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On the real state of affairs on ATOMMASH OJSC

DEAR VLADIMIR FEDOROVICH!

As a General director of the Russian industrial holding “YACONTO” (Moscow), owner of about 19% of the ordinary shares of Atom mash OJSC (Volgodonsk city, Rostov region of RF) and a member of the Board of Directors of Atom mash OJSC, I address you with a deepest concern about the condition of financial, economical and production activity of Atom mash OJSC, as well as the situation on and around this flagship of Russian industry and nuclear engineering.

After having been elected to the Board of Directors of Atom mash OJSC and becoming a Chairman of the Board in 1995, I gained certain access to information about the true – and unenviable, to say the least – situation of Atom mash OJSC, which has been carefully concealed from the shareholders and the federal media. Facts of embezzlement and theft of valuable equipment and other property of Atom mash OJSC, malevolent and subversive activity of various LLPs and other businesses, founded by a small group of people without Atom mash OJSC (but with direct participation of its executives) on the premises of the latter, prompted me and several members of the Board of Directors (Protocol №5 of 31.07.1995) to urgently create a Controlling & Analytical department of Atom mash OJSC and respective committees to audit Atom mash’s property and assess its relations with different LLPs and other third-party companies founded on its premises.

The audit was supposed to dedicate special attention to relations between Atom mash and those LLPs and companies which carried out their business activity in parallel to the production of Atom mash itself; it’s also important to mention that top executives, accountant-generals and leading specialists in those small businesses were the same people who simultaneously occupied identical positions on Atom mash. Significant quantities of property and equipment of Atom mash eventually found themselves in the property of those LLPs (or, in other words, owned by specific individuals), which received it from the so-called former leased enterprises, which, in turn, obtained it practically for free and never returned it to Atom mash. According to some data, practically all financial and economic activity of Atom mash was being

conducted through operational accounts of LLPs and businesses which groundlessly appropriated most of the income, while all expenses were left to Atom mash OJSC. Moreover, in several cases Atom mash became dependent upon several LLPs, primarily: APP-1 LLP, APP-2 LLP, ENER GOKOMPLEKT LLP, ATOM MASHEXPORT CJSC (Volgodonsk city).

Unfortunately, currently we cannot obtain and analyze documents of the biggest LLPs – APP-1 LLP, ENER GOKOMPLEKT LLP, ATOM MASHEXPORT CJSC, established by the top managers of Atom mash – A.I. Golovin, A.I. Kokoulin, Y.V. Lekarev, V.M. Pogorelov and others, since the management of those LLPs strictly refused to provide Atom mash’s committees with the necessary documentation for matching with the documents of Atom mash OJSC, so that real damage dealt to Atom mash by the activity of those LLPs and other businesses can be assessed. As we happen to know, documents of several LLPs have been confiscated by the tax police of Volgodonsk city for an extra verification. This case could help to clarify the situation with violations in production, economical and financial activity of Atom mash itself and different companies and LLPs by inspecting, matching, mapping and analyzing their documentation. This was set forth in my letter (№5-9-PAYA of 05.09.1995, reg. №436/1-16b-95 from 06.09.1995) to the Prosecutor of Volgodonsk city, Senior Counselor of Justice, Mr. Nikolay Volitsky.

At present time, on the initiative of several members of the Board of Directors and my personal one (as a member of the Board of Directors of Atom mash OJSC and a General Director of the Russian industrial holding YACONTO (Moscow), owner of a large share of voting stock of Atom mash OJSC), a constructive work was initiated; Atom mash OJSC is about to undergo urgent and drastic actions aimed at preservation and development of its core profile, stabilization of its production, economical and financial condition, saving the Company from the deep crisis that threatens to turn into a crash and an elimination of Atom mash as the biggest unique specialized nuclear energy company of national significance.

After a scrupulous analysis of the existing possibilities and capacities, we adopted a strategy for an unconditional preservation and development of the company’s core profile – on one hand, the focus will be kept on production of complete sets of special equipment for nuclear energy; on the other, the production will be diversified and the unused capacity will be utilized for production of equipment for metallurgy, coking, oil & gas, power generation and other industries.

At the same time, preliminary calculations have shown that creation of subsidiaries (which, as a matter of fact, was prescribed by an Annex to the Privatization Plan of Atom mash OJSC), 100% owned by Atom mash, on the basis of core production and maximum usage of the “payment only for labor” principle would have allowed manufacturing goods for the amount of more than 200 Billion rubles for the remaining few months of 1995 (versus 50 Billion for 8 months of 1995). Preliminary consulting and negotiations show that goods manufactured by Atom mash OJSC are in demand; interest and desire to buy those has been expressed by Russian customers – primarily, nuclear power plants, as well as cities of Moscow and St. Petersburg (need waste incinerators and reconstruction of CHPs), Stavropol Territory (requires oil refineries, wind power plants, mini-plants for processing of agriculture goods, biomass energy units

for processing of livestock waste, etc), as well as neighboring countries. Speaking of which, partnership with Ukraine opens up broad prospects for Atomash, for it can significantly load Atomash's capacity for nuclear energy, reconstruction of metallurgical facilities, etc. The preliminary results for promotion of Atomash OJSC on markets of India, Iran, China, Near East (UAE, Yemen and other countries) are also positive.

Our positive activity was countered by plain opposition from destructive forces which started a hysterical campaign of lies and slander, aimed at disorientation of the staff, employees, shareholders and different branches of state power. We also faced a silent, undercover sabotage from certain echelons of executive management of the company, which is directly interested in preservation of the status quo, concealment of their violations, embezzlement and theft of federal property and property of shareholders. Those people do not accept true reforms aimed at rapid adaptation of Atomash to market conditions.

After Alexey Golovin, the Executive General Director, left office, the Board of Directors decided (Protocol №5 of 31.07.1995) to appoint Mr. Ivanov O.F. as Vice President for production policy and Vice Chairman of Atomash OJSC on the basis of the new organizational structure and management framework. In a matter of a few weeks he did a great job to save Atomash OJSC from the crisis and initiated a personnel reshuffle, justified by production necessity, and at the same time caused by discovered materials which exposed violations against Atomash carried out by several executives and, in particular, the top managers.

That immediately triggered a reaction. On the next Board of Directors meeting which took place on September 7th 1995, Mr. Ivanov faced a storm of criticism and indignation from those whose interests were endangered and whose "murky business" has been troubled. Since I was removed from my position as Chairman of the Board at the beginning of the meeting, I never managed to bring to life the action plan to bring an end to the crisis of executive management and bolster the audit of financial and economical activity of Atomash from the moment of privatization till today. The scared top managers of the company took counteraction against me and Mr. Ivanov, who finally managed to get hold of certain important documents. Ivanov was given an ultimatum – a voluntary resignation, or dismissal under Article 254 of the Labor Code.

Scared by the reforms announced by the Board of Directors (Protocol №4 of 23.06.1995 and Protocol №5 of 31.07.1995) and the fact that the executive management, accustomed to administrative-command methods, proved totally incapable of managing the Company in market relations, the said top managers, who spent last 10 years of economic reforms in Russia sitting quietly in their comfortable chairs on Atomash, have practically usurped power in the company and led it to an economic collapse. At the same time, having no even remotely significant share in Atomash OJSC, the top management endangers the property of other shareholders with bankruptcy, keeping their own property out of risk. The top executive management places the blame for their failures, blunders and miscalculations on everyone but themselves, shirking personal responsibility for incompetence and unwillingness to manage the company in the new environment. Mired in major frauds and scams, they try to keep their positions at all cost, suppressing all that is new and progressive. Moreover, as practice showed, until we

took new, drastic actions to develop the new strategy of development for the Company, the executive management of Atom mash had no real program of long-term development whatsoever, and no plan for saving Atom mash from economical and political crisis.

Let me provide a seemingly insignificant but telling example. Today, on the brink of the XXI-st century, the marketing department of Atom mash (headed by Vice President Nefedtzev V.P.), which is responsible for adaptation of Atom mash for market conditions, does not have a single computer, copy machine, telefax or even most basic POSM materials, leaflets, marketing handbills or booklets about production that Atom mash can produce. The accounting, economical and financial departments are only partially equipped with obsolete computers and office equipment, incapable of solving the daily tasks of Atom mash. Lack of automation and modern approaches in management, production and economy, no transparency for control and prompt decision making support created favorable conditions for financial and economical violations and groundlessly swollen managerial staff – up to 50% of the total number of the company's employees.

I would like to stress that I and the YACONTO Company I lead have always stood for preserving Atom mash as the nuclear engineering flagship, and keeping a share of the company in State property, managed by Ministry of Atomic Energy of Russia.

Hence, it's no accident that I was one of the initiators of the appeal from the Board of Directors of Atom mash OJSC to the Federal Agency for State Property management, to convert a "golden share" into an ordinary one and keep at least 25.5% of Atom mash OJSC stock at disposal of the State (represented by the Ministry of Atomic Energy), considering the extraordinary importance of this company for Russian national economy, and considering the fact that certain powers are evidently trying to lead Atom mash OJSC towards bankruptcy. Loss of governmental control and federal ownership on Atom mash OJSC can have grave consequences: the state-owned stock reserved by the Property Fund of Rostov region might be sold for a pittance to people who are not interested in development of Atom mash and seek to sell its most valuable equipment and assets; external arbitration management can have same consequences. All of this, in the end, will make Atom mash lost its core specialization, which is against Russian national interests.

In my opinion, there is a crisis of executive management on Atom mash, which is to a great extent strengthened by the existence of two coalitions that oppose one another and the interests of Atom mash OJSC. One of those coalitions is led by the President of Atom mash OJSC Valentin Egorov; the other – by the Executive General Manager of Atom mash OJSC Alexey Golovin.

Coalition led by President Egorov V.A. and Vice President for technical policy Molchanov V.A. is, as we happen to know, connected with establishment and activity of several companies like PROSTOR LLP, ATOMTRUST CJSC (Volgodonsk city) and a Russian-Bulgarian joint venture EUROTOUR-TT (supposedly, Moscow city).

We still have to figure out, who played what role in seizure and sale of unique equipment and utensils of Atom mash OJSC, including an ostensibly unneeded unique carousel boring lathe, without an appropriate alignment with the federal bodies. The Vice President for technical policy Mr. Molchanov V.A. assures everyone that the lathe cannot be put into operation for various technical reasons and, moreover, cannot be used

for production of any promising nuclear equipment at all. That brings us to a completely justified question: why has this ultra-highly-specialized carousel lathe been bought in the first place?

According to our data, this lathe, which originally cost about 7 Million foreign exchange rubles (or nearly 10 Million U.S. dollars) in 1980s, has never been used, but nevertheless has been depreciated down to a residual value of 130 Thousand U.S. dollars, and sold with a “profit” for 500 Thousand U.S. dollars to the so-called ATOMMASHEXPORT CJSC, which re-sold and shipped it to China, where a facility similar to Atomash is being rapidly constructed in Shanghai. Unique equipment for production of VVER-800 reactors suffered a sad fate – it was simply scrapped and sold as scrap metal; the proceeds, just like in the case of the carousel lathe, simply disappeared.

Practically all equipment and utensils of one of Atomash OJSC’s productions became property of one of the LLPs through depreciation and other schemes, with a direct involvement of the Vice President for technical policy Molchanov V.A., who is also personally responsible for the fate of design & engineering staff of Atomash; it has been broken apart, much of the staff left Atomash, and a part of them will never return.

State of affairs in investment & credit segment raises serious concerns, too – specifically, the usage or, better to say, embezzlement and squandering of the earmarked budget loans allocated to Atomash. For example, only in 1993, out of 15 Billion rubles of a targeted loan, 10 Billion irretrievably sunk in the SIBIR-ZOLOTO JSC which collapsed and busted. There are several such examples. On conservative estimates, presented by the Director for economy & planning of Atomash OJSC, Deputy of the Rostov regional Duma Mr. Miroshnikov V.V., frauds with budget-allocated loans in the period from 1992 till 1995 caused damage to Atomash OJSC in the amount of more than 110 Billion rubles.

Moreover, President Egorov V.A. and his Vice President for financial & investment policy and economy Firsenskov S.I. repeatedly assured that strictly confidential (as requested by the investor) preparations for investment programs were carried out in 1994–1995, without signing any specific contracts or agreements and, what’s most important, without any pledge or other seizure of Atomash’s property. However, in late August – early September of 1995, by pure accident I, as a Chairman of the Board, and the shareholders of Atomash OJSC, came across a carefully concealed investment contract signed by President Egorov V.A. with “Financial Corporation Levin” CJSC (Moscow city, Central administrative district), providing an illegal collateral of assets and property of Atomash OJSC for the entire amount of 1.5 Trillion rubles, of which, moreover, only 600 Billion rubles were supposed to be received by Atomash, while the remaining amount of 900 Billion rubles were to be “twisted” by a fishily created branch of a bank called ENABANK (Volgodonsk city) for someone’s benefit. For such activity, President Egorov V.A., Vice President for financial & investment policy and economy Firsenskov S.I. and the member of the Board of Directors of Atomash OJSC Savenkova T.I. (head of the Volgodonsk branch of ENABANK) could expect to receive rewards in the amount of billions of rubles on their private accounts in ENABANK, says Mr. Maximov, the investor’s representative.

The second coalition, headed by Alexey Golovin and his closest supporter Alexander Kokoulin, created their own LLPs in parallel to those of their opponents, as well as other businesses, founded solely by physical persons without Atomash OJSC as a co-founder. Some of them include: APP-1 LLP, ENERGOKOMPLEKT (Volgodonsk city), METRAKOMBANK, the aforementioned Russian-Bulgarian joint venture EUROTOUR-TT and, supposedly, ATOMMASHEXPORT CJSC. Founded on the premises of Atomash, those companies have executed most profitable production and non-production contracts, including those for nuclear industry, while the expenses have been left to Atomash. In parallel to this, they redistributed Atomash OJSC's property to their LLPs. For example, through strange combinations, APP-1 LLP even managed to seize the recreation centre "TOPOLINAYA ROSCHA" ("Poplar Grove"), which used to belong to Atomash.

Actions of the executive management led to a disruption of major contracts for nuclear energy with Ukraine, China and contracts with several Russian customers, for example, "KOKSOKHIMMONTAGE" (Moscow city). It must also be noted that the situation with the debt of Ukrainian companies to Atomash is being carefully concealed. Once again, the direct interest of specific people to deal with those receivables through their dummy structures is plain to see.

There was also a third "pillar" – different minor LLPs, small leased businesses which, never intervening in the fight between two main opposing coalitions, also dealt damage to Atomash with their activity, stealing equipment, utensils, tools, raw materials and other property of Atomash OJSC here and there, looting and pillaging practically everything they managed to get hold of.

In current situation we require urgent and drastic measures to liquidate the crisis in the executive management of Atomash OJSC.

Today Atomash has healthy, proactive powers, ready to take the executive power on Atomash OJSC immediately and quickly bring order to its production, economy and financial activity. They should be given a chance to make Atomash reach a volume of production of 400–500 Billion rubles in 1996, fully pay up the payables, primarily to the budget, and bring profit to Atomash OJSC, its shareholders and employees, instead of parasite LLPs and firms.

Considering the exceptional importance and urgency of the said problems and the serious threat to the Company's interests that emerged, on the basis of the Statute of Atomash OJSC in force (p.6.1) and on behalf of Firm YACONTO LLP, which thereby expressed frequent demands of other shareholders, including the "initiative group", on 11.09.1995 I submitted to the Board of Directors an official demand in written form (registered on 11.09.1995 at №03) to convene an Emergency meeting of the Shareholders of Atomash OJSC. However, it is already clear that this demand would be strongly opposed for any reason, and the emergency meeting of shareholders will be rescheduled on and on in violation of the current legislation, in order to escape liability if the unlawful actions are exposed and proved, of which there is no doubt.

I kindly ask you to help to deal with the situation on Atomash OJSC and around it, and bring to account those responsible for the disruption of Atomash as an integrated production complex, one of Russia's leading companies and nuclear energy

flagship, and those responsible for embezzlement and squandering of federal property and property of shareholders.

Since the fate of Atom mash OJSC and the security of our State are inseparable, I also ask you to urgently help us convert the “golden share” into an ordinary one, secure at least 25.5% share of Atom mash OJSC in State property (through Ministry of Atomic Energy of Russia) and let the own healthy powers of Atom mash resurrect the company and ensure its stable operation and development. From my side, as one of the key shareholders, I guarantee comprehensive assistance and support to the Administration of Rostov region in this matter.

Since the Property Fund of Rostov region hasn't yet sold the Type B stock of Atom mash OJSC reserved for future sale, and made use of them during the voting on the meetings of shareholders, thereby taking responsibility for the state of affairs on Atom mash, I ask the Administration of Rostov region, as the state authority which was supposed to be aware of the true situation on Atom mash OJSC from before corporatization and till present time, to support the legitimate demand of the shareholders to call an emergency meeting of shareholders. Thus, I suggest that we develop a collective strategic action plan for immediate liquidation of the serious problems of Atom mash OJSC.

In case the Administration of Rostov region of RF proposes its candidates for the positions of the executive management of Atom mash, Firm YACONTO is ready to consider and support those candidates.

I also ask you for a personal meeting.

ATTACHMENT:

1. Protocol of the meeting of the Board of Directors of Atom mash OJSC №4 of 23.06.1995 – “Evening Volgodonsk” newspaper №126 (1067) of 05.07.1995.
2. Protocol of the meeting of the Board of Directors of Atom mash OJSC №5 of 31.07.1995 – “Evening Volgodonsk” newspaper №146 (1087) of 04.08.1995.
3. Yakunin S.P. “Great Russia is our home” – “Stavropolskaya Pravda” newspaper №133-134 (20830-208311) of 12.07.1995, page 5.

(Original document is in Russian.)

Respectfully yours,

General Director of Firm YACONTO
Member of the Board of Directors
of Atom mash OJSC



S.P. YAKUNIN

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of 22.09.95
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