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About the state of affairs
on ATOMMASH OJSC
(RF, Volgodonsk city)

TO THE FIRST DEPUTY
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DEAR YURI DMITRIEVICH

Concern YACONTO JSC, owner of 28% stake in Atom mash OJSC, appeals to you, being deeply concerned with the further fate of the Russian nuclear engineering flagship. The State owns 30% share in Atom mash OJSC; the company's "golden share" is being controlled by the Ministry of Atomic Energy of RF, authorized by the Russian Agency for State Property Management.

Atom mash is a multidisciplinary engineering company, equipped with unique high-end equipment, 82% of which was purchased in UK, USA, Sweden, France, Italy, Japan, Austria, Germany and other countries. Atom mash is capable of manufacturing equipment for power generation industry (primarily for NPP, HPP, CHPs), equipment for mining, oil & gas extraction and processing, ferrous and nonferrous metallurgy and much more.

In late 1993 Atom mash became an Open Joint Stock Company. Its executive management created dozens of LLPs and JSCs which started vigorous business activity, dealing damage to Atom mash; in the first place, these include LLPs like APP-1, APP-2, PKZ, ENER GOKOMPLEKT, ATOM MASH EXPORT, Russian-Bulgarian Company EUROT OUR-TT, METRAKOMBANK, and many others. This led to an undermining of the integrated engineering complex and major embezzlements which paved the way to financial violations and destabilization on Atom mash.

Just between 1994 and 1995, two companies alone – APP-1 LLP and EUROT OUR-TT – dealt to Atom mash a direct damage in the amount of 165 Billion rubles by bringing priceless materials, goods and equipment abroad and selling them for a pittance. And that's at the time when Atom mash had a debt of 87 Billion rubles (as of 01.01.1995).

Having become a large shareholder of Atom mash OJSC, the Moscow-based YACONTO Company attempted to supervise the production and economic activity of Atom mash and fight against the negative phenomena in it. However, in September 1995, the YACONTO Company, which did not have support from federal structures, was deprived of direct control over Atom mash and its preservation as an integrated

engineering complex. Our company's access to information about the actual state of affairs on Atomash was blocked.

Abuses and corrupt practices of Atomash's management, concealment of income from taxation and usage of material and financial assets of Atomash for the benefit of its management and several private structures, had following consequences:

- a unique carousel boring lathe (only two such lathes exist in the world) which cost \$10 Million U.S. dollars, was declared unneeded, was estimated at \$130 Thousand, dismantled and sold through Atomashexport OJSC for \$500 Thousand; it has been later resold to China, and money was embezzled;

- unique expensive accessories for production of VVER-800 nuclear reactors were scrapped and sold as scrap metal; money was embezzled;

- 10 out of 15 Billion rubles of an earmarked federal loan were passed to a splurged Sibir-Zoloto JSC; zero repayment of a loan.

The total amount of damage dealt to Atomash by fraud with budget-allocated loans between 1992 and 1995 is over 110 Billion rubles.

It is a fact that raw and other materials of Atomash were sold to "dummy" private structures, including ENERGOKOMPLEKT, and then sold back to Atomash at a much higher price. Moreover, sometimes these materials never even left the territory of Atomash – consignment notes were merely re-issued without even changing the platform and carriage numbers. In some events, Russian metallurgical companies compensated their debts to Atomash with metal, which was debited, but never actually appeared at Atomash's warehouses and simply vanished.

An audit of financial and economical activity of Atomash, conducted by the Audi company in spring of 1996, found that between 01.06.1993 and 01.08.1994 the Director of Production-1 Alexey Golovin signed contracts on behalf of Atomash, having no valid authority for that. Thus, Mr. Golovin's signature is sealed by the stamp of Production-1 or the stamp of a third-party company – APP-1 LLP. It's a fact that Alexey Golovin was a top manager of both companies. Because of that, Production-1 managed to ship its goods through APP-1 LLP at cost price and not at commercial price. The trade margin for goods manufactured by Atomash was added by APP-1 LLP, hence, most of the profit was obtained by APP-1 LLP. The audit showed that, as a result of wrong formation of the cost price on Production-1, Atomash lost income in the amount of 1'484'389'181 rubles, while APP-1 LLP obtained the profit of 808'985'678 rubles it had no rights for (according to transactions on foreign currency accounts). Another detail that contributed to the violations of financial discipline: both Production-1 and APP-1 LLP had the same cashier – Mrs. R. Pospelova.

Gross and unjustified diversions of working capital took place. It has been found out that just in 1994 the staff of Production-1 received loans in the amount of 2'647'512'486 rubles. The loans were partially returned impersonally, identification of people who did not return loans is impossible. Loans have been issued without any documents, appeals and contracts whatsoever. Identical violations took place in 1995.

22 Billion rubles of budget money, allocated as earmarked loans by the Russian Government to support Atom mash's production programs have been transferred to private structures, including Moscow-based ones, by the former President of Atom mash Valentin Egorov.

Besides, Atom mash received a loan of 1.5 Trillion rubles from Financial Corporation LEVIN CJSC, unreasonably secured by assets and property of Atom mash; out of that money, Atom mash had to transfer 900 Billion rubles to the Enabank commercial bank.

In autumn of 1995, a proactive group of employees and shareholders of Atom mash appealed to the Governor of Rostov region Mr. Vladimir Chub, to Legislative Assembly of Rostov region to Mr. Alexander Popov, to Russian Ministry of Atomic Energy to Mr. Viktor Mikhailov, and to the Government of RF to Viktor Chernomyrdin, asking them to urgently take action to suppress open embezzlement, theft and destruction of Atom mash. In accordance to this appeal, the Governor of Rostov region Vladimir Chub ordered to establish a regional commission to inspect the situation on Atom mash.

In November 1995, the commission acknowledged the facts of violations on Atom mash and sent the inspection materials to the Prosecutor's Office, Legislative Assembly, MOI, Tax police, Tax inspection, Administration of Rostov region and Volgodonsk city, as well as to the Ministry of Atomic Energy for urgent action. However, these materials have not yet been fully reviewed by law enforcement agencies for different reasons. Moreover, on May 8th, 1997 the investigative branch of Volgodonsk Internal Affairs (militia) refused to institute criminal proceedings under ch. 5 p. 2 of the APC RF. The Prosecutor of Volgodonsk has cancelled the Resolution of IB VIA on May 21st, 1997 and submitted the materials of the inspection №379/2 for an additional verification.

Already in early 1995 Alexey Golovin, the General Director of Atom mash, started to lead the company to insolvency and bankruptcy for his own benefit, utilizing the powers of influential interested persons from different state structures and involving direct competitors of Atom mash.

Since Atom mash OJSC was declared bankrupt by the Arbitration court of Rostov region and external management was instituted, the assets of Atom mash were discounted down from 7.2 Trillion rubles to 2.4 Trillion rubles and transferred to Energomash korporatsiya JSC, and Atom mash's total indebtedness as of 01.10.1997 has artificially grown from 167 Billion rubles to 1 Trillion rubles.

Alexander Stepanov, the bankruptcy referee of Atom mash, having been supported by high-ranking patrons and influential persons from the former Russian Government, led Atom mash directly to bankruptcy with the help of Rostov Arbitration Court. In cahoots with the General Director of Atom mash Alexey Golovin, the Bankruptcy referee facilitated the transfer of the most liquid part of Atom mash's assets to Energomash korporatsiya. EMK-Atom mash, the new joint-stock company he created in Volgodonsk, received property that belonged

to Atom mash, which, in the end, led to a halt of Atommsah OJSC's activities and beginning of its elimination.

There started an active sale of the liquid assets and equipment of Atom mash, including those of the conserved Fourth Building, where serial production of containers for nuclear waste transportation and disposal was planned, as well as production of railroad tank cars for liquid nitrogen, which are currently bought in Poland at a higher price than from Atom mash.

On September 30th, 1997, after two years of Arbitration management led by Alexander Stepanov, Atom mash was declared bankrupt. Alexey Golovin, together with Alexander Stepanov and the direct co-executor of Atom mash's breakup Tatyana Gramotenko, Head of the Rostov regional FSDN, made another step in their endeavor to liquidate Atom mash OJSC as an integrated production complex.

A partial inspection of the financial and economical activity of Atom mash started to uncover violations and crimes. At that time, the son of Georgy Sobakar (the Director of PKZ LLP that carried out the sale of raw and other materials of Atom mash) was murdered and his summer residences were burnt. In spring of 1997 Mr. Astakhov, head of the transportation service of Atom mash, was murdered. His department ensured transactions, documenting, monitoring of import and export of raw and other materials, production and equipment of Atom mash and private companies operating on its premises. There was an attempted murder of Alexander Kokoulin, the Deputy General Director of Atom mash and, at the same time, head and co-owner of private companies working on Atom mash. Mr. Kokoulin had complete information and directly coordinated Atom mash in the interests of his own companies, also co-owned by Alexey Golovin. Shots from an automatic weapon seriously damaged Mr. Kokoulin's brain.

Having said the above, I respectfully ask you to put an end to this outrage, created by several former high-ranking officials – pseudo-reformers, who took part in destabilization and breakdown of Russian industry; deal with the critical situation on Atom mash OJSC and help establish order in its economic activity; restore the rule of Law to preserve this unique modern industrial complex, national nuclear engineering flagship, in the interests of economic development and defense capability of the Russian State.

(Original text is in Russian.)

Respectfully yours,
President of Concern YACONTO JSC
member of the Board of Directors
of Atom mash OJSC



S.P. YAKUNIN