



**RUSSIAN FEDERAL SERVICE  
FOR INSOLVENCY CASES  
AND FINANCIAL REHABILITATION**

To the Government  
of Russian Federation

**C H I E F**

129857, Moscow, ul. Schepkina, 42  
tel. 971-90-90  
fax. 971-42-20

23.12.1998 № GT-04/3468

RE: № YM-P7-34111 from 23.11.1998

Executing the orders of the Government of Russian Federation, the Russian Federal Service for insolvency cases and financial rehabilitation has reviewed the appeal from the president of Concern YACONTO JSC regarding Atom mash OJSC and hereby informs.

As a result of corporatization of the Atom mash Production Association and sale of Atom mash OJSC's equity stake on a voucher auction in 1994, employees of the company and several legal entities, including YACONTO company (28% of the share capital), became its shareholders.

Due to absence of a federal program for nuclear energy development and cancellation of works for construction of nuclear power plants, Atom mash OJSC lost its traditional market. In order to operate normally, Atom mash OJSC lacked working capital. Attracted loans proved ineffective under long production cycle of oversized and metal-intensive equipment, high inflation rate and mutual nonpayments. Besides, the investors who purchased Atom mash OJSC stock, sought the return on their investments through manufacturing of non-core goods and commercial activity.

The Board of Directors of Atom mash OJSC, chaired by Mr. Sergey Yakunin (general director of YACONTO company) was not able to take drastic actions for rehabilitation of the economic activity of the joint stock company. Commission of the Administration of Rostov region that operated on Atom mash OJSC in August 1995 identified several abuses committed by the company's management. Based on the results of the commissions' work, a meeting of the Board of Directors of Atom mash OJSC took place on 07.09.1995, where "no-confidence was expressed to the Chairman of the Board of Atom mash OJSC Mr. Sergey Yakunin,

YM-P7-39252

who aggressively pursued a policy of disintegration of production and wrongful dismissals of the executive management of the company”, and Mr. Sergey Yakunin was removed from his elected position of the Chairman of the Board of Atommash OJSC.

The inspection uncovered a violation in usage of the state-allocated earmarked loan in the amount of 15 million denominated rubles issued to Atommash OJSC at the Decree of the Government of Russian Federation of 08.09.1994 №1437-r.

On 06.10.1995, at the request of the Rostov regional territorial agency of the Federal Service for Insolvency (bankruptcy) proceedings, the Arbitration court of Rostov region instituted proceedings under the insolvency (bankruptcy) case of Atommash OJSC due to a drastic increase of the company’s accruals to budgets of all levels and extrabudgetary funds (8066 Million rubles as of 01.01.1995, 29863 Million rubles as of 01.10.1995). By the ruling of the Arbitration Court of Rostov region dated 29.11.1995, external management for the period of 18 months was instituted on Atommash OJSC.

From the moment external management was instituted, several actions aimed at recovery of the company’s solvency and preservation of its production capability were taken.

An action plan of state support for stabilization of the economic and financial situation of Atommash OJSC was developed and approved by the Government of Russian Federation.

On an extra meeting of the shareholders on 11.10.1996, the bankruptcy referee suggested to increase the authorized capital via an additional emission, so that funds raised via the offering can be used for coverage of wage arrears. However, the proposal was blocked by one of the shareholders – the YACONTO company which voted “against”.

A new company EMK-Atommash JSC was created, co-founded by Atommash OJSC (which contributed a part of its property – core production facilities – worth 1200 Million rubles to the charter capital) and Energomashinostroitel'naya korporatsiya JSC (which contributed 200 Million rubles of working capital). Respective decisions of the creditor’s meeting of Atommash OJSC have been approved by the ruling of the Arbitration court of Rostov region of 10.12.1996.

Atommash OJSC’s contribution to the charter capital of EMK-Atommash JSC was the conserved 4-th building, where serial production of containers for nuclear waste transportation and disposal was planned. Currently, a contract for design and production of the said goods for 2200 Thousand U.S. dollars is signed.

Hence, with the establishment of a new company, production capacity and property complex of the plant have been preserved, 6.3 Thousand of employees

have been transferred from Atom mash OJSC to EMK-Atom mash JSC, which helped to solve social tensions.

During external management, Atom mash OJSC's accounts payable in the amount of 46.97 Million rubles were repaid. Property which is not used in the production cycle, as well as replacement assets (stock of EMK-Atom mash JSC) remain on the balance sheet of the indebted company.

On 30.09.1997, the Arbitration court of Rostov region made a decision to stop the external management, recognize Atom mash OJSC insolvent (bankrupt) and institute bankruptcy proceedings. Sale of the indebted company's property and respective satisfaction of creditor's claims for remaining payables is being carried out.

The Russian Federal Service for insolvency cases believes that the Mr. Sergey Yakunin's appeal to the Government of Russian Federation can be treated as a claim of an ineffective co-owner of the indebted company, who did not take timely and appropriate actions for financial recovery of Atom mash OJSC and prevention of its bankruptcy.

A handwritten signature in black ink, consisting of a large, sweeping loop on the left side and a more complex, angular structure on the right side.

G.K. Tal

*(Original text is in Russian.)*