deferred tax assets (refer accounting policy(u)), 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 its recoverable amount. Impairment losses are recognised in the income statement.

## **Notes to the consolidated financial statements**

### **2. Significant accounting policies continued**

#### **(i) Calculation of recoverable amount**

The recoverable amount of the 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.

#### **(m) 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.

#### **(n) 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 consolidated financial statements**

### **2. Significant accounting policies continued**

#### **(o) Employee benefits**

The 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.

#### **(p) Provisions**

A provision is recognised in the balance sheet when the 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.

#### **(i) *Warranties***

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

#### **(ii) *Onerous contracts***

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

#### **(q) Trade and other payables**

Trade and other payables are stated at their cost.

#### **(r) Government grants**

Government grant is recognised in the balance sheet initially as deferred income when there is reasonable assurance that it will be received and that the Company will comply with the conditions attaching to it. Grants that compensate the Company for expenses incurred are recognised as revenue in the income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Company for the cost of an asset are included in Other Liabilities as deferred income and are recognised in the income statement as revenue on a systematic basis over the useful life of the related asset.

#### **(s) Revenue**

##### **(i) *Goods sold and services rendered***

Revenue other than from construction fixed-price contracts 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 when the outcome of a construction contract can be estimated reliably. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately. 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.



## **Notes to the consolidated financial statements**

### **2. Significant accounting policies continued**

#### **(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.

#### **(iii) *Non-cash transactions***

The 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 10% (2002: 11%) of revenues and 8% (2002: 18%) of purchases in 2003 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.

#### **(t) *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 Group is recognised in the income statement as incurred.

##### **(iii) *Net financing costs***

Net financing costs comprise interest on borrowings except for interest which is capitalised, 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 consolidated financial statements**

### **2. Significant accounting policies continued**

#### **(u) 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.

## Notes to the consolidated financial statements

### 3. Revenues

| <i>In thousands of US dollars</i> | <b>2003</b>    | <b>2002</b>    |
|-----------------------------------|----------------|----------------|
| Energy generating equipment       | 228,037        | 179,212        |
| Other products                    | 63,093         | 45,238         |
| Services provided                 | 32,817         | 41,735         |
| Sales of spare parts              | 28,358         | 10,467         |
|                                   | <u>352,305</u> | <u>276,652</u> |

#### *Percentage of sales by location of customer*

|                    | <b>2003</b> | <b>2002</b> |
|--------------------|-------------|-------------|
| Russia and the CIS | 50%         | 52%         |
| Asia               | 36%         | 39%         |
| Europe             | 14%         | 5%          |
| Latin America      | -           | 2%          |
| Other              | -           | 2%          |
|                    | <u>100%</u> | <u>100%</u> |

### 4. Administrative expenses

| <i>In thousands of US dollars</i> | <b>2003</b>   | <b>2002</b>   |
|-----------------------------------|---------------|---------------|
| Wages, salaries and related taxes | 41,148        | 33,748        |
| Taxes other than income tax       | 6,438         | 8,473         |
| Insurance                         | 5,875         | 4,531         |
| Depreciation                      | 5,431         | 3,225         |
| Bank charges                      | 2,763         | 1,504         |
| Consulting                        | 2,584         | 360           |
| Materials                         | 2,062         | 2,217         |
| Travel expenses                   | 1,880         | 2,476         |
| Penalties                         | 531           | 390           |
| Amortisation of intangibles       | 265           | 184           |
| Research and development costs    | -             | 1,073         |
| Other administrative expenses     | 11,446        | 15,000        |
|                                   | <u>80,423</u> | <u>73,181</u> |

## Notes to the consolidated financial statements

### 5. Other operating (income)/expenses

| <i>In thousands of US dollars</i>                            | <b>2003</b>  | <b>2002</b>  |
|--|--------------|--------------|
| Net (gain)/loss on sale of investments                       | (282)        | 629          |
| Bad debts and change in accounts receivable provision        | 2,311        | (865)        |
| Provision for inventories                                    | (897)        | 1,061        |
| Government grants  | (571)        | -            |
| Net (gain)/loss on disposal of property, plant and equipment | (404)        | 1,113        |
| Net gain on disposal of other assets                         | (17)         | (35)         |
| Other operating (income)/expenses                            | 1,997        | (143)        |
|  | <u>2,137</u> | <u>1,760</u> |

### 6. Personnel expenses

| <i>In thousands of US dollars</i>              | <b>2003</b>   | <b>2002</b>   |
|--|---------------|---------------|
| Wages, salaries and related taxes included in: |               |               |
| cost of sales                                  | 45,459        | 36,292        |
| distribution costs                             | 3,175         | 3,638         |
| administrative expenses                        | 41,148        | 33,748        |
|  | <u>89,782</u> | <u>73,678</u> |

The average number of employees during the year ended 31 December 2003 was 14,575 (2002: 13,737).

### 7. Net financing expenses

| <i>In thousands of US dollars</i>                      | <b>2003</b>   | <b>2002</b>   |
|--|---------------|---------------|
| Interest expense                                       | 24,203        | 15,937        |
| Interest income  | (6,372)       | (7,004)       |
| Net foreign exchange (gain)/loss                       | (2,141)       | 3,524         |
| Revaluation to fair value of assets available for sale | 588           | 2,875         |
|  | <u>16,278</u> | <u>15,332</u> |

### 8. Income tax expense

| <i>In thousands of US dollars</i>                 | <b>2003</b>  | <b>2002</b>  |
|---|--------------|--------------|
| <b><i>Current tax expense</i></b>                 |              |              |
| Current year expense                              | 2,987        | 9,113        |
|   | <u>2,987</u> | <u>9,113</u> |
| <b><i>Deferred tax expense/( benefit)</i></b>     |              |              |
| Origination and reversal of temporary differences | 3,410        | (10)         |
|   | <u>3,410</u> | <u>(10)</u>  |
|   | <u>6,397</u> | <u>9,103</u> |

## Notes to the consolidated financial statements

### 8. Income tax expense continued

The applicable tax rates are 24% (2002: 24%) and 24% for measuring deferred taxes (2002: 24%).

#### *Reconciliation of effective tax rate*

*In thousands of US dollars*

|                                     |            | <b>2003</b>   |             | <b>2002</b>  |
|-------------------------------------|------------|---------------|-------------|--------------|
| Profit before tax                   |            | <u>10,913</u> |             | <u>6,155</u> |
| Income tax using corporate tax rate | 24%        | 2,619         | 24%         | 1,477        |
| Non-deductible expenses             | 36%        | 3,979         | 102%        | 6,278        |
| Non-taxable income                  | (11%)      | (1,286)       | (0%)        | (22)         |
| Unutilised tax losses of subsidiary | 10%        | 1,085         | 22%         | 1,370        |
|                                     | <b>59%</b> | <b>6,397</b>  | <b>148%</b> | <b>9,103</b> |

### 9. Property, plant and equipment

| <i>In thousands of US dollars</i> | <b>Land<br/>and<br/>Buildings</b> | <b>Machinery<br/>and<br/>equipment</b> | <b>Transpor-<br/>tation<br/>equipment</b> | <b>Other</b>    | <b>Assets under<br/>construction</b> | <b>Total</b>     |
|-----------------------------------|-----------------------------------|--|---|-----------------|--------------------------------------|------------------|
| <b>Cost</b>                       |                                   |  |   |                 |                                      |                  |
| Balance at 1 January 2003         | 313,049                           | 615,428                                | 14,507                                    | 21,783          | 13,087                               | 977,854          |
| Exchange difference               | 24,465                            | 49,355                                 | 1,127                                     | 2,005           | 879                                  | 77,831           |
| Additions                         | 833                               | 18,261                                 | 175                                       | 6,596           | 6,893                                | 32,758           |
| Transfers                         | 2,052                             | 6,183                                  | 47  | 825             | (9,107)                              | -                |
| Disposals                         | (9,971)                           | (8,432)                                | (699)                                     | (772)           | (1,486)                              | (21,360)         |
| Balance at 31 December 2003       | <u>330,428</u>                    | <u>680,795</u>                         | <u>15,157</u>                             | <u>30,437</u>   | <u>10,266</u>                        | <u>1,067,083</u> |
| <b>Depreciation</b>               |                                   |  |   |                 |                                      |                  |
| Balance at 1 January 2003         | (252,197)                         | (508,884)                              | (10,969)                                  | (14,245)        | -                                    | (786,295)        |
| Exchange difference               | (19,644)                          | (40,511)                               | (882)                                     | (1,175)         | -                                    | (62,212)         |
| Charge for the year               | (1,573)                           | (13,229)                               | (928)                                     | (1,645)         | -                                    | (17,375)         |
| Disposals                         | 8,834                             | 7,122                                  | 586                                       | 499             | -                                    | 17,041           |
| Balance at 31 December 2003       | <u>(264,580)</u>                  | <u>(555,502)</u>                       | <u>(12,193)</u>                           | <u>(16,566)</u> | <u>-</u>                             | <u>(848,841)</u> |
| <b>Carrying amount</b>            |                                   |  |   |                 |                                      |                  |
| At 1 January 2003                 | 60,852                            | 106,544                                | 3,538                                     | 7,538           | 13,087                               | 191,559          |
| At 31 December 2003               | <u>65,848</u>                     | <u>125,293</u>                         | <u>2,964</u>                              | <u>13,871</u>   | <u>10,266</u>                        | <u>218,242</u>   |

#### **Borrowing costs**

Borrowing costs of USD 1,348 thousand were capitalised during 2003 as part of the cost of qualifying assets (2002: USD 3,683 thousand).

#### **Pledged assets**

Property, plant and equipment in amount of USD 81,777 thousand have been pledged to third parties as a collateral with respect to borrowings (2002: USD 44,238 thousand) (refer note 21).

## Notes to the consolidated financial statements

### 9. Property, plant and equipment continued

#### *Lease machinery*

The Group leases production equipment under a number of finance lease agreements. As at 31 December 2003 the net carrying amount of leased machinery and equipment was USD 6,845 thousand (2002: nil).

### 10. Intangible assets

| <i>In thousands of US dollars</i> | <b>Development<br/>costs</b> | <b>Other<br/>intangible<br/>assets</b> | <b>Total</b>   |
|-----------------------------------|------------------------------|--|----------------|
| <b><i>Cost</i></b>                |                              |  |                |
| Balance at 1 January 2003         | 409                          | 5,823                                  | 6,232          |
| Exchange difference               | 324                          | 527                                    | 851            |
| Additions                         | -                            | 2,382                                  | 2,382          |
| Internally developed              | 6,938                        | -                                      | 6,938          |
| Disposals                         | -                            | (810)                                  | (810)          |
| Balance at 31 December 2003       | <u>7,671</u>                 | <u>7,922</u>                           | <u>15,593</u>  |
| <b><i>Amortisation</i></b>        |                              |  |                |
| Balance at 1 January 2003         | (54)                         | (1,552)                                | (1,606)        |
| Exchange difference               | (5)                          | (98)                                   | (103)          |
| Amortisation for the year         | (33)                         | (232)                                  | (265)          |
| Disposals                         | -                            | 797                                    | 797            |
| Balance at 31 December 2003       | <u>(92)</u>                  | <u>(1,085)</u>                         | <u>(1,177)</u> |
| <b><i>Carrying amount</i></b>     |                              |  |                |
| At 1 January 2003                 | 355                          | 4,271                                  | 4,626          |
| At 31 December 2003               | <u>7,579</u>                 | <u>6,837</u>                           | <u>14,416</u>  |

## Notes to the consolidated financial statements

### 11. Investments in associates

The Group has the following significant investments in associates:

|                               | Country of incorporation | Ownership |      | Voting interest |      |
|-------------------------------|--------------------------|-----------|------|-----------------|------|
|                               |                          | 2003      | 2002 | 2003            | 2002 |
| ZAO Interplast                | Russia                   | 50%       | 50%  | 50%             | 50%  |
| ZAO Atomkomplectpostavka      | Russia                   | -         | 33%  | -               | 33%  |
| OAo Kaluzhsky Turbinnyi Zavod | Russia                   | 20%       | 20%  | 26%             | 26%  |
| NPO CKTI                      | Russia                   | 35%       | 2%   | 35%             | 2%   |

*In thousands of US dollars*

|                               | 2003          | 2002         |
|-------------------------------|---------------|--------------|
| ZAO Interplast                | 73            | 73           |
| ZAO Atomkomplectpostavka      | -             | -            |
| OAo Kaluzhsky Turbinnyi Zavod | 5,396         | 4,987        |
| NPO CKTI                      | 5,449         | 66           |
|                               | <u>10,918</u> | <u>5,126</u> |

As at 31 December 2003 the investment in NPO CKTI includes goodwill of USD 3,924 thousand (2002: nil).

### 12. Other investments

*In thousands of US dollars*

#### *Non-current investments*

|                                      | 2003          | 2002          |
|--------------------------------------|---------------|---------------|
| Equity securities available-for-sale | 11,615        | 34,921        |
| Debt securities held to maturity     | 5,184         | 2,461         |
| Loans given                          | 1,122         | 1,281         |
|                                      | <u>17,921</u> | <u>38,663</u> |

#### *Current investments*

|                                      | 2003          | 2002          |
|--------------------------------------|---------------|---------------|
| Debt securities held to maturity     | 11,608        | 6,449         |
| Equity securities available-for-sale | 2,180         | 3,833         |
| Loans given                          | 775           | 4,240         |
|                                      | <u>14,563</u> | <u>14,522</u> |

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 2,784 thousand have been pledged as collateral with respect to borrowings (2002: USD 1,077 thousand) (refer note 21).

## Notes to the consolidated financial statements

### 13. Trade receivables available-for-sale

| <i>In thousands of US dollars</i>     | <b>2003</b>   | <b>2002</b>   |
|---------------------------------------|---------------|---------------|
| <b><i>Non-current receivables</i></b> |               |               |
| Trade accounts receivable             | -             | -             |
| Notes receivable                      | 85,360        | -             |
|                                       | <u>85,360</u> | <u>-</u>      |
| <b><i>Current receivables</i></b>     |               |               |
| Trade accounts receivable             | -             | 4,274         |
| Notes receivable                      | 15,530        | 84,898        |
|                                       | <u>15,530</u> | <u>89,172</u> |

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

Notes receivable and notes available for sale in amount of USD 15,782 thousand have been pledged as a collateral with respect to guarantee (2002: USD 14,278 thousand ) (refer note 21).

### 14. Other non-current receivables

| <i>In thousands of US dollars</i> | <b>2003</b>   | <b>2002</b>   |
|-----------------------------------|---------------|---------------|
| Trade accounts receivable         | 35,232        | 36,619        |
| Notes receivable                  | 1,059         | 6,268         |
| Advances to suppliers             | -             | 91            |
| Other non-current receivables     | -             | 2             |
| Less provision for doubtful debts | (4,400)       | (5,215)       |
|                                   | <u>31,891</u> | <u>37,765</u> |



## Notes to the consolidated financial statements

### 15. Inventories

| <i>In thousands of US dollars</i>   | <b>2003</b>    | <b>2002</b>    |
|-------------------------------------|----------------|----------------|
| Work in progress                    | 36,128         | 47,772         |
| Finished goods and goods for resale | 32,376         | 26,176         |
| Raw materials and consumables       | 25,883         | 31,304         |
| Contract raw materials              | 15,996         | 954            |
| Supplies                            | 2,116          | 2,512          |
| Other inventories                   | 2,631          | 5,034          |
|                                     | <u>115,130</u> | <u>113,752</u> |

#### *Pledged inventories*

Inventories in amount of USD 93,607 thousand have been pledged as a collateral with respect to borrowings (2002: USD 84,540 thousand ) (refer note 21).

### 16. Trade receivables, current

| <i>In thousands of US dollars</i>                                 | <b>2003</b>   | <b>2002</b>   |
|---|---------------|---------------|
| Trade account receivable  | 70,984        | 36,019        |
| Notes receivable  | 1,094         | 1,265         |
| Less provision for doubtful debts                                 | (8,271)       | (6,782)       |
|   | <u>63,807</u> | <u>30,502</u> |
| Costs and earnings in excess of billings on uncompleted contracts | 122,167       | 55,545        |
| Advance payments received related to contracts                    | (97,201)      | (6,704)       |
|   | <u>24,966</u> | <u>48,841</u> |
|   | <u>88,773</u> | <u>79,343</u> |

At 31 December 2003 trade receivables include contractual retention amounts billed to customers amounting to USD 27,857 thousand (2002: USD 15,410 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. Retentions in the amount of USD 1,329 thousand are considered to be doubtful and were provided for in full as at 31 December 2003 (2002: USD 1,329 thousand).

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 690 thousand have been pledged as a collateral with respect to borrowings and guarantees (2002: USD 28 thousand) (refer note 21).

## Notes to the consolidated financial statements

### 17. Other receivables

| <i>In thousands of US dollars</i> | <b>2003</b>    | <b>2002</b>   |
|-----------------------------------|----------------|---------------|
| Prepayments                       | 72,529         | 20,314        |
| VAT receivable                    | 33,579         | 17,515        |
| Deferred expenses                 | 22,238         | 4,021         |
| Restricted cash                   | 5,223          | 8,149         |
| Income tax receivable             | 3,921          | 2,431         |
| Receivables from employees        | 931            | 971           |
| Other receivables                 | 9,292          | 16,832        |
|                                   | <u>147,713</u> | <u>70,233</u> |

At 31 December 2002 restricted bank deposits were pledged as collateral for guarantees issued on the Group's behalf in the amount of USD 4,855 thousand (refer to note 21).

### 18. Cash and cash equivalents

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

| <i>In thousands of US dollars</i>         | <b>2003</b>   | <b>2002</b>   |
|---|---------------|---------------|
| Rouble bank deposits                      | 42,349        | -             |
| Rouble bank accounts                      | 14,575        | 10,449        |
| Foreign currency bank accounts            | 4,896         | 4,324         |
| Other rouble denominated cash equivalents | 3,856         | 5,609         |
| Foreign currency bank deposits            | 297           | 459           |
|   | <u>65,973</u> | <u>20,841</u> |

#### *Pledged assets*

Cash and cash equivalents in amount of USD 3,291 thousand have been pledged as collateral with respect to borrowings and guarantees (2002: USD 3,294 thousand) (refer note 21).

#### *Deposits*

As at 31 December 2003 the Rouble deposits consist of short-term deposits in Rosbank.

## Notes to the consolidated financial statements

### 19. Equity

#### *Share capital and share premium*

| <i>In shares</i>              | Ordinary shares |        | Non-redeemable preference shares |        |
|-------------------------------|-----------------|--------|----------------------------------|--------|
|                               | 2003            | 2002   | 2003                             | 2002   |
| On issue 1 January 2003       | 31,500          | 31,500 | 10,500                           | 10,500 |
| Issued for exchange of shares | 22,125          | -      | -                                | -      |
| Effect of split of shares     | 5,362,446,375   | -      | 1,049,989,500                    | -      |
| On issue at 31 December 2003  | 5,362,500,000   | 31,500 | 1,050,000,000                    | 10,500 |

All shares have a par value of RUR 0.01 (2002: RUR 1,000). The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. Holders of non-redeemable preference shares receive discretionary dividends on the par value of their shareholding. The preference shares do not carry the right to vote unless the dividend is in arrears. All shares rank equally with regard to the Group's residual assets, except that preference shareholders participate only to the extent of the face value of the shares adjusted for any dividends in arrears. The current position of arrears of dividends on preference shares means that the preference shares are voting shares.

At 31 December 2003 the additional authorised share capital comprised 4,000,000,000 ordinary shares with the par value of RUR 0.01.

During 2003 the Company has repurchased 3,050,000 ordinary and 3,974,000 preference shares that were cancelled in 2003 but the amendments to Charter were done in 2004.

#### *Translation reserve*

Translation reserve includes the currency translation differences arising from the translation of these financial statements from the measurement to the presentation currency.

#### *Additional paid-in capital*

Contributions to the additional paid-in capital consist of the excess of the fair value of shares contributed to the Group by entities under the control of the majority shareholder in excess of the purchase price paid by the Group to these entities, and amounts relating to the transfer by minority shareholders of shares in subsidiary companies in exchange for shares in the Parent Company.

## Notes to the consolidated financial statements

### 20. Loans and borrowings

| <i>In thousands of US dollars</i>              | <b>Effective<br/>interest<br/>rate</b> | <b>2003</b> | <b>Effective<br/>interest<br/>rate</b> | <b>2002</b> |
|--|--|-------------|--|-------------|
| <b><i>Current loans and borrowings</i></b>     |  |             |  |             |
| Secured loans: - RUR, fixed                    | 11%                                    | 70,676      | 18%                                    | 40,061      |
| - USD, fixed                                   | 10%                                    | 25,571      | 13%                                    | 35,674      |
| - EURO, fixed                                  | 12%                                    | 22,493      | 13%                                    | 814         |
| Current portion of secured loans:              |  |             |  |             |
| - RUR, fixed                                   | 9%                                     | 1,413       | 22%                                    | 720         |
| - EURO, fixed                                  | 11%                                    | 552         | -                                      | -           |
| - CHF, fixed                                   | -                                      | -           | 14%                                    | 585         |
| Unsecured loans: - RUR, fixed                  | 6%                                     | 6,165       | 15%                                    | 390         |
| - USD, fixed                                   | 7%                                     | 70,339      | 12%                                    | 20,528      |
| Loan from Ministry of Finance, USD             | -                                      | -           | 0%                                     | 11,472      |
| Current portion of finance lease liabilities   | 27%                                    | 2,809       |  |             |
|  |  | 200,018     |  | 110,244     |
| <b><i>Non-current loans and borrowings</i></b> |  |             |  |             |
| Secured loans: - RUR, fixed                    | 11%                                    | 1,055       | -                                      | -           |
| - USD, fixed                                   | 5%                                     | 14,291      | 10%                                    | 20,516      |
| - EURO, fixed                                  | 11%                                    | 1,104       | 11%                                    | 1,073       |
| - CHF, fixed                                   | 6%                                     | 561         | -                                      | -           |
| Unsecured loans: - RUR, fixed                  | 0%                                     | 1,518       | 0%                                     | 613         |
| - USD, fixed                                   | -                                      | -           | 10%                                    | 160         |
| Loan from Ministry of Finance, USD             | 0%                                     | 11,243      | -                                      | -           |
| Non-current finance lease liabilities          | 27%                                    | 2,138       |  | -           |
|  |  | 31,910      |  | 22,362      |

#### ***Non-current debt repayment schedule***

Presented below is the debt repayment schedule for non-current debts outstanding at 31 December 2003.

| <i>In thousands of US dollars</i> | <b>Total</b> | <b>Current<br/>portion</b> | <b>2005</b> | <b>2006</b> | <b>2007</b> | <b>2008</b> | <b>2009<br/>thereafter</b> |
|-----------------------------------|--------------|----------------------------|-------------|-------------|-------------|-------------|----------------------------|
| <b>Secured bank loans</b>         |              |                            |             |             |             |             |                            |
| - USD, fixed                      | 15,704       | 1,413                      | 1,076       | 9,911       | 3,304       | -           | -                          |
| - EUR, fixed                      | 1,656        | 552                        | 552         | 552         | -           | -           | -                          |
| - RUR, fixed                      | 1,055        | -                          | 1,055       | -           | -           | -           | -                          |
| - CHF, fixed                      | 561          | -                          | 561         | -           | -           | -           | -                          |
| <b>Unsecured loans</b>            |              |                            |             |             |             |             |                            |
| - USD, fixed                      | 11,243       | -                          | -           | -           | -           | -           | 11,243                     |
| - RUR, fixed                      | 1,518        | -                          | -           | -           | 864         | -           | 654                        |
|                                   | 31,737       | 1,965                      | 3,244       | 10,463      | 4,168       | -           | 11,897                     |

## Notes to the consolidated financial statements

### 20. Loans and borrowings continued

#### *Finance lease liabilities repayment schedule*

Finance lease liabilities are payable as follows:

| <i>In thousands of US dollars</i> | 2003         |              |              | 2002     |          |           |
|-----------------------------------|--------------|--------------|--------------|----------|----------|-----------|
|                                   | Payments     | Interest     | Principal    | Payments | Interest | Principal |
| Less than one year                | 3,807        | 998          | 2,809        | -        | -        | -         |
| Between one and five years        | 2,538        | 400          | 2,138        | -        | -        | -         |
| More than five years              | -            | -            | -            | -        | -        | -         |
|                                   | <u>6,345</u> | <u>1,398</u> | <u>4,947</u> | <u>-</u> | <u>-</u> | <u>-</u>  |

### 21. Pledges provided by the Group

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

| <i>In thousands of US dollars</i>                        | Note | 2003           | 2002           |
|--|------|----------------|----------------|
| Property, plant and equipment                            | 9    | 81,777         | 44,238         |
| Inventories  | 15   | 93,607         | 84,540         |
| Notes receivable, current                                | 16   | 690            | 28             |
| Notes receivable, non-current and available for sale     | 13   | 15,782         | 14,278         |
| Other receivables, current                               | 17   | -              | 4,855          |
| Debt securities held to maturity, current                | 12   | 2,784          | 105            |
| Debt securities held to maturity, non-current            | 12   | -              | 972            |
| Cash and cash equivalents                                | 18   | 3,291          | 3,294          |
| Revenue from planned supplies of equipment in the future |      | 49,245         | 7,598          |
|  |      | <u>247,176</u> | <u>159,908</u> |

The distribution of the assets pledged of the Group is as follows:

| <i>In thousands of US dollars</i>              | Note | 2003           | 2002           |
|--|------|----------------|----------------|
| <b><i>Current loans and borrowings</i></b>     |      |                |                |
| Pledges provided for the debt of the Group     | 20   | 147,365        | 134,060        |
| Pledges provided for the debt of third parties | 28   | 515            | -              |
| <b><i>Non-current loans and borrowings</i></b> |      |                |                |
| Pledges provided for the debt of the Group     | 20   | 83,350         | 25,848         |
| Pledges provided for the debt of third parties | 28   | 15,946         | -              |
|  |      | <u>247,176</u> | <u>159,908</u> |

## Notes to the consolidated financial statements

### 22. Deferred tax liabilities

#### *Recognised deferred tax assets and liabilities*

Deferred tax assets and liabilities are attributable to the following:

| <i>In thousands of US dollars</i>   | Assets          |                 | Liabilities    |               | Net           |               |
|-------------------------------------|-----------------|-----------------|----------------|---------------|---------------|---------------|
|                                     | 2003            | 2002            | 2003           | 2002          | 2003          | 2002          |
| Cash and cash equivalents           | (311)           | -               | -              | 24            | (311)         | 24            |
| Property, plant and equipment       | -               | (4)             | 23,239         | 21,074        | 23,239        | 21,070        |
| Intangible assets                   | -               | -               | 1,373          | 226           | 1,373         | 226           |
| Other investments                   | (12,433)        | (6,549)         | 1,316          | 933           | (11,117)      | (5,616)       |
| Inventories                         | (16,978)        | (7,252)         | 11,650         | 8,470         | (5,328)       | 1,218         |
| Trade and other accounts receivable | (39,656)        | (37,763)        | 37,076         | 34,211        | (2,580)       | (3,552)       |
| Trade and other accounts payable    | (3,632)         | (3,019)         | 36,027         | 25,294        | 32,395        | 22,275        |
| Loans and borrowings                | (1,986)         | (382)           | 11,894         | 5,535         | 9,908         | 5,153         |
| Tax (assets)/liabilities            | <u>(74,996)</u> | <u>(54,969)</u> | <u>122,575</u> | <u>95,767</u> | <u>47,579</u> | <u>40,798</u> |

### 23. Trade and other payables

*In thousands of US dollars*

|                                     | 2003           | 2002           |
|-------------------------------------|----------------|----------------|
| Advances from customers             | 130,442        | 100,966        |
| Trade accounts payable              | 44,517         | 26,506         |
| Other taxes payable                 | 15,161         | 12,725         |
| Employee related liabilities        | 8,033          | 6,406          |
| Income tax payable                  | 2,884          | 3,029          |
| Provision for warranties            | 1,497          | 3,200          |
| Contract related reserves           | 1,131          | 81             |
| Current portion of government grant | 726            | -              |
| Interest payable                    | 428            | 606            |
| Accrued liabilities                 | 356            | 343            |
| Deferred income                     | 129            | 932            |
| Payable for shares purchased        | -              | 123            |
| Notes payable                       | -              | 3,959          |
| Other current liabilities           | 16,748         | 13,927         |
|                                     | <u>222,052</u> | <u>172,803</u> |

## Notes to the consolidated financial statements

### 24. Other non-current liabilities

*In thousands of US dollars*

|                               | 2003   | 2002   |
|-------------------------------|--------|--------|
| Trade accounts payable        | 26,396 | 42,159 |
| Other non-current liabilities | 659    | 252    |
| Government grant              | 4,358  | -      |
|                               | 31,413 | 42,411 |

The Company has been awarded a government grant, the total amount of which per State agreement approximates USD 15,278 thousand. The amount of the grant received at 31 December 2003 amounted USD 5,085 thousand and is conditional upon the development of the technology of producing of gas-steam turbines. The capitalised development has not yet been put in use and the grant, included in other liabilities as deferred income, is not being amortised.

### 25. Financial instruments

Exposure to credit, interest rate and currency risk arises in the normal course of the Group's business. The 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 Group to significant credit risk consist primarily of accounts receivable. Credit evaluations are performed for all banks in which the Group holds deposits, and all customers requiring credit over a certain amount. The 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.

As of year-end the Group had USD 124,819 thousand of notes and trade receivables (note 13, 14 and 16) from one significant customer (2002: USD 110,030 thousand). The recoverability of the receivables is secured by the guarantee of Indian Government.

#### *Interest rate risk*

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

#### *Foreign currency risk*

The Group incurs foreign currency risk on transactions that are denominated in a currency other than the Russian Rouble. Management consider the Group's major foreign currency risk as being the movement of the US dollar against the Rouble.

#### *Fair value*

The carrying amounts of financial instruments except for equity and debt securities approximate their fair value.

Investments in equity and debt securities are not traded on organised markets and their fair values were not determinable.

## Notes to the consolidated financial statements

### 26. Related party transactions

#### *Income Statement amounts*

*In thousands of US dollars*

|                               | Sales         |            | Purchases  |              | Interest expense |              |
|-------------------------------|---------------|------------|------------|--------------|------------------|--------------|
|                               | 2003          | 2002       | 2003       | 2002         | 2003             | 2002         |
| OAo Kalugskiy Turbiniiy Zavod | 1,142         | 369        | -          | 911          | -                | -            |
| OAo Lenenergo                 | 156           | -          | 533        | 5,436        | -                | -            |
| OAo Rosbank                   | -             | -          | -          | -            | 1,736            | 1,742        |
| GosInkor Leasing              | 491           | -          | -          | -            | -                | -            |
| Elaine Ventures Inc           | 16,332        | -          | -          | -            | -                | -            |
| Other related parties         | 12,532        | -          | -          | -            | -                | -            |
| Brightwood Ventures Limited   | -             | -          | -          | -            | 848              | -            |
|                               | <u>30,653</u> | <u>369</u> | <u>533</u> | <u>6,347</u> | <u>2,584</u>     | <u>1,742</u> |



## Notes to the consolidated financial statements

### 26. Related party transactions continued

#### *Balance Sheet amounts*

| <i>In thousands of US dollars</i>                      | Receivable    |              | Payable       |               |
|--|---------------|--------------|---------------|---------------|
|  | 2003          | 2002         | 2003          | 2002          |
| OAo Kalugskiy Turbinii Zavod – advances, current       | 2,393         | 935          | 105           | 1,342         |
| OAo Kalugskiy Turbinii Zavod – advances, non-current   | -             | 91           | -             | -             |
| OAo Kalugskiy Turbinii Zavod – creditors               | -             | -            | 77            | 257           |
| OAo Kalugskiy Turbinii Zavod – debtors                 | 5,612         | -            | -             | -             |
| OAo Kalugskiy Turbinii Zavod – loans given, current    | 202           | 566          | -             | -             |
| OAo Kalugskiy Turbinii Zavod – loans received, current | -             | -            | -             | 79            |
| OAo Lenenergo – advances                               | -             | -            | 476           | -             |
| OAo Lenenergo – debtors                                | 31            | 334          | -             | -             |
| OAo Lenenergo – other debtors                          | 30            | 100          | -             | -             |
| OAo Lenenergo – creditors                              | -             | -            | 797           | 818           |
| RB Leasing – advances                                  | -             | -            | 5,376         | -             |
| GosInkor Leasing – advances                            | -             | -            | 2,733         | -             |
| Burbot Limited – debtors                               | 19            | -            | -             | -             |
| NPO CKTI – creditors                                   | -             | -            | 70            | -             |
| ZAO Interplast – debtors                               | 7             | -            | -             | -             |
| ZAO Interplast – creditors                             | -             | -            | 33            | -             |
| ZAO Atomkomplectpostavka – loans given, current        | -             | 100          | -             | -             |
| OAo Rosbank – promissory notes                         | 6,304         | -            | -             | -             |
| OAo Rosbank – loans received                           | -             | -            | 10,000        | 12,537        |
|  | <u>14,598</u> | <u>2,126</u> | <u>19,667</u> | <u>15,033</u> |

#### *OAo Kalugskiy Turbinii Zavod*

OAo Kalugskiy Turbinii Zavod is the associate company to the Group. The amounts represent settlements in relation to sales of the goods of Kalugskiy Turbinii Zavod on commission agreements by the Group.

#### *OAo Lenenergo*

OAo Lenenergo has one representative on the board of directors of LMZ. Lenenergo is a public electricity service provider located in St. Petersburg where major subsidiaries of the Group are located.

Sales of the Group to OAo Lenenergo primarily relate to sales of spare-parts for electric power station and services rendered. Purchases from OAo Lenenergo relate to supply of electric power to the Group.

#### *GosInkor Leasing*

GosInkor Leasing is a leasing company located in Russia. GosInkor leasing is under control of majority shareholder of the Group. During 2003 the Group has sold the produced equipment to Volzhskaya power station through GosInkor Leasing.

## **Notes to the consolidated financial statements**

### **26. Related party transactions continued**

#### *RB Leasing*

RB Leasing is a leasing company located in Russia. RB leasing is under control of majority shareholder of the Group. The Group sales produced equipment through RB leasing.

#### *Brightwood Ventures Limited*

Brightwood Ventures Limited, which is under control of majority shareholders of the Group, provided a loan to the Group that was repaid as at 31 December 2003. Loan was denominated in USD, and bore interest at 8%.

#### *Brightwood Ventures Limited and Leonardo Services Limited*

In 2003, the Group bought an 18% investment in share capital of NPO CKTI from these companies, which are entities under the control of the majority shareholders of the Group for USD 5,138 thousand. As at the end of 2003 the Group owned a 20% investment in NPO CKTI.

#### *ZAO Atomkomplectpostavka*

This company was an associate to the Group during 2003. In 2002 the Group provided an interest free short-term loan to ZAO Atomkomplectpostavka that was outstanding as at 31 December 2002. The loan has been repaid during 2003.

#### *Elaine Ventures Inc*

Elaine Ventures Inc is a company under the control of the majority shareholder of the Group. In 2003 the Group sold equity securities available for sale to this company at price equal to the carrying value of these securities at date of sale.

#### *Other related parties*

In 2003 the Group sold equity securities available for sale to companies under the control of the majority shareholder of the Group at price equal the carrying value of these securities at date of sale.

#### *OAO Rosbank*

Three members of the board of directors of OAO Rosbank are members of the board of directors of the Group. During 2003 promissory notes of OAO Rosbank were purchased by the Group. As at the end of 2003 the notes were still held by the Group.

OAO Rosbank provided loans to the Group denominated in USD and bearing interest rate at 8%.

#### *Burbot Limited*

Burbot Limited is the company under control of majority shareholder of the Group.

#### ***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 28.

## Notes to the consolidated financial statements

### 27. Commitments

#### (i) *Capital commitments*

The Group is committed to capital expenditure of approximately USD 20,258 thousand (2002: USD 6,703).

#### (ii) *Social commitments*

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

### 28. Contingencies

#### (i) *Financial Guarantees*

The Group has provided financial guarantees for certain third party suppliers of the Group. Amounts related to the Group's financial guarantees are as follows.

| <i>In thousands of US dollars</i>     | <b>2003</b>   | <b>2002</b>   |
|---------------------------------------|---------------|---------------|
| <i>Maturity in one year or more</i>   |               |               |
| Third party suppliers                 | 28,034        | 15,842        |
| <i>Maturity in less than one year</i> |               |               |
| Third party suppliers                 | 5,408         | 1,329         |
|                                       | <u>33,442</u> | <u>17,171</u> |

The 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 Group were also pledged against certain of the third party supplier guarantees (note 21).

#### (ii) *Contingencies*

The Company may be liable for penalties on an overdue loan payable to Ministry of Finance of Russia which amount to USD 7,475 thousand at 31 December 2003 (2002: USD 6,278 thousand). These penalties were not recorded as liabilities in these financial statements as new Provisions of the Ministry of Finance on restructuring of loans have been issued, 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 Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group 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.

## **Notes to the consolidated financial statements**

### **28. Contingencies continued**

#### **(iv) *Litigation***

Unresolved claims and litigation against the Group as at 31 December 2003 amounted to USD 925 thousand (2002: USD 52 thousand). Additionally in 2002 one company of the Group, OAO Electrosila, was involved in litigation raised by minority shareholders. Based on this claim, OAO Electrosila might be obliged to return share capital contributions of USD 800 thousand and to compensate the claimants for market value increases to some extent. In 2003 the management assess the probability of success of this claim as remote.

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 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 its 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 Group is continuously evaluating its 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 Group.

### **29. Subsequent events**

#### *Purchase of shares in OAO OMZ*

In December 2003 the majority shareholder of the Group has come to an agreement with the shareholder of OMZ (another major producer of heavy machines in Russia) for merging the Group with OMZ. As at the date preparation of these financial statements the Group has purchased 2,500,000 shares of OMZ for USD 42,739 thousand of which USD 10,233 thousand were paid by cash, the rest were paid by issuing bills of exchange of the Group companies. Additional option agreement has been concluded by the Group according to which the Group has the option to purchase additional 2,500,000 shares of OMZ for USD 20,000 thousand plus 5,9% p.a. accumulated since 20 June 2004 till the date of implementing the option from Soros Company. Till the date of implementing the option, shares of OMZ involved into above described deal both purchased by the Group and held by Soros are pledged in favour of each other.

## **Notes to the consolidated financial statements**

### **29. Subsequent events continued**

#### *Breakdown of generator on Nizhneartovskaya power station*

On January 2004 a generator delivered by the Group in 2003 to Nizhneartovskaya power station failed. As a result the buyer of this generator may claim from the Group the cost of damage caused by the failure. Management of the Group believes that the failure of the generator was caused by the improper installation performed by a third party.

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