Consolidated Financial Statements

OAO United Heavy Machinery (Uralmash-Izhora Group)

Years ended December 31, 2002, 2001 and 2000
with Report of Independent Auditors

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Consolidated Financial Statements

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Contents

Report of Independent Auditors

The Board of Directors
OAO United Heavy Machinery (Uralmash-Izhora Group)

We have audited the accompanying consolidated balance sheets of OAO United Heavy Machinery (Uralmash-Izhora Group) and subsidiaries (collectively referred to as the "Company") as of December 31, 2002, 2001, and 2000 and the related consolidated statements of income, changes in shareholders' deficiency, and cash flows for each of the three years in the period ended December 31, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of OAO United Heavy Machinery (Uralmash-Izhora Group) and subsidiaries as of December 31, 2002, 2001, and 2000, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

Ernst & Young (CIS) Limited

June 20, 2003

OAO United Heavy Machinery (Uralmash-Izhora Group)

Consolidated Balance Sheets

(In thousands of US dollars)

	December 31, 2002	2001	2000
Assets			
Current assets:			
Cash and cash equivalents *(Note 5)*	**$ 29,750**	$ 15,267	$ 9,324
Short-term investments *(Note 6)*	**11,934**	22,374	53,366
Trade accounts receivable, net *(Note 7)*	**54,584**	48,657	36,012
Due from related parties *(Note 8)*	**2,918**	12,554	13,361
Inventories, net *(Note 9)*	**161,736**	167,686	133,922
Costs and recognized income not yet billed *(Note 10)*	**23,195**	–	–
Taxes receivable *(Note 3)*	**28,233**	21,474	19,504
Prepaid expenses and advances to suppliers	**23,610**	22,737	29,843
Deferred taxes *(Note 14)*	–	3,393	–
Other current assets	**10,081**	4,569	6,481
Total current assets	**346,041**	318,711	301,813
Plant and equipment, net *(Note 11)*	**201,359**	178,001	176,947
Long-term investments, net *(Note 12)*	**12,828**	11,516	8,488
Due from related parties, long-term *(Note 8)*	**2,374**	7,301	18,458
Trade accounts receivable, long-term *(Note 7)*	**13,508**	1,906	–
Patents and other non-current assets *(Note 3)*	**13,837**	–	–
Goodwill *(Note 4)*	**2,585**	–	–
Total assets	**$ 592,532**	$ 517,435	$ 505,706
Liabilities and Shareholders' Deficiency			
Current liabilities:			
Trade accounts payable and accruals	**$ 32,257**	$ 35,174	$ 44,484
Advances received and deferred revenues *(Note 13)*	**91,139**	142,396	180,827
Billings in excess of costs and recognized income *(Note 10)*	**23,110**	13,648	–
Accumulated billings over related cost *(Note 10)*	**1,509**	8,606	–
Taxes payable *(Note 15)*	**35,902**	47,290	79,050
Payroll and related obligations	**10,206**	5,717	4,291
Due to related parties *(Note 8)*	**5,059**	7,497	13,149
Deferred taxes *(Note 14)*	**3,514**	343	2,938
Short-term borrowings *(Note 16)*	**53,329**	31,983	11,918
Current portion of long-term accounts payable and long-term debt *(Notes 18 and 19)*	**3,657**	4,526	4,586
Other payables	**24,020**	8,235	5,217
Total current liabilities	**283,702**	305,415	346,460
Non-convertible bonds *(Note 17)*	**28,646**	24,856	–
Billings in excess of cost and recognized income, long-term *(Note 10)*	**13,508**	1,906	–
Long-term debt *(Note 19)*	**32,471**	2,458	1,407
Long-term accounts payable *(Note 18)*	**1,013**	2,498	3,555
Taxes payable, long-term *(Note 15)*	**33,236**	49,732	24,968
Deferred taxes, non-current *(Note 14)*	**1,471**	431	395
Total liabilities	**394,047**	387,296	376,785
Minority interest *(Note 20)*	**229,877**	201,700	207,066

Consolidated Balance Sheets (continued)

(In thousands of US dollars)

	December 31, 2002	2001	2000
Shareholders' deficiency *(Note 21)*:			
Common stock (0.1 ruble par value per share), 66,250,000 shares authorized and 35,350,000 shares issued as of December 31, 2002, 2001 and 2000; 31,375,282, 31,375,282 and 35,350,000 shares outstanding as of December 31, 2002, 2001 and 2000, respectively	**582**	582	582
Cumulative preferred stock (0.1 ruble par value and liquidation value per share), 2,750,000 shares authorized, issued, and outstanding	**48**	48	48
Additional paid-in capital	**75,644**	75,644	73,844
Treasury stock, 3,974,718 shares of common stock as of December 31, 2002 and 2001 (none as of December 31, 2000)	**(13)**	(13)	–
Accumulated deficit	**(107,653)**	(146,609)	(152,619)
Accumulated other comprehensive loss	**–**	(1,213)	–
Total shareholders' deficiency	**(31,392)**	(71,561)	(78,145)
Total liabilities and shareholders' deficiency	**$ 592,532**	$ 517,435	$ 505,706

See Report of Independent Auditors and accompanying notes.

OAO United Heavy Machinery (Uralmash-Izhora Group)

Consolidated Statements of Income

(In thousands of US dollars, except for per share data)

	Years ended December 31, 2002	2001	2000
Sales	**$ 435,383**	$ 313,116	$ 241,024
Cost of sales	**(339,065)**	(249,889)	(221,042)
Gross margin	**96,318**	63,227	19,982
Selling, general and administrative expenses	**(81,304)**	(64,101)	(45,906)
Release from (provision for) doubtful accounts receivable	**2,060**	3,097	(3,234)
Release from (provision for) obsolete inventory	**5,114**	975	(11)
Impairment of property, plant and equipment	**(936)**	–	–
Impairment of goodwill	**(1,236)**	–	–
Release from (provision for) obsolete equipment under construction	**594**	(2,284)	(2,615)
Income (loss) from operations	**20,610**	914	(31,784)
Other income (expense)			
Interest income	**1,708**	3,084	1,428
Interest expense	**(12,540)**	(8,308)	(1,339)
Investment income *(Note 3)*	**588**	5,236	–
Investment loss *(Note 3)*	**(969)**	(4,447)	(1,834)
Gain on sale of non-core business units *(Note 22)*	**228**	4,539	14,656
Gain on release from tax penalties *(Note 23)*	**24,715**	4,313	14,952
Gain on release from government financing *(Note 13)*	**34,197**	–	–
Provision for tax penalties *(Note 24)*	**(2,746)**	(11,235)	(7,999)
Other non-operating (losses) gains	**(6,311)**	2,887	2,677
Foreign exchange gain *(Note 3)*	**4,330**	8,431	14,343
Income before income taxes and minority interest	**63,810**	5,414	5,100
Income tax expense *(Note 14)*	**(10,135)**	(1,374)	(3,527)
Income before minority interest	**53,675**	4,040	1,573
Minority interest in net (income) losses of subsidiaries	**(14,719)**	1,970	(1,234)
Net income	**$ 38,956**	$ 6,010	$ 339
Other comprehensive income (loss), net of income tax			
Unrealized holding income (loss) from available for sale securities *(Note 6)*	**1,213**	(1,213)	–
Comprehensive income	**$ 40,169**	$ 4,797	$ 339
Basic and diluted net income per share	**$ 1.24**	$ 0.17	$ 0.01
Basic and diluted comprehensive income per share	**$ 1.28**	$ 0.14	$ 0.01
Average shares of common stock outstanding	**31,375,282**	35,184,387	35,350,000

See Report of Independent Auditors and accompanying notes.

OAO United Heavy Machinery (Uralmash-Izhora Group)

Consolidated Statements of Changes in Shareholders' Deficiency

(In thousands of US dollars, except for share data)

	Common stock		Cumulative preferred stock		Additional paid-in-capital			Treasury common stock				
	Shares	Amount	Shares	Amount	Common and preferred stock	Treasury Stock	Total	Shares	Amount	Accumulated deficit	Accumulated other comprehensive loss	Total
Balances as of January 1, 2000	35,350,000	$ 582	2,750,000	$ 48	$ 73,844	$ –	$73,844	–	$ –	$ (152,958)	$ –	$ (78,484)
Net income	–	–	–	–	–		–	–	–	339	–	339
Balances as of December 31, 2000	35,350,000	582	2,750,000	48	73,844	–	73,844	–	–	(152,619)	–	(78,145)
Purchase of treasury stock from related parties	–	–	–	–	–	–	–	(4,424,718)	(14)	–	–	(14)
Treasury stock issued to management	–	–	–	–	–	1,800	1,800	450,000	1	–	–	1,801
Unrealized holding losses from available for sale securities	–	–	–	–	–	–	–	–	–	–	(1,213)	(1,213)
Net income	–	–	–	–	–	–	–	–	–	6,010	–	6,010
Balances as of December 31, 2001	35,350,000	582	2,750,000	48	73,844	1,800	75,644	(3,974,718)	(13)	(146,609)	(1,213)	(71,561)
Change in unrealized loss on sale of available for sale securities	–	–	–	–	–	–	–	–	–	–	**1,213**	**1,213**
Net income	–	–	–	–	–	–	–	–	–	**38,956**	–	**38,956**
Balances as of December 31, 2002	**35,350,000**	**$ 582**	**2,750,000**	**$ 48**	**$ 73,844**	**$1,800**	**$75,644**	**(3,974,718)**	**$ (13)**	**$ (107,653)**	**$ –**	**$ (31,392)**

See Report of Independent Auditors and accompanying notes.

OAO United Heavy Machinery (Uralmash-Izhora Group)

Consolidated Statements of Cash Flows

(In thousands of US dollars)

	Year ended December 31,		
	2002	**2001**	**2000**
Net income	**$ 38,956**	$ 6,010	$ 339
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Depreciation of plant and equipment	**25,188**	22,105	20,602
Amortization of patents	**516**	–	–
Foreign exchange gain	**(4,330)**	(8,431)	(14,343)
Deferred tax expense (benefit)	**5,825**	(5,952)	1,390
(Release from) provision for doubtful accounts receivable	**(2,060)**	(3,097)	3,234
(Release from) provision for obsolete inventories	**(5,114)**	(975)	11
(Release from) provision for obsolete equipment under construction	**(594)**	2,284	2,615
Impairment loss	**936**	–	–
Impairment of goodwill	**1,236**	–	–
Investment income	**(588)**	–	(1,131)
Investment loss	**969**	4,447	1,834
Minority interest in net income of subsidiaries	**14,719**	(1,970)	1,234
Gain on sale of non-core business units	**(228)**	(4,539)	(14,656)
Gain on release from tax penalties	**(24,715)**	(4,313)	(14,952)
Gain on release from government financing	**(34,197)**	–	–
Provision for tax penalties	**2,746**	11,235	7,999
Management compensation in non-cash form	**2,522**	1,800	–
Loss (gain) on sale of short-term investments and other assets	–	966	(4,713)
Gain on sale of long-term investments	**2,087**	–	–
Net change before change in working capital	**23,874**	19,570	(10,537)
Changes in assets and liabilities, net of effects from purchase of new subsidiaries:			
Trade accounts receivable	**2,282**	(14,226)	(9,561)
Inventories	**28,544**	(47,260)	(37,189)
Costs and recognized income not yet billed	**(21,469)**	–	–
Taxes receivable	**(3,888)**	(2,466)	(3,387)
Prepaid expenses and advances to suppliers	**761**	5,293	(11,222)
Other current assets	**(2,439)**	1,487	(2,823)
Trade accounts receivable long term	**(11,602)**	–	–
Trade accounts payable and accruals	**(14,859)**	16	8,310
Advances received	**(12,489)**	3,937	60,964
Accumulated billings over related costs	**(7,720)**	–	–
Payroll and related obligations	**1,329**	1,193	10,599
Taxes payable	**(12,997)**	(10,201)	10,685
Amounts due to and from related parties	**7,517**	(4,845)	13,242
Billings in excess of costs and recognized income	**8,761**	–	–
Other payables	**1,550**	3,109	(1,261)
Net cash (used in) provided by operating activities	**(12,845)**	(44,393)	27,820

OAO United Heavy Machinery (Uralmash-Izhora Group)
Consolidated Statements of Cash Flows (continued)

(In thousands of US dollars)

	Years ended December 31, 2002	2001	2000
Cash Flows from Investing Activities			
Net cash acquired (paid) in acquisition of			
Burovaya Tekhnika *(Note 4)*	**$ –**	$ 799	$ –
Additional interest in Krasnoe Sormovo *(Note 4)*	**–**	(2,178)	(1,211)
Additional interest in Izhorskiye Zavody *(Note 4)*	**–**	(1,318)	–
Almaz *(Note 4)*	**(7,981)**	–	–
UPET *(Note 4)*	**(558)**	(3,397)	–
Friede Goldman *(Note 4)*	**(15,140)**	–	–
Other subsidiaries	**(9,614)**	(639)	–
Net purchases of short-term investments	**16,608**	26,146	(16,314)
Purchases of plant and equipment	**(17,222)**	(30,417)	(9,933)
Proceeds from disposal of plant and equipment	**6,146**	–	–
Proceeds from sale of non-core business units	**148**	2,818	19,930
Proceeds from sale of other assets	**–**	1,742	1,123
Purchase of long-term investments	**(3,103)**	(2,484)	(11,517)
Proceeds from sale of long-term investments	**1,717**	–	1,043
Purchases of other non current assets	**(500)**	–	–
Repayments of loans issued to related parties, net	**4,835**	9,041	(19,818)
Net cash (used in) provided by investing activities	**(24,662)**	113	(36,697)
Cash Flows from Financing Activities			
Net proceeds from short-term loans and borrowings	**18,879**	20,861	17,917
Proceeds from issuance of long-term debt	**31,536**	1,762	–
Repayments of long-term debt	**(1,530)**		
Proceeds from issuance of non-convertible bonds	**–**	36,036	–
Proceeds (repurchases) of non-convertible bonds	**3,462**	(7,898)	–
Purchase of treasury stock	**–**	(14)	–
Sale of treasury stock	**–**	1	–
Dividends paid by subsidiaries	**–**	(160)	(2)
Net cash provided by financing activities	**52,347**	50,588	17,915
Effect of exchange rate changes on cash and cash equivalents	**(357)**	(365)	(148)
Net increase in cash and cash equivalents	**14,483**	5,943	8,890
Cash and cash equivalents at beginning of year	**15,267**	9,324	434
Cash and cash equivalents at end of year	**$ 29,750**	$ 15,267	$ 9,324
Supplementary cash flow information:			
Interest paid	**$ 12,855**	$ 2,573	$ 14
Income taxes paid	**3,931**	5,212	1,698
Supplementary disclosure of non-cash activities:			
Stock-based compensation to management	**$ 2,522**	$ 1,800	$ –
Proceeds from sale of non-core business units received in the form of the Company's non-convertible bonds	**–**	3,282	–

See Report of Independent Auditors and accompanying notes.

1. Description of Business

Open Joint Stock Company ("OAO") United Heavy Machinery (Uralmash-Izhora Group) (the "Parent Company") was incorporated in Ekaterinburg, Sverdlovsk Region of the Russian Federation, in 1996 and is a holding company with controlling interests in a number of production, engineering, trading and investment entities (collectively referred to as "the Company"). The Company organizes its business along six major business lines: drilling equipment (oil and gas rigs), equipment for nuclear power plants, metallurgical equipment, mining equipment, shipbuilding and specialty steels. Below is the description of business of the Company's most significant subsidiaries:

OAO Ural Heavy Machine-Building Plant ("Uralmash"), a manufacturer of heavy machinery, including, on-shore and off-shore drilling equipment, quarry shovels, hot and cold rolling equipment, continuous casting units, mills and mill equipment, was founded in 1933 in Ekaterinburg. Uralmash was instrumental in the industrialization of the Soviet Union, particularly in the mining and metallurgical industries. During World War II, Uralmash changed its focus to the manufacturing of military tanks and fighter planes, converting back to the production of heavy machinery following the war. In December 1992, Uralmash was registered as an open joint stock company in accordance with the laws of the Russian Federation, allowing the public trade of Uralmash shares. In 1997, the Parent Company acquired a controlling stake in Uralmash through stock swaps with the previous shareholders.

OAO Izhorskiye Zavody ("Izhorskiye Zavody"), a manufacturer of heavy engineering machine-building and metallurgical products, equipment for nuclear power plants and mining equipment, was founded in 1722 in St. Petersburg and is one of the oldest plants in Russia. Izhorskiye Zavody was formerly a state owned production association. In 1992, Izhorskiye Zavody was re-organized into an open joint stock company. In 1998, the Parent Company acquired 46.53% of the Izhorskiye Zavody shares for cash and issuance of shares. In September 1999, the Parent Company acquired an additional 20.65% of interest in Izhorskiye Zavody for cash, and has been consolidating Izhorskiye Zavody since that date.

OAO Welded and Machine-Building Structure Plant ("ZSMK"), a manufacturer of electrical line pilings, drilling equipment, and custom metal construction, was founded in 1980 in the Sverdlovsk region and was formerly a state owned production association. Subsequently ZSMK was re-organized into an open joint stock company. In 1997, the Parent Company acquired a controlling stake in ZSMK through stock swaps with the previous shareholders.

OAO Krasnoe Sormovo Plant ("Krasnoe Sormovo"), a manufacturer of sea-river tankers and dry-cargo vessels for shipping companies and circulation systems for oilrigs, was founded in 1849 in Nizhniy Novgorod, and was formerly a state owned production association specializing in the manufacturing of military vessels and submarines. In 1994, Krasnoe Sormovo was re-organized into an open joint stock company and switched its facilities to the manufacturing of non-military fleet. The Parent Company obtained a controlling interest in Krasnoe Sormovo in 2000.

OAO NPO Burovaya Tekhnika ("Burovaya Tekhnika"), a manufacturer of drilling equipment, Burovaya Tekhnika, was founded in 1953 in Moscow and has subsidiaries in Volgograd, Lubertsy and Perm. Besides manufacturing drilling equipment, Burovaya Tekhnika currently carries out research and development for the oil drilling industry and provides drilling services to oil companies. In the course of 1997-2001, the Parent Company acquired a controlling interest in Burovaya Tekhnika.

1. Description of Business (continued)

During 2001-2002, the Parent Company acquired a controlling interest in S.C. UPET, S.A. ("UPET"), a Targovisty-based Romanian facility specializing in the manufacturing of drilling equipment, specifically mobile drilling units, with plans to use UPET as an expansion platform to strategically important Middle East and North Africa markets traditionally served by UPET.

In 2002, the Company acquired a 72.77% interest in OAO SF Almaz ("Almaz"), a shipbuilding facility based in St. Petersburg that develops and manufactures a wide range of civil, military and special-purpose sea and river vessels, including air-cushioned landing craft and multi-purpose hovercrafts and patrol boats.

The Company continues to make ongoing efforts to expand its market presence and modernize its facilities through a series of acquisitions of Russian and foreign entities in similar industries (Note 4).

The Company is one of the largest manufacturers of heavy engineering products in Russia. The Company's main customers include certain Russia's largest oil and gas companies, metallurgical plants, transportation and mining companies, in addition to the developers of certain nuclear power stations. Approximately 36%, 26% and 17% of its revenues for the years ended December 31, 2002, 2001 and 2000, respectively, came from sales outside of Russia, mostly sales of nuclear power plant equipment to Asia-based nuclear power stations and sales of mining equipment to customers in the Commonwealth of Independent States.

2. Financial Position

As of December 31, 2002, the Company's consolidated balance sheet reflected an accumulated deficit of $107,653. Accumulated deficit is the result of net losses incurred prior to 2000, including substantial impairment charges to property, plant and equipment in 1999. The nature of the Company's growing business, combined with the long-term nature of its production cycle, requires the Company to continue to invest cash in inventory prior to receiving cash from its customers, although to a lesser extent. In the year ended December 31, 2002, net investments in working capital totaled $36,719, and cash flows from operating activities was negative $12,845. In addition, the Company had negative cash flows from operating activities of $44,393, including net investments in working capital of $63,963, during the year ended December 31, 2001. Management continues to implement actions to better manage this cash flow cycle.

These factors could raise doubt as to the Company's ability to continue its operations as a going concern. The accompanying consolidated balance sheets do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

Management of the Company believes that the Company has sufficient financial resources to maintain current operations. Management also believes that the current market situation in Russia and projected future business development of the Company will allow management to further improve the financial position and cash flow from operations of the Company. Specifically, the Company's plans and actions include the following:

- As of December 31, 2002, the Company has significant existing long-term contracts for the future production of nuclear power station equipment to be exported to China and India.

2. Financial Position (continued)

- As of December 31, 2002, the Company has significant existing contracts for the production of ships and vessels totaling $500,000. Included in this amount is the contract for the sale of a submarine to the Chinese Navy executed in 2002 for which the completion is expected in 2005. Furthermore, the Company has continued to experience growth in demand for its products, resulting in a significant future production portfolio, many of which extend for several years.
- Over the past year the Company has successfully worked with banks and financing institutions to secure necessary financing for the long-term contracts in process and for other investing needs. Based on the terms of existing contracts as well as its recent experience, management of the Company expects to be able to continue to secure necessary short-term and long-term financing for its operational and investing cash flow requirements.
- In 2002, the Company obtained the release from its liabilities related to the government financing received for the construction of non-delivered equipment to Kremikovitsi (Bulgaria) of $34,939 and the forgiveness of certain tax penalties for Izhorskiye Zavody of $23,647 . Such developments have significantly improved the Company's net current assets and benefited its net income for the year ended December 31, 2002.
- During 2002, Management has continued to restructure its operations to increase its efficiency and reduce costs. Management has also, over the past several years, implemented a program to divest of non-core businesses and increase its business in core, higher margin business lines. Management expects these actions to continue to improve its profitability and results of operations.

Management believes that the indicators that could raise doubt about the Company's ability to continue as a going concern are substantially mitigated by the above factors, as well as its overall evaluation of its business environment. As a result, the consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes that the Company will continue operations in the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

3. Significant Accounting Policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below.

Basis of consolidation and presentation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("US GAAP").

3. Significant Accounting Policies (continued)

Basis of consolidation and presentation (continued)

Significant intercompany balances and transactions have been eliminated in the consolidation. The following subsidiaries have been included in the Company's consolidated financial statements as of December 31, 2002:

Name	Principal activities	Country of incorporation	Stake held by the Parent Company or its subsidiaries
Production subsidiaries:			
OAO Ural Heavy Machine-Building Plant ("Uralmash")	Production of drilling, mining and metallurgical equipment	Russia	69.16%
OAO Izhorskiye Zavody ("Izhorskiye Zavody")	Production of mining equipment and equipment for nuclear power plants	Russia	75.48%
OAO Welded and Machine-Building Structure Plant ("ZSMK")	Production of metallurgical and drilling equipment	Russia	73.62%
OAO Krasnoe Sormovo Plant"("Krasnoe Sormovo")	Shipbuilding	Russia	60.87%
OAO NPO Burovaya Tekhnika ("Burovaya Tekhnika")	Production of drilling equipment and research and development for oil companies	Russia	55.09%
OAO SF Almaz ("Almaz")	Shipbuilding	Russia	72.77%
OOO OMZ Specstal ("Specstal")	Production of specialty steels	Russia	100%
S.C. UPET S.A. ("UPET")	Production of drilling equipment	Romania	66%
OAO Zavod Nizhegorodskiy Teplokhod ("Nizhegorodskiy Teplokhod")	Shipbuilding and production of specialty steels	Russia	55.68%
OAO Third International Shipyard ("Third International")	Shipbuilding	Russia	73.93%
OAO Pavlovsk Machinery Plant ("Pavlovsk Machinery")	Drilling equipment	Russia	64.91%
ZAO KomplektAtomIzhora	Engineering and installation of nuclear power plant equipment	Russia	100%
NPO Neftegazotekhnika	Drilling equipment	Russia	76%
Trading subsidiaries:			
ZAO UMZ-Engineering	Sales of products manufactured by Uralmash	Russia	100%
ZAO UMZ-Trading Company	Sales of products manufactured by Uralmash	Russia	100%
OOO OMZ Sibir	Sales of mining equipment	Russia	75%
ZAO Trading Company – Izhorskiye Zavody ("ZAO TK Izhorskiye Zavody")	Sales of products manufactured by Izhorskiye Zavody and purchases of supplies for Izhorskiye Zavody	Russia	100%
OOO United Heavy Machinery	Engineering, marketing and sales of metallurgical, mining equipment, and specialty steels	Russia	100%
Friede Goldman Marketing, B.V.	Sales of engineering services	The Netherlands	75%
ZAO Uralmash-Service	Repair, maintenance and sales of spare parts for products manufactured by Uralmash	Russia	100%

3. Significant Accounting Policies (continued)

Basis of consolidation and presentation (continued)

Name	Principal activities	Country of incorporation	Stake held by the Parent Company or its subsidiaries
Engineering and research subsidiaries:			
OMZ Offshore and Onshore Sea and Oil and Gas Projects	Engineering, sales of offshore and onshore oil and gas equipment	Russia	100%
OAO VPI Proektverf	Engineering and research	Russia	54.39%
FGL Buyer, LLC	Naval architecture and marine engineering in the offshore drilling	USA	75%
Other and non-core subsidiaries:			
ZAO Uralmash-Tovary	Production of consumer goods	Russia	81%
OOO Autocomplect	Production of mufflers	Russia	100%
OOO Firm Izoterm	Production of converters	Russia	80%
OOO Instrument	Production of instruments	Russia	100%
OAO Novotrast	Investing activities	Russia	100%
OOO OMZAR	Investing activities	Armenia	100%
United Heavy B.V.	Investing activities	The Netherlands	100%
OMZ Investments Co. (America)	Investing activities	USA	100%
UHM Investments Ltd.	Investing activities	British Virgin Islands	100%
UHM Investments NV	Investing activities	The Netherlands	100%
Shiplea Trading, Ltd. BVI	Investing activities	British Virgin Islands	100%
Friede Goldman United, Ltd.	Royalties and license fees from FGL Buyer, LLC	USA	75%
ZAO Almaz Center Invest	Investing activities	Russia	58.33%
OOO Machine-Building Plants Support Company	Procurement of raw materials and spare parts to main production units	Russia	100%
OOO OMZ Center	Management of non-core assets	Russia	96.63%
OOO Leasing of Machinery and Equipment	Lease of machinery and equipment	Russia	100%
OAO Leasing-Center-Invest	Lease of machinery and equipment	Russia	100%
OOO SoftSystemService	Software development	Russia	100%
ZAO Private Security Enterprise Archi	Security services	Russia	100%
ZAO Sevzapagenstvo	Security services	Russia	100%
ZAO Private Security Enterprise Stan	Security services	Russia	100%
UHM Tunissia	Representative office	Tunis	95%
OOO OBK	Accounting services	Russia	100%
OOO OMZ-Structure Development	Management of non-core business segments	Russia	90%
OOO Vodokanal 59	Utilities	Russia	100%
OOO Stroikomplex Uralskiy	Construction services	Russia	100%
OOO UZRTM	Repair works	Russia	100%
OOO Termit 63	Fire-proof and conditioning services	Russia	100%

3. Significant Accounting Policies (continued)

Basis of consolidation and presentation (continued)

Name	Principal activities	Country of incorporation	Stake held by the Parent Company or its subsidiaries
OOO UralTEP-2001	Auto transportation services	Russia	100%
OOO Svyiaz 19	Installation and maintenance of corporate phone and data transmission lines	Russia	100%
OOO RegionStroiMontage	Repair and construction of production premises	Russia	100%
PJT 55	Railroad transportation services	Russia	100%

For majority-owned subsidiaries that incur losses, it is the Company's policy to recognize 100% of the losses, after first reducing the related minority interests' balances to zero. Further, when a majority-owned subsidiary becomes profitable, the Company will recognize 100% of profits until such time as the excess losses previously recorded have been recovered. Thereafter, the Company will recognize profits in accordance with the underlying ownership percentage.

The Parent Company and its subsidiaries maintain their accounting records and prepare their financial statements in Russian rubles in accordance with the requirements of Russian accounting and tax legislation. The financial statements used in preparing the accompanying consolidated financial statements differ from the financial statements issued for statutory purposes in Russia in that they reflect certain adjustments, not recorded in the respective accounting books, which are appropriate to present the financial position, results of operations, and cash flows in accordance with US GAAP.

The principal adjustments are related to the (1) reserve for doubtful debts and inventory obsolescence, (2) timing of revenue and expense recognition, (3) deferred income taxes, (4) foreign currency translation, (5) depreciation and valuation of plant and equipment, (6) purchase accounting and consolidation, (7) impairment of assets, and (8) elimination of intercompany balances and transactions.

Foreign Currency Translation

The accompanying consolidated financial statements have been prepared in US dollars. Transactions and balances not already measured in US dollars (primarily Russian rubles) have been remeasured into US dollars in accordance with the relevant provisions of US Financial Accounting Standard ("SFAS") No. 52, "Foreign Currency Translation", as applied to entities in highly inflationary economies.

Under SFAS No. 52, revenues, costs, capital, and non-monetary assets and liabilities are translated at historical exchange rates prevailing on the transaction dates. Monetary assets and liabilities are translated at exchange rates prevailing on the balance sheet date. Exchange or translation gains and losses arising from remeasurement of monetary assets and liabilities that are not denominated in US dollars are credited or charged to non-operating expenses. The foreign exchange gain arising in 2002 of $4,330 (2001 - $8,431, 2000 - $14,343) resulted from the fact that the Company was in a net monetary ruble liability position during the course of the year, and the ruble has been subject to continuous devaluation during the course of each of the three years ended December 31, 2002.

3. Significant Accounting Policies (continued)

Foreign Currency Translation (continued)

The Russian ruble is not a convertible currency outside the territory of Russia. Official exchange rates are determined daily by the Central Bank of Russia ("CBR") and are generally considered to be a reasonable approximation of market rates. The translation of ruble-denominated assets and liabilities into US dollars for the purpose of these consolidated financial statements does not indicate that the Company could realize or settle in US dollars the reported values of the assets and liabilities. Likewise, it does not indicate that the Company could return or distribute the reported US dollar values of capital and retained earnings to its shareholders.

The official exchange rates as of December 31, 2002, 2001, and 2000 for one US dollar were 31.78 rubles, 30.14 rubles and 28.16 rubles, respectively.

Use of Estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and deposits held on call with domestic banks with maturity of less than three months.

Trade Receivables

Trade receivables are stated net of an allowance for accounts, generally more than 180 days overdue, which are considered doubtful.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the first-in first-out (FIFO) method. Costs generally include raw materials, labor, production overheads and interest for certain long-term contracts. A reserve for obsolete inventory is created for inventory which management believes may not be fully recoverable.

Short-Term Investments

The Company accounts for investments in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities". The Company determines the appropriate classification of investments at the time of purchase and re-evaluates such designation as of each balance sheet date.

Short-term investments include certain bank promissory notes and deposits, commercial promissory notes, which were acquired for short-term purposes, and are stated at fair value. Certain corporate securities that have an established market are stated at their quoted market value and classified as available for sale. Accordingly, net realized gains and losses are included in investment income or loss, while net unrealized gains and losses are included in other comprehensive income. Changes in the fair value of short-term investments other than marketable securities are recognized as income or expense.

3. Significant Accounting Policies (continued)

Long-Term Investments

Long-term investments consist of equity securities, which do not have an established market, and are carried at cost. The carrying amount of long-term investments is reduced to recognize a decline other than temporary in the value of the investments, if necessary.

Taxes Receivables

Taxes receivable are represented predominantly by the input value-added tax ("VAT"), which is offsetable against future VAT charged on the Company's sales.

Property, Plant and Equipment

As of the acquisition date (mid-1997), Uralmash plant and equipment was stated at its fair value being depreciated replacement cost, which was determined by independent appraisal as of December 31, 1995 (as adjusted for additions and disposals through the acquisition date). Subsequent to the initial recognition, the Company allocated the amounts of negative goodwill of $395,333 and $21,878 resulting from the acquisitions of shares in Uralmash in 1997 and 1998, respectively, against the values of Uralmash plant and equipment acquired.

Since the acquisition date (September 1, 1999), Izhorskiye Zavody plant and equipment was stated at depreciated replacement cost of $357,260 determined by independent appraisal as of December 31, 1999, reduced by the amount of impairment loss of $310,355. An additional impairment loss of $1,015 was recognized during the year ended December 31, 1999.

ZSMK plant and equipment is stated at historical cost. Subsequent to the initial recognition, the Company allocated the negative goodwill of $45,468 and $2,271 resulting from the acquisitions of shares in ZSMK in 1997 and 1998, respectively, against the values of its plant and equipment.

Krasnoe Sormovo plant and equipment is stated at historical cost. Subsequent to the initial recognition, the Company allocated the negative goodwill of $36,372 and $6,423 resulting from the acquisitions of Krasnoe Sormovo shares during 2000 and 2001, respectively, against the values of its plant and equipment.

Plant and equipment of Burovaya Tekhnika is stated at historical cost. Subsequent to the initial recognition, the Company allocated the negative goodwill of $6,747 resulting from the acquisitions of Burovaya Tekhnika shares during 2001 against the values of its plant and equipment.

Almaz plant and equipment is stated at depreciated replacement cost determined by independent appraisal as of June 20, 2001, reduced by the amount of the negative goodwill of $466 resulting from the acquisition of Almaz shares in 2002.

UPET plant and equipment is stated at historical cost reduced by the amount of the negative goodwill of $895 resulting from the acquisition of UPET shares during 2002. As of the date of acquisition of UPET, land was recorded at its then current market value.

Plant and equipment of other subsidiaries, including other acquisitions made by the Company in 2002, is stated at historical cost. As of the date of acquisition of Pavlovsk Machinery, its plant and equipment were recorded net of impairment loss of $2,765.

As of December 31, 2002, there was no information available on the market value of the Company's plant and equipment because of its specialized nature and age, and because such items are rarely sold. However, there was no information available that indicated that carrying value of the Company's plant and equipment, except for certain plant and equipment of Krasnoe Sormovo, was impaired.

3. Significant Accounting Policies (continued)

Property, Plant and Equipment

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, as follows:

Buildings	30 years
Machinery and equipment	15 years
Vehicles	3 years
Furniture and fixtures	3 years

Maintenance costs relating to items of plant and equipment are expensed as incurred.

The Company capitalized interest of $2,407 in 2002, and nil in 2001 and 2000.

Patents

Patents related to marine engineering that are issued by the US licensing bodies and acquired in a business purchase, are stated at fair value as of the date of acquisition. Amortization is computed using the straight-line method over their remaining estimated useful life of 15 years. As of December 31, 2002, net book value of such patents was $13,195.

Business Combinations, Goodwill and Other Intangible Assets

In June 2001, the FASB issued SFAS No. 141, "Business Combinations", and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. It also includes guidance on the initial recognition and measurement of goodwill and other intangible assets arising from business combinations completed after June 30, 2001. SFAS No. 142 prohibits the amortization of goodwill and intangible assets with indefinite useful lives. SFAS No. 142 requires that these assets be reviewed for impairment at least annually. Intangible assets with finite lives will continue to be amortized over their estimated useful lives. Additionally, SFAS No. 142 requires that goodwill included in the carrying value of equity method investments no longer be amortized. The Company has adopted SFAS No. 142 effective January 1, 2002. Application of the non-amortization and impairment provisions of SFAS No. 142 did not have a significant effect on the results of its operations or financial position.

Goodwill represents the excess of consideration paid over the fair value of net assets acquired in purchase business combinations. With the adoption of SFAS No.142, "Goodwill and Other Intangible Assets", as of January 1, 2002, the Company discontinued amortization of goodwill. In accordance with SFAS No. 142, the Company tests goodwill for impairment on an annual basis. Additionally, goodwill is tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of an entity below its carrying value. These events or circumstances would include a significant change in the business climate, legal factors, operating performance indicators, competition, sale or disposition of a significant portion of the business or other factors.

Negative Goodwill Arising on Acquisitions

When the cost of acquisition is less than the Company's interest in the fair values of identifiable assets acquired and liabilities assumed as at the date of the exchange transaction, the fair values of the non-current assets (generally, plant and equipment) acquired are reduced proportionally until the excess is eliminated.

3. Significant Accounting Policies (continued)

Impairment of Long-Lived Assets

In 2001 and 2000, the Company followed the provisions of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", which required that long-lived assets and certain intangibles to be held and used by the Company be reviewed for impairment.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement addresses financial accounting and reporting for the impairment of disposal of long-lived assets, except for goodwill, and supersedes SFAS No. 121 and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business (as previously defined in that opinion). This statement also amends Accounting Research Bulletin No. 41, "Consolidated Financial Statements", to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. The provisions of the statement are effective for financial statements issued for fiscal years beginning after December 15, 2001. The Company has adopted the new statement effective January 1, 2002. The adoption of SFAS No. 144 did not have a significant effect on the result of it operations or financial position.

SFAS No. 144 requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount which the carrying value of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying value or fair value less costs to sell.

Pension Funds

The Company contributes to the Russian Federation state pension fund, social insurance, medical insurance fund, and employment fund on behalf of its employees. The Company's contributions amount to approximately 35.6%, 35.6% and 38.5% during the years ended December 31, 2002, 2001 and 2000 of the portion of employees' compensation reported for the statutory purposes as salaries and are expensed as incurred. Total amounts expensed in connection with contributions to the above funds for the years ended December 31, 2002, 2001 and 2000 were $24,160, $19,900 and $16,114, respectively.

The Company has no other program or obligation for payment of post-retirement benefits to its employees.

Minority Interest

Minority interest represents interests of third parties in the net assets of the Company's subsidiaries.

Treasury Stock

Treasury stock is accounted for under the cost method, whereby a gain or loss is determined when the treasury stock is reissued or retired.

3. Significant Accounting Policies (continued)

Revenue Recognition

Sales of Routinely Manufactured Equipment and Standard Services

The Company generates its revenue from the sales of goods to third party customers and the development of certain engineering documentation. For sales of goods produced in a standard manufacturing operation, even if produced to buyers' specification, and standard services, revenue is recognized, net of VAT, in the period in which the goods are dispatched from the plant or the services are provided, and invoices are issued. Generally, title passes to the customer upon shipment. However, there are certain circumstances where the Company is responsible for delivery and title passes and revenue is recognized at a later stage. In cases where a contract covers several homogenous or various routinely manufactured products, sales are recognized under the completed-contract or unit-of-delivery methods, with a unit of accounting generally being a fully assembled piece of equipment (e.g. a drilling rig or an excavator) rather than its individual components. Such sales cover the majority of contracts for the manufacturing and supply of drilling equipment, metallurgical equipment, mining equipment, and specialty steels, except for those specifically referred to below.

Billings made in the exchange for future shipments and costs of supplied equipment that does not meet the criteria for sales recognition are shown net as costs of uncompleted contracts in excess of related billings (in current assets), or billings on uncompleted contracts in excess of related costs (in current liabilities) separately for each contract.

Taxes on operating revenues were charged to general and administrative expenses at the rates of 1%, 1% and 4% over the years ended December 31, 2002, 2001 and 2000.

Multiple-Element Revenue Arrangements

If a contract is segregated in a number of discrete stages and if the title to equipment or service passes to the customer upon the completion of a certain stage, revenue is recognized after each stage upon dispatch of goods from the plant or provision of a service, and issuance of invoice. The Company recognizes revenue upon the acceptance of such stages ("elements") following the requirements of the FASB's Emerging Issues Task Force ("EITF") consensus on Issue No. 00-21, "Accounting for Multiple-Element Revenue Arrangements" provided that all of the following criteria are met: (a) the deliverable in the arrangement that has been delivered represents a separate earnings process; (b) any undelivered item in the arrangement is not essential to the functionality of the deliverable in the arrangement that has been delivered; and (c) there is objective and reliable evidence of fair value to allocate the arrangement consideration to the deliverables. Fair value allocated to each element of a multiple-element arrangement, which includes various products and/or services, generally approximates the values stated in the contracts with buyers. Through December 31, 2002, only a limited number of the Company's contracts were accounted for as multiple-element revenue arrangements, specifically contracts to provide equipment and a service (e.g. installation or engineering) or for the supply of spare parts.

Construction-Type Contracts

Construction-type contracts generally include long-term contracts to manufacture design-build equipment, including continuous casting machines, nuclear power plant equipment, ships, and vessels.

3. Significant Accounting Policies (continued)

Construction-Type Contracts (continued)

A single contract or a group of contracts that otherwise meet the test for combining under Statement of Position No. 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts" ("SOP No. 81-1"), may include several elements or phases, each of which the contractor negotiated separately with the same customer and agreed to perform without regard to the performance of others. The Company recognizes revenue upon the completion of each element or phase only if it meets all of the criteria of SOP No. 81-1, including, but not limited to, the following: (a) the terms and scope of the contract or project clearly call for separable phases or elements; (b) the separable phases or elements of the project are often bid or negotiated separately; (c) the Company has a significant history of providing similar services to other customers, and the similarity of such services and prices to other customers are verifiable; (d) the excess of the sum of the prices of the separate elements over the price of the total project is clearly attributable to cost savings incident to the combined performance of the contract obligation.

Sales of continuous casting machines and other complex mining and metallurgical equipment are accounted for under the percentage-of-completion method. The extent of progress toward completion under such contracts is generally measured based on the production stage of the various components or units.

Effective January 1, 2002, sales of ships and vessels are accounted for under the percentage-of-completion method. In the absence of readily determinable output measures, the extent of progress toward completion under such contracts is determined based on the ratio of costs incurred to-date to total estimated costs ("the cost-to-cost method"). The effect of the change from the completed-contract method applied to the revenue recognition for ships and vessels prior to 2002 to the percentage-of-completion method was not significant.

Sales under the long-term contracts for nuclear power plant equipment are accounted for under the percentage-of-completion method on a pro rata basis of cost of manufactured equipment (both supplied to customers and in finished goods) to total estimated contract costs. If the estimates of total contract costs can be made in ranges most likely to occur, those amounts are used. If the Company cannot determine "most likely" amounts, it uses the lowest probable level of profit in the range until it can estimate more precise results. Billings made by the Company and revenues recognized under the percentage-of-completion method are shown net, either as costs and recognized income not yet billed (in current assets), or billings in excess of costs and recognized income (in current liabilities) separately for each contract.

The majority of the Company's long-term contracts for nuclear power plant equipment provide for a deferred payment, generally limited to 10% of the total contract price, that is receivable upon the launch of the respective nuclear power plants in Iran, China, and India. Since the receipt of such money is subject to the conditions outside of the direct control of the Company, the Company treats such deferred payments as contingent consideration and defers them until the receipts can be assured. Furthermore, such contingent consideration is not used in the calculation of revenues to be recognized under the underlying contracts under the percentage-of-completion method.

Expense Recognition

Expenses are recognized in the period in which they are incurred.

3. Significant Accounting Policies (continued)

Compensated Absences

The liability for employees’ compensation for future absences is accrued if all of the following conditions are met: (a) the Company's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered; (b) the obligation relates to rights that vest or accumulate; (c) payment of the compensation is probable; and (d) the amount can be reasonably estimated.

Advertising Costs

Advertising costs are expensed as incurred. These costs totaled \$577, \$518, and \$494 for the years ended December 31, 2002, 2001, and 2000, respectively.

Research and Development Costs

Research and development costs are expensed as incurred. These costs totaled \$893, \$1,909, and \$853 for the years ended December 31, 2002, 2001, and 2000, respectively.

Investment Income

Investment income represents gains realized by the Company on transactions with government and corporate securities, bank notes, and commercial promissory notes that are routinely acquired for short or medium-term purposes and generate income in the form of interest, coupons or excess of sales prices over the original purchase prices. In addition, included in investment income are net gains resulting from the repurchase of the Company’s own promissory notes at a discount.

Non-Monetary Transactions

Until 2001, as with most companies operating in Russia, a portion of the Company’s business was conducted via non-monetary transactions related primarily to the Company’s purchases of inventory and property and equipment in exchange for its products. Typically, these transactions were accounted for at the normal, open market selling prices of the items transferred, which might include bills of exchange issued by banks and the companies. The Company has significantly reduced the volume of such transactions in 2002.

Concentration of Credit Risk

Financial instruments, which potentially expose the Company to concentrations of credit risk, consist primarily of cash and cash equivalents, short-term and long-term investments, trade accounts receivable, and other receivables. Although the Company normally does not require collateral, it usually obtains advances from customers or customers’ promissory notes or bank guarantees before launching significant or long-term contracts.

The Company primarily deposits available cash with several non-state owned Russian banks, including Promtorgbank, a related party. The Company also maintains short-term bank deposits and keeps short-term Russian bank promissory notes. Management regularly monitors the financial status of the banks where deposits are maintained.

The Company also has corporate promissory notes, classified as short-term investments, issued mostly by regular customers having a good credit history, or related parties, for which the collectibility is reasonably assured.

3. Significant Accounting Policies (continued)

Fair Value of Financial Instruments

The fair value of financial instruments, consisting of cash, short-term investments, accounts receivable and payable, non-convertible bonds, and debt instruments approximates their carrying values.

Related Party Transactions

The Parent Company and its subsidiaries, as part of their normal business, entered into a number of transactions with related parties, which form part of the unconsolidated group controlled by the Company's management. The related party transactions might not have been carried at arm's length, and the promissory notes issued to or received from other related parties might be illiquid outside the unconsolidated group of entities under common control, and are solely used as a settlement instrument within such group. Amounts due to and from related parties are carried at cost.

Comprehensive Income

The Company applies SFAS No. 130, "Reporting Comprehensive Income", which establishes comprehensive standards for the reporting and presentation of income and its components in a set of general-purpose financial statements.

Segment Information

Effective January 1, 2000, the Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information". Under SFAS No. 131 operating segments are defined as components of an enterprise about which separate financial information is available, that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company has six reportable operating segments: oil and gas equipment, metallurgical equipment, mining equipment, specialty steels, nuclear power plant equipment and shipbuilding. Information about operating segments, including geographic information, is presented in Note 26.

Current Accounting Pronouncements

Accounting for Asset Retirement Obligations

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This statement deals with the costs of closing facilities and removing assets. SFAS No. 143 requires entities to record the fair value of a legal liability for an asset retirement obligation in the period it is incurred. This cost is initially capitalized and amortized over the remaining life of the asset. Once the obligation is ultimately settled, any difference between the final cost and the recorded liability is recognized as a gain or loss on disposition. SFAS No. 143 is effective for years beginning after June 15, 2002. The adoption of the provisions of SFAS No. 143 is not expected to have a material impact on the Company's results of operations, financial position, or cash flows.

3. Significant Accounting Policies (continued)

Current Accounting Pronouncements (continued)

Accounting for Costs Associated with Exit or Disposal Activities

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. This statement nullifies Emerging Issues Task Force No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)," which required that a liability for an exit cost be recognized upon the entity's commitment to an exit plan. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of the provisions of SFAS No. 146 is not expected to have a material impact on the Company's results of operations, financial position, or cash flows.

Accounting for Stock-Based Compensation

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123". SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of SFAS No. 123 to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. SFAS No. 148 also amends APB Opinion No. 28, "Interim Financial Reporting", to require disclosure about those effects in interim financial information. The amendments to SFAS No. 123 introduced in SFAS No. 148 effective for financial statements for fiscal years ending after December 15, 2002. The adoption of SFAS No. 148 did not have a material impact on the Company's results of operations, financial position, or cash flows.

Accounting for Guarantees

In November 2002, the FASB issued FASB Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". FIN No. 45 requires that upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under that guarantee. The disclosure provisions of FIN No. 45 are effective for financial statements of annual periods that end after December 15, 2002. The provisions for initial recognition and measurement are effective on a prospective basis for guarantees that are issued or modified after December 31, 2002. The adoption of the provisions of FIN No. 45 is not expected to have a material impact on the Company's results of operations, financial position or cash flows.

Consolidation of Variable Interest Entities

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities". FIN No. 46 defines the concept of "variable interests" and requires existing unconsolidated variable interest entities to be consolidated into the financial statements of their primary beneficiaries if the variable interest entities do not effectively disperse risks among the parties involved. FIN No. 46 applies immediately to variable interest entities created after January 31, 2003. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003.

3. Significant Accounting Policies (continued)

Current Accounting Pronouncements (continued)

Consolidation of Variable Interest Entities (continued)

If it is reasonably possible that an enterprise will consolidate or disclose information about a variable interest entity when FIN No. 46 becomes effective, the enterprise must disclose information about those entities in all financial statements issued after January 31, 2003. The interpretation may be applied prospectively with a cumulative-effect adjustment as of the date on which it is first applied or by restating previously issued financial statements for one or more years, with a cumulative-effect adjustment as of the beginning of the first year restated. The Company is currently analyzing whether the adoption of the provisions of FIN No. 46, and specifically possible consolidation of certain previously unconsolidated entities, will have a material impact on the Company's future results of operations, financial position, or cash flows.

Accounting for Revenue Arrangements with Multiple Deliverables

In November 2002, the FASB's EITF issued a revised consensus on Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables". In an arrangement with multiple deliverables, the EITF revised the principles and application guidance that should be used to determine (a) how the arrangement consideration should be measured, (b) whether the arrangement should be divided into separate units of accounting, and (c) how the arrangement consideration should be allocated among the separate units of accounting. Revised Issue No. 00-21 is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The Company believes that the adoption of the provisions of revised Issue No. 00-21, and specifically possible recognition of revenues upon the delivery of components of equipment rather than entire units, could have a material impact on the Company's future results of operations, financial position, or cash flows.

Reclassifications

Certain reclassifications have been made to the prior years' consolidated financial statements to conform to the 2002 presentation. Such reclassifications had no impact on net income or shareholders' equity.

4. Business Combinations

The Company's aggressive acquisitions strategy largely implemented in 2001-2002 had been driven by strategic reasons discussed below. The Company's ultimate goal from the acquisition strategy was to establish a more internationally competitive diversified industrial group able to offer integrated engineering and manufacturing solutions in the carefully selected growing segments of the knowledge-intensive machinery and equipment. Its acquisitions have been specifically focused on oil and gas equipment and shipbuilding business segments and helped the Company to consolidate its market share and competitive position in these two key segments.

Acquisition of Almaz

In March 2002, the Company acquired a 30.18% interest in Almaz for cash of $4,461. In November 2002, the Company acquired controlling interests in ZAO Almaz Center Invest and OAO Novotrast that carried investments in Almaz of 42.17% and 0.42%, respectively, for the total consideration of $10,785. As a result of the transaction, the Company's equity stake in Almaz increased to 72.77%. November 11, 2002 is considered to be the effective date of the acquisition of Almaz for consolidation purposes since from that date the Company's share in Almaz had exceeded 50%.

4. Business Combinations (continued)

Acquisition of Almaz (continued)

To determine the results of the acquisition accounted for as a purchase, net assets of Almaz were recorded at their fair values. The fair value of the Almaz plant and equipment was determined by independent appraisers as of June 20, 2001, and totaled $20,847 as of the date of the acquisition. The fair value of assets acquired and liabilities assumed were as follows as of the acquisition date:

	November 11, 2002
Cash	$ 278
Trade receivables, net	948
Due from related parties	319
Inventories	2,597
Costs and recognized income not yet billed	1,726
Taxes receivable	2,405
Prepaid expenses and advances to suppliers	1,236
Other current assets	2,671
Plant and equipment, net	20,847
Long-term investments, net	5,510
Trade payables	(5,866)
Payroll and related obligations	(87)
Deferred revenues	(621)
Deferred taxes	(1,711)
Taxes payable	(3,043)
Billings in excess of costs and recognized income	(2,841)
Other payables	(2,776)
Net assets as of the acquisition date	**$ 21,592**
Net assets acquired, 72.77%	**$ 15,712**
Consideration paid by the Parent Company	15,246
Negative goodwill	**$ (466)**
Impact of the acquisition on the consolidated statement of cash flows for the year ended December 31, 2002:	
Cash paid by the Company	$ 8,259
Less cash of Almaz	(278)
Cash flows on acquisition, net of cash acquired	**$ 7,981**

The acquisition resulted in negative goodwill of $466, which was allocated primarily against the value of plant and equipment acquired.

In addition, $6,987 of liabilities arising from the acquisition of Almaz was recorded within other payables as of December 31, 2002. Such liabilities are due in several installments over 2003.

Acquisition of UPET

Before December 31, 2001, the Company transferred $4,656 to its purchase agents to acquire a 66.66% equity interest in the Romanian drilling rigs production plant UPET. According to the terms of the transaction, the acquisition was subject to the approval by the Romanian Stock Exchange Commission. Such approval was not obtained before December 31, 2001, and the Company was not officially registered as shareholder until after June 17, 2002. June 17, 2002 is considered the effective date of the acquisition of UPET plant for financial reporting purposes.

4. Business Combinations (continued)

Acquisition of UPET (continued)

The fair value of assets acquired and liabilities assumed were as follows as of the acquisition date:

	June 17, 2002
Cash	$ 701
Trade receivables, net	3,433
Inventories	5,996
Property, plant and equipment, net	6,491
Trade payables	(4,118)
Taxes payable	(3,215)
Other payables	(959)
Net assets as of the acquisition date	**$ 8,329**
Net assets acquired, 66.66%	**$ 5,551**
Consideration paid by the Company	4,656
Negative goodwill	**$ (895)**

Impact of the acquisition on the consolidated statement of cash flows for the years ended December 31:

	2002	2001
Cash paid by the Company	**$ 1,259**	$ 3,397
Less cash of UPET	**(701)**	–
Cash flows on acquisition, net of cash acquired	**$ 558**	$ 3,397

The acquisition resulted in negative goodwill of $895, which was allocated against the value of plant and equipment acquired.

Acquisition of Friede Goldman

In 2002, the Company purchased substantially all of the assets of US-based Friede Goldman, Ltd. and Friede Goldman Halter, Inc., manufacturers and designers of sea drilling platforms that filed for bankruptcy in the United States under Chapter 11 of the US Bankruptcy laws. As of the acquisition date the Company's purchase consideration was allocated to assets acquired and liabilities assumed based on their respective fair values as follows:

Trade receivables, net	$ 518
Work-in-progress, net	815
Plant and equipment, net	323
Patents	13,640
Accounts payable	(156)
Net assets acquired	**$ 15,140**

Theses assets were then transferred to newly established entities Friede Goldman Marketing, B.V. (the Netherlands), FGL Buyer, LLC (USA), Friede Goldman United, Ltd. (USA). The Company's ownership interest in all three entities is 75%.

4. Business Combinations (continued)

Other Acquisitions in 2002

During the year ended December 31, 2002, the Company made several other acquisitions of medium-size plants, primarily in an effort to strengthen its position in shipbuilding and equipment for oil and gas industry.

In addition to UPET and specifically to defend its domestic market share in the drilling equipment segment, in 2002, the Company acquired Pavlovsk Machinery, based in the Perm Region, its principal domestic competitor for some components of oil drilling equipment.

In addition to Almaz, in 2002, the Company acquired two other shipbuilding plants - Third International, located in Astrakhan, and Nizhegorodskiy Teplokhod, based in Nizhny Novgorod. The acquisitions of Third International and Nizhegorodskiy Teplokhod were made to enable the Company to specifically position itself as the supplier of mobile offshore drilling units and post-installation services to oil companies developing operations in the Caspian Sea, and to integrate Third International in certain of the Krasnoe Sormovo manufacturing processes.

The total value of the acquired share in net assets of such entities amounted to $7,402 and was split as follows:

Acquired Subsidiaries	Ownership Interest Acquired	Consideration Paid	Share in Net Assets Acquired	Goodwill	Negative Goodwill
Nizhegorodskiy Teplokhod	55.68%	$ 1,713	$ 773	$ 940	$ –
Third International	73.93%	4,953	3,308	1,645	–
Pavlovsk Machinery	64.91%	4,270	3,034	1,236	–
ZAO Novotrast	100.00%	24	24	–	–
NPO Neftegazotekhnika	76.00%	122	203	–	(81)
OAO VPI Proektverf	54.39%	60	60	–	–
Total		$ 11,142	$ 7,402	$ 3,821	$ (81)

Negative goodwill arising from acquisitions was allocated primarily against the value of plant and equipment acquired.

As of December 31, 2002, the Company recognized goodwill impairment loss of $1,236 related to its ownership interest in Pavlovsk Machinery because of insufficient future operating cash flows. This impairment loss was recorded within the oil and gas equipment business segment.

Acquisition of Krasnoe Sormovo

In 1998, the Parent Company acquired 18.68% of Krasnoe Sormovo for cash of $2,052. Through the period from May 22, 2000 to June 23, 2000 the Parent Company acquired an additional 14.14% of shares: 4% of shares were exchanged for Pnevmostroymachina shares, with the fair value of $425, and remaining 10% of shares were purchased for $9 from OOO Novye Vozmozhnosti, a related party. The total value of the consideration paid for 32.82% of shares amounts to $2,486.

Since June 23, 2000, the investment in Krasnoe Sormovo had been accounted for under the equity method. To determine the results of the acquisition, net assets of Krasnoe Sormovo were valued at their fair values in accordance with the APB Opinion No. 18. The carrying values were assumed to approximate their fair values. The total value of the acquired share in the net assets of Krasnoe Sormovo amounted to $28,314. The acquisition resulted in negative goodwill of $25,828, which was allocated against the value of acquired plant and equipment.

4. Business Combinations (continued)

Acquisition of Krasnoe Sormovo (continued)

In December 2000, the Parent Company acquired additional 17.181% of Krasnoe Sormovo for cash of $3,078. December 19, 2000 is considered to be the effective date of the acquisition of Krasnoe Sormovo for accounting purposes since from that date the Parent Company's share in Krasnoe Sormovo had exceeded 50%. Accordingly, Krasnoe Sormovo has been treated as a subsidiary since December 19, 2000, and the results of operations have been included in the consolidated statement of income since that date.

To determine the results of the acquisition accounted for as a purchase, net assets of Krasnoe Sormovo were recorded at their fair values. The fair value of property and equipment at December 19, 2000 was presumed to approximate their carrying values. The total value of the acquired share of the net assets of Krasnoe Sormovo amounted to $13,622. The acquisition resulted in negative goodwill of $10,544, which was allocated against the value of plant and equipment acquired.

The fair value of assets acquired and liabilities assumed were as follows as of the acquisition date:

	December 19, 2000
Cash	$ 1,867
Trade receivables	1,452
Inventories, net	16,606
Taxes receivable	661
Other current assets	21,317
Long-term investments	260
Plant and equipment, net	47,567
Trade payables	(1,884)
Payroll and related obligations	(553)
Deferred revenues	(6,165)
Taxes payable	(261)
Other payables	(740)
Net assets as of the acquisition date	**$ 80,127**
Minority interest - 49.99% as of December 19, 2000	(40,064)
Share in net assets previously owned by the Parent Company, 33%	26,442
Net assets acquired	**$ 13,622**
Consideration paid by the Parent Company	3,078
Negative goodwill	**$ (10,544)**
Impact of the acquisition on the consolidated statement of cash flows for the year ended December 31, 2001:	
Cash paid by the Parent Company	$ 3,078
Less cash of Krasnoe Sormovo	(1,867)
Cash flows on acquisition, net of cash acquired	**$ 1,211**

4. Business Combinations (continued)

Acquisition of Krasnoe Sormovo (continued)

At various dates throughout 2001, the Parent Company acquired an additional 10.73% interest in Krasnoe Sormovo for cash of $2,178. The acquisition of such additional interest in Krasnoe Sormovo resulted in negative goodwill of $6,423, which was allocated against the value of plant and equipment acquired.

Acquisition of Burovaya Tekhnika

In 2000, the Parent Company acquired 45.10% of shares in Burovaya Tekhnika for consideration of $1,161. Through December 31, 2000, the investment in Burovaya Tekhnika had been accounted for under the cost method. The non-application of equity method for Burovaya Technika did not have a material impact on the Company's financial position or results of its operations in 2000.

In 2001, the Parent Company continued to acquire additional shares of Burovaya Tekhnika. By April 17, 2001, the Parent Company acquired an additional 9.99% for cash of $94 from ZAO Neftyanoi Investitsionnyi Dom, a related party, increasing its equity share to 55.09%. April 17, 2001 is considered the effective date of the acquisition of Burovaya Tekhnika for accounting purposes since from that date the Parent Company's share in Burovaya Tekhnika had exceeded 50%. Accordingly, Burovaya Tekhnika has been treated as a subsidiary since April 17, 2001, and the results of operations have been included in the consolidated statement of income since that date.

To determine the results of the acquisition accounted for as a purchase, net assets of Burovaya Tekhnika were recorded at their fair values. The fair value of property and equipment at April 17, 2001, was presumed to approximate their carrying values. As of the date of acquisition, Burovaya Tekhnika had current assets of $4,191 (including cash of $893), non-current assets of $12,465 and current liabilities of $2,131. The total value of the acquired share of the net assets of Burovaya Tekhnika amounted to $8,002. The acquisition resulted in negative goodwill of $6,747, which was allocated against the value of plant and equipment acquired. Net cash inflows on the acquisition amounted to $799, which is recorded in the consolidated statement of cash flows.

5. Cash and Cash Equivalents

Cash and cash equivalents consisted of the following as of December 31:

	2002	2001	2000
Cash in USD bank accounts	**$ 2,343**	$ 2,782	$ 2,481
Cash in RBS bank accounts	**25,838**	12,485	6,843
Cash in EUR bank accounts	**18**	–	–
Cash and cash equivalents of the Parent Company and Russian subsidiaries	**28,199**	15,267	9,324
Cash in USD bank accounts	**1,203**	–	–
Cash in EUR bank accounts	**128**	–	–
Other	**220**	–	–
Cash and cash equivalents of foreign subsidiaries	**1,551**	–	–
Total cash and cash equivalents	**$ 29,750**	$ 15,267	$ 9,324

5. Cash and Cash Equivalents (continued)

Included in cash and cash equivalents as of December 31, 2002, 2001 and 2000, are several bank accounts opened with ZAO Promtorgbank ("Promtorgbank"), a related party, in the total amount of $16,799, $10,576 and $5,492, respectively.

6. Short-Term Investments

Short-term investments consisted of the following as of December 31:

	2002	2001	2000
Corporate promissory notes	**$ 8,120**	$ 2,338	$ 23,446
Available for sale securities	–	15,083	–
Bank promissory notes	**3,519**	2,953	10,257
Bank deposits	–	2,000	17,644
Trading securities	–	–	2,019
Other	**295**	–	–
Total short-term investments	**$ 11,934**	$ 22,374	$ 53,366

Corporate Promissory Notes

Corporate promissory notes represent obligations of various Russian and foreign legal entities, primarily the Company's trade debtors, in the form of promissory notes that generally do not have an established market. They are reported net of valuation reserve.

Available for Sale Securities

Available for sale securities consisted of the following as of December 31, 2001:

	Historical Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Gazprom promissory notes	$ 16,296	$ –	$ (1,213)	$ 15,083

Since the purchase of the ruble-denominated Gazprom promissory notes in 2001, Company had designated them as available for sale marketable securities. Accordingly, the decrease in market value of Gazprom promissory notes of $1,213 was reported as unrealized holding losses in other comprehensive income in the year ended December 31, 2001. In 2002, the Company sold all its Gazprom promissory notes, for $16,454, realizing an investment gain of $158 in the 2002 consolidated statement of income.

Bank Promissory Notes

Included in bank promissory notes as of December 31, 2002, 2001 and 2000, were interest-free promissory notes issued by Alfa-Bank of $109, $1,659 and $8,523, respectively.

As of December 31, 2002, included in bank promissory notes was a Guta-Bank certificate at $3,147 par value. The Guta-Bank certificate bears interest at a rate of 16% per annum and matures on March 25, 2003.

6. Short-Term Investments (continued)

As of December 31, 2001, included in bank promissory notes were three Sberbank US dollar-denominated promissory notes, $1,068 at par value in total, that were pledged as a collateral for the $1,000 long-term loan received from Sberbank (Note 19). The Sberbank notes bore interest at a rate of 5.65% per annum, payable semi-annually.

Bank promissory notes as of December 31, 2001 and 2000, also included notes issued by Promtorgbank of $156.

Bank Deposits

Bank deposits as of December 31, 2001, represented a US dollar-denominated deposit account with Promtorgbank, bearing interest at a rate of 6% per annum and maturing on April 25, 2002. In 2002 and 2001, the Company recorded interest income of $111 and $120, respectively, on its deposit with Promtorgbank.

Bank deposits as of December 31, 2000, consisted mainly of deposits with Sberbank, a Russian government owned bank, of $16,523 with various maturity dates throughout 2001. Such bank deposits bore interest from 4.6% to 7.7% on US dollar-denominated deposits and from 10% to 13% on ruble-denominated deposits.

Trading Securities

Trading securities as of December 31, 2000, consisted mainly of Russian Federal loan bonds (“OFZ”), which were frequently traded by the Company and were stated at their quoted market value.

7. Trade Accounts Receivable

Trade accounts receivable consisted of the following as of December 31:

	2002	2001	2000
Trade accounts receivable	**$ 60,520**	$ 57,011	$ 48,759
Allowance for doubtful accounts	**(5,936)**	(8,354)	(12,747)
	$ 54,584	$ 48,657	$ 36,012
Long-term trade accounts receivable	**$ 13,508**	$ 1,906	$ –

Long-term trade accounts receivable are represented by the deferred payment that in accordance with the contract terms for the manufacturing of nuclear power plant equipment is receivable when the nuclear power plants in India, China, and Iran are launched and accepted by customers.

8. Related Party Transactions

During the three years ended December 31, 2002, the Company had transactions or balances with the following of its shareholders or companies under their control or control of, or influence by, management :

- Promtorgbank, incorporated in Russia
- OAO Industrial Group NIPEK-Bioprocess, incorporated in Russia
- ZAO Neftyanoi Investitsionnyi Dom, incorporated in Russia
- OOO Novye Vozmozhnosti, incorporated in Russia
- OOO NitsTyazhMash, incorporated in Russia
- OOO Machinery Engineering, incorporated in Russia
- ZAO AtomKomplektPostavka, incorporated in Russia
- OOO Resource, incorporated in Russia
- Speed Arrow Limited, incorporated in Cyprus
- Allbrand Services Limited, incorporated in Cyprus
- Ventor Limited, incorporated in Turks and Caicos Islands
- BioLink Technologies International, Inc. ("BioLink"), incorporated in the USA
- Lotterby Limited, incorporated in British Virgin Islands

During 2000, the Company purchased 10% of Krasnoe Sormovo shares for $9 from Novye Vozmozhnosti and 4.1% from Neftyanoi Investitsionnyi Dom for $984. It is likely that the values assigned in these transactions were different from the market prices of shares acquired.

During 2001, the Company used OOO NitsTyazhMash and OOO Machinery Engineering, registered taxpayers in the Russian Federation with certain tax holidays applicable to both entities, to generate income from securities trading and sales of certain assets. In 2001, such investment and sales income amounted to $5,236 and $1,234, respectively.

In 2001, the Company used Ventor Limited and Allbrand Services Limited to find a potential buyer for the sale of OOO Tube Works and consummate the sale transaction. The transaction fee paid to these related parties amounted to $36.

Amounts due from related parties consisted of the following as of December 31:

	2002	2001	2000
Promtorgbank	**$ 172**	$ 8,781	$ 13,361
Lotterby Limited	**1,174**	–	–
Speed Arrow Limited	–	2,688	–
OOO Resource	**857**	868	–
BioLink	**347**	–	–
Management	**20**	–	–
Other	**348**	217	–
Total due from related parties	**$ 2,918**	$ 12,554	$ 13,361

As of December 31, 2002, a receivable from Promtorgbank consisted of $172 of Promtorgbank promissory notes. As of December 31, 2001, a receivable from Promtorgbank consisted of $8,303 of Promtorgbank promissory notes, $462 of the Promtorgbank's liabilities arising from purchase of third-party promissory notes, and $16 of other receivables. As of December 31, 2000, a receivable from Promtorgbank consisted of $5,920 of short-term loans issued thereto maturing throughout 2001, and $7,441 of Promtorgbank promissory notes.

8. Related Party Transactions (continued)

In 2001, the Company recorded $675 and $170 of interest income on the Promtorgbank promissory notes and loans, respectively. In 2002, the Company recorded $119 of interest income on the Promtorgbank promissory notes.

As of December 31, 2002, the amount due from Lotterby Limited of $1,174 represented its obligations related to the Company's repayment of the Lotterby Limited's loan from Speed Arrow Limited.

OOO Resource is under the operating control of management of Izhorskiye Zavody. In 2002 and 2001, OOO Resource acted as a cash settlement agent on behalf of Izhorskiye Zavody, and as of December 31, 2002 and 2001, the amounts due from OOO Resource consisted of $857 and $868 of promissory notes, respectively, issued by the Company's debtors. In 2002, the Company discontinued using OOO Resource as collection agent but intended to use it for settlements with suppliers. As of December 31, 2002, the amount due from OOO Resource comprised of $857 for promissory notes issued by the Company's debtors.

The amount of $347 due from BioLink is represented by BioLink promissory notes maturing in 2002.

Amount due from management as of December 31, 2002, consisted of short-term loans granted by the Company to its managerial employees.

As of December 31, 2001, the amount due from Speed Arrow Limited of $2,688 represented a loan granted by United Heavy B.V. The amount was fully repaid in 2002.

Amounts due from related parties, long-term, consisted of the following as of December 31:

	2002	2001	2000
Promtorgbank – trust fund, principal	**$ 619**	$ 5,756	$ 10,899
Promtorgbank – trust fund, interest	**1,570**	1,545	1,131
Promtorgbank – long-term deposits	**–**	–	6,428
Promtorgbank – promissory notes	**40**	–	–
Other	**145**	–	–
Total due from related parties – long-term	**$ 2,374**	$ 7,301	$ 18,458

Trust fund represents cash deposited by the Parent Company in Promtorgbank for a period of 5 years starting April 5, 2000. Trust fund bears interest at a rate of 10% per annum, which is payable by Promtorgbank upon the repayment of the principal amount. In 2002 and 2001, the interest income on the trust funds amounted to $151 and $999, respectively.

As of December 31, 2002, the Company had promissory notes of $40 issued by Promtorgbank maturing in 2005.

Included in long-term receivables from Promtorgbank as of December 31, 2000, was a long-term loan issued by the Parent Company of $6,428 with the maturity date on August 3, 2003. The loan was fully repaid in February-April 2001.

8. Related Party Transactions (continued)

Current liabilities to related parties consisted mainly of loans with Promtorgbank and promissory notes issued by the Company and held by the following related parties as of December 31:

	2002	2001	2000
Promtorgbank	**$ 3,195**	$ 5,517	$ 12,064
ZAO Neftyanoi Investitsionnyi Dom	**1,675**	1,765	40
OAO Industrial Group NIPEK-Bioprocess	–	–	592
Other	**189**	215	453
Total due to related parties	**$ 5,059**	$ 7,497	$ 13,149

Included in the amount due to Promtorgbank as of December 31, 2002, were $1,353 of short-term borrowings, $1,153 and $689 for information and telecommunication services and liabilities for bank charges, respectively. The loans are denominated in rubles, bear interest from 16 to 24%, and mature in 2003. The loan of $224 was repaid on March 25, 2003. In 2002, the Company accrued interest expense of $450 on loans issued by Promtorgbank.

The amount due to Promtorgbank as of December 31, 2001, included loans of $4,158; $182 of interest accrued; $685 of liabilities for bank charges, and $492 of the Company's promissory notes. The $1,158 short-term loan was denominated in rubles, bore interest at an annual rate of 12%, and matured on July 16, 2002. The long-term $3,000 loan obtained with Promtorgbank is denominated in US dollars, bore interest at an annual rate of 5% and matured on January 8, 2003. The loan was fully repaid on May 14, 2002. Included in the amount due to Promtorgbank as of December 31, 2000, were $11,342 of short-term borrowings and the Company's promissory notes of $722. In 2001, the Company accrued $462 of interest on loans received from Promtorgbank.

Liabilities to ZAO Neftyanoi Investitsionnyi Dom as of December 31, 2002 and 2001, related to the Company's purchase of its share in OAO IMZ Ural (Note 12) through ZAO Neftyanoi Investitsionnyi Dom.

In 2001, the Company issued loans to, and borrowed funds from OOO Machinery Engineering. The interest expense and interest income on these loans amounted to $783 and $166, respectively. As of December 31, 2001, all loans were fully repaid.

9. Inventories

Inventories consisted of the following as of December 31:

	2002	2001	2000
Materials and spare parts	**$ 61,455**	$ 49,400	$ 49,289
Work-in-process	**83,633**	98,421	83,935
Finished goods	**41,163**	46,741	28,549
Total inventories, at cost	**186,251**	194,562	161,773
Reserve for obsolete inventories	**(24,515)**	(26,876)	(27,851)
Total inventories, net	**$ 161,736**	$ 167,686	$ 133,922

As of December 31, 2002 and 2001, $39,179 and $33,725 of inventories were pledged under several loan agreements, respectively (Note 16). As of December 31, 2000, $484 of raw materials was restricted for use by the St. Petersburg tax authorities.

10. Accumulated Costs and Related Billings

Percentage-of-Completion Method

Balances related to arrangements accounted for under the percentage-of-completion method consisted of the following as of December 31:

	2002	2001	2000
Costs and recognized income:			
Shipbuilding	**$ 46,827**	$ –	$ –
Nuclear power plant equipment	**4,771**	–	–
Oil and gas equipment	**2,569**	–	–
Total costs and recognized income	**54,167**	–	–
Accumulated billings or deferred revenue:			
Shipbuilding	**(46,340)**	–	–
Nuclear power plant equipment	**(18,916)**	(15,554)	–
Metallurgical equipment	**(2,334)**	(2,879)	–
Total accumulated billings or deferred revenue	**(67,590)**	(15,554)	–
Total cost and recognized income not yet billed	**$ 23,195**	$ –	$ –
Total billings in excess of costs and recognized income, short-term	**$ (23,110)**	$ (16,527)	$ –
Total billings in excess of costs and recognized income, long-term	**$ (13,508)**	$ (1,906)	$ –

As of December 31, 2002, the long-term portion of billings in excess of costs and recognized income represented deferred payments of $3,573, $9,836, and $99 under long-term construction-type contracts for the supply of nuclear power plant equipment for Iran, China, and India, respectively, that are due upon the launch of the respective power plants.

Completed Contract Method

Balances related to arrangements accounted for under the completed-contract method consisted of the following as of December 31:

	2002	2001	2000
Accumulated costs:			
Metallurgical equipment	**$ 1,712**	$ 632	$ –
Mining equipment	**776**	–	–
Oil and gas equipment	**1,660**	15,896	–
Total accumulated costs	**4,148**	16,528	–
Accumulated billings:			
Mining equipment	**(859)**	(903)	–
Metallurgical equipment	**(2,156)**	–	–
Oil and gas equipment	**(2,642)**	(21,352)	–
Total accumulated billings	**(5,657)**	(22,255)	–
Excess of accumulated billings over related costs	**$ (1,509)**	$ (5,727)	$ –

11. Property, Plant and Equipment

Property, plant and equipment consist of the following:

	Land	Buildings	Machinery and Equipment	Vehicles	Furniture and Fixtures	Equipment under Construction	Total
Net book value as of January 1, 2000	$ –	$ 107,876	$ 59,372	$ 808	$ 972	$ 9,792	$ 178,820
Additions	–	2,454	7,673	439	2,452	3,108	16,126
Disposals	–	(2,621)	(3,159)	(24)	(35)	(163)	(6,002)
Depreciation charge for the year	–	(7,894)	(11,635)	(426)	(716)	–	(20,671)
Plant and equipment of Krasnoe Sormovo acquired on December 19, 2000	–	6,269	4,723	255	5	37	11,289
Reserve for obsolete equipment under construction	–	–	–	–	–	(2,615)	(2,615)
Net book value as of December 31, 2000	–	106,084	56,974	1,052	2,678	10,159	176,947
Negative goodwill offset against plant and equipment of Krasnoe Sormovo	–	(3,560)	(2,683)	(145)	(3)	(32)	(6,423)
Plant and equipment of Burovaya Tekhnika acquired on April 17, 2001	–	3,849	1,735	88	37	9	5,718
Additions	–	5,027	14,890	533	2,000	7,967	30,417
Disposals	–	(832)	(3,198)	(32)	(207)	–	(4,269)
Depreciation charge for the year	–	(8,940)	(11,285)	(565)	(1,315)	–	(22,105)
Reserve for obsolete equipment under construction	–	–	–	–	–	(2,284)	(2,284)
Net book value as of December 31, 2001	–	101,628	56,433	931	3,190	15,819	178,001
Property, plant and equipment of new subsidiaries, net of effect of allocation of negative goodwill	3,067	22,523	6,968	253	638	2,430	35,879
Additions	–	2,887	11,407	113	4,072	738	19,217
Disposals	(450)	(2,680)	(1,058)	(220)	(177)	(1,623)	(6,208)
Depreciation charge for the year	–	(9,069)	(13,143)	(479)	(2,497)	–	(25,188)
Release from reserve for obsolete equipment under construction	–	–	–	–	–	594	594
Impairment loss	–	(831)	(105)	–	–	–	(936)
Net book value as of December 31, 2002	**$2,617**	**$ 114,458**	**$ 60,502**	**$ 598**	**$ 5,226**	**$ 17,958**	**$ 201,359**

The Company's plant and equipment of $37,771, $11,865 and $5,126 was pledged for the short-term and long-term bank loans as of December 31, 2002, 2001, and 2000, respectively.

Accumulated depreciation amounted to $93,504, $73,024, and $52,049 as of December 31, 2002, 2001, and 2000, respectively.

11. Property, Plant and Equipment (continued)

Following the requirements of SFAS 144, in 2002 the Company evaluated recoverability of carrying value of plant and equipment for its newly acquired subsidiaries and other operating entities where impairment indicators were present. As a result, the Company recognized an impairment loss related to certain production assets of Krasnoe Sormovo previously involved in the manufacturing of consumer goods which was discontinued in the year ended December 31, 2002, of $936.

12. Long-Term Investments

Long-term investments consisted of the following as of December 31:

	2002		**2001**		**2000**	
	% of ownership	**Amount**	**% of ownership**	**Amount**	**% of ownership**	**Amount**
Promtorgbank	**14.9%**	**$ 6,775**	2.8%	$ 2,116	–	$ –
UPET	–	–	–	3,397	–	–
OAO CKB Korall	**30.4%**	**1,956**	–	–	–	–
OAO IMZ Ural	**19.0%**	**1,830**	19.0%	1,830	19.0%	1,830
Burovaya Tekhnika	–	–	–	–	45.1%	1,161
BioLink	**0.6%**	**670**	–	–	–	–
Nizhegorodskiy Teplokhod	–	–	18.4%	639	–	–
ZAO Transkat	**15.0%**	**480**	15.0%	480	15.0%	3,004
OAO Shipbuilding Plant Lotos	**6.3%**	**277**	–	–	–	–
Ural Motorbikes Plant	**19.5%**	**270**	19.5%	270	–	–
OAO Volgograd Plant of Burovaya Tekhnika	**2.0%**	**238**	2.0%	238	3.2%	235
OAO CKB Lazurit	**32.7%**	**200**	–	–	–	–
AOZT Russian Company of Shelf Development	**0.8%**	**121**	0.8%	121	0.8%	121
OOO AMT Stealth	–	–	–	319	–	–
Other	–	**11**	–	2,106	–	2,137
Total long-term investments		**$ 12,828**		$ 11,516	–	$ 8,488

In 2001, the Company acquired 67,085 shares of Promtorgbank's common stock from Promtorgbank, a related party, representing 2.79% of ownership interest therein. In 2002, the Company acquired additional 290,277 shares of Promtorgbank common stock as part of the acquisition of Almaz (Note 4). As of December 31, 2002, such shares were recorded net of valuation reserve for other than temporary decline in value of $3,480. In addition, valuation allowance of $844 was made in respect of Promtorgbank shares acquired prior to December 31, 2001, and recorded as part of investment loss in the year ended December 31, 2002.

Before December 31, 2001, the Company transferred $3,397 to its unaffiliated purchase agents to acquire a controlling interest in the Romanian drilling rigs production plant UPET. According to the terms of the transaction, the acquisition was subject to the approval by the Romanian Stock Exchange Commission. Such approval was not obtained before June 18, 2002. Prior to that date, the investment in UPET was recorded at cost. By June 18, 2002, the Company completed its acquisition of 7,884,736 shares of common stock of UPET. Accordingly, UPET has been accounted for under the full-consolidation method since that date (Note 4).

12. Long-Term Investments (continued)

In April 2002, the Company acquired 603,169 shares of OAO CKB Korall, a Ukrainian-based naval engineering and construction bureau specializing in engineering of complex mobile offshore drilling units for cash of $1,956.

As of December 31, 2002, 2001 and 2000, the Company owned a 19% interest in OAO IMZ Ural, a manufacturer of motorcycles. The investment was valued at cost.

In 2002, the Company purchased 100,000 of ordinary shares of BioLink, a security technology provider specializing in the development, manufacturing and marketing of advanced fingerprint biometric products, based in Florida, USA, representing an ownership interest of 0.6%, for cash of $670 from Speed Arrow, related party. Subsequent to December 31, 2002, the Company increased its ownership in BioLink to 32.7%.

In 2001, the Company purchased an 18.39% stake in Nizhegorodskiy Teplokhod for cash of $639. By June 20, 2002, the Company acquired additional 122,400 shares of common and 15,735 shares of preferred stock of Nizhegorodskiy Teplokhod, increasing its ownership interest therein to 55.8%. Subsequent to June 20, 2002, Nizhegorodskiy Teplokhod has been accounted for under the full-consolidation method.

By April 17, 2001, the Company completed its acquisition of additional 314,026 shares of common and 1,134,708 shares of preferred stock of Burovaya Tekhnika. During the period from January 1, 2001 through April 17, 2001, before the Company's stake in Burovaya Tekhnika reached 55.09%, its investment therein was accounted using the equity method. Subsequent to April 17, 2001, Burovaya Tekhnika has been accounted for under the full-consolidation method.

In 2001, the Company recorded a permanent reduction in value of its long-term investments in ZAO Transkat, OOO Blackline and certain other companies. The loss of $4,447 was recognized in its 2001 consolidated statement of income. During 2001, Izhorskiye Zavody transferred to Promtorgbank certain of its long-term investments, predominantly in ZAO Transkat of $480, into a trust fund for total amount of $495.

No information was available on the fair values of the Company's investments in Promtorgbank, OAO IMZ Ural and other entities as of December 31, 2002, 2001 and 2000. The non-application of equity method for Burovaya Technika in 2000 and certain minor equity investments included in the "Other" line did not have a material impact on the Company's financial position or results of its operations.

13. Advances Received and Deferred Revenue

Customer advances and deferred revenues consisted of the following as of December 31:

	2002	2001	2000
ZAO Atomstroyexport	**$ 40,648**	$ 18,214	$ 24,310
Kremikovitsi (government financing)	–	34,939	34,939
OAO Surgutneftegaz	–	24,322	35,393
RN-Leasing	**9,651**	–	–
Itochu Corporation (Japan)	**5,902**	1,950	–
OAO Tyumen Oil Company	**2,937**	–	–
OOO Gazresourse	**2,421**	4,713	–
OAO Magnitogorsk Iron Works	**2,358**	–	–
OAO Sibneft	**961**	8,125	2,519
ZAO Yukos-Service	–	7,198	–
NTC Energonasos ZKBM	–	4,160	3,082
OAO Rosneft	–	2,964	–
OOO Oil Service Leasing Company	–	2,957	–
OAO Severstal	–	2,375	–
Nizhniy-Tagil Iron Works (NTMK)	**688**	725	5,080
Newsproject	–	–	4,777
OAO Slavneft	–	–	3,541
Other	**25,573**	29,754	67,186
Total advances received and deferred revenue	**$ 91,139**	$ 142,396	$ 180,827

In 1999, the Company entered into several agreements related to the construction of Liang Yung Gang nuclear power plant in China for the total amount of $134,902. In 2002, the Company entered into a long-term agreement related to the construction of Kudan-Kulam nuclear power plant in India for the total amount of $285,761. Most of such long-term agreements were conducted with Atomstroyexport ("ASE"), which acts as general contractor for all construction projects at nuclear power plants conducted by the Russian Federation in foreign countries. Accordingly, ASE has been providing the Company with significant advance financing under the above long-term construction-type contracts to supply equipment for the respective nuclear power plants.

In 1994, Uralmash and Kremikovitsi (Bulgaria) signed an agreement for deliveries of metallurgical equipment for the total amount of $52,000, which are affected as redemption of a debt of the Russian Federation to the Republic of Bulgaria. The Ministry of Finance of the Russian Federation compensated 70% of the total contract price to Uralmash, retaining the remaining 30%. In 1997, the financing ceased due to disagreements between the parties. Through December 31, 2001 and 2000, the Ministry of Finance had paid $34,939. The remaining balance to be paid was $1,464. As of December 31, 2001 and 2000, all work-in-progress inventories related to this agreement had been fully reserved.

The Company has conducted regular negotiations with the representatives of the governments of Russia and Bulgaria. The parties agreed to reconsider the terms of the agreement. No ultimate resolution of the issue has been achieved as of December 31, 2001. The amount paid by the Ministry of Finance of the Russian Federation was treated as deferred revenue as of December 31, 2001 and 2000.

In 2002, the Russian and Bulgarian governments reached a formal agreement, whereby (i) Kremikovitsi officially confirmed its refusal to accept delivery, and (ii) the Russian inter-governmental debt to Bulgaria was forgiven to the extent of the contract price of the underlying equipment. As a result of this agreement, Uralmash was allowed to utilize the equipment produced for its own use. The Company obtained appropriate documentation from the Ministry of Finance of the Russian Federation releasing it from any obligations to return financing to the Russian government. Due to the fact that the equipment was previously written off, the Company recognized a non-operating gain on release from government financing of $34,939 reduced by disposal costs of $742.

14. Income Taxes

On August 5, 2000, the Profits tax law was amended to allow local authorities to increase the statutory tax rate by up to 5%. On November 29, 2000, the authorities of Moscow enacted an increase in the statutory tax rate from 30% to 35% effective January 1, 2001. Similar acts were passed by the other cities where the Company's subsidiaries are located. Effective January 1, 2002, the Russian Federation profit tax rate was reduced to 24%. This change was enacted in August 2001 and taken into account when computing tax effects of temporary differences as of December 31, 2001.

The income tax provision consisted of the following for the years ended December 31:

	2002	2001	2000
Current tax expense	**$ 4,310**	$ 7,326	$ 2,137
Deferred tax expense (benefit)	**5,825**	(5,952)	1,390
	$ 10,135	$ 1,374	$ 3,527

The reconciliation between the income tax expense computed by applying the Russian enacted statutory tax rates (24%, 35%, and 30% in 2002, 2001 and 2000, respectively, except for Izhorskiye Zavody, for which 29% was applied in 2001) to the income before income taxes presented in the accompanying consolidated financial statements to the income tax expense reported in the consolidated financial statements is as follows:

	2002	**2001**	**2000**
Income tax expense computed on income before income taxes at statutory tax rates	**$ 15,606**	$ 1,895	$ 1,530
Tax effect of permanent differences:			
Effect of foreign exchange differences	**(1,077)**	(2,951)	(4,303)
Non-deductible expenses	**979**	2,452	1,275
Non-deductible provisions	**4**	5,319	5,244
Disallowed loss from equity investments	**–**	–	550
Other non-taxable income	**–**	(2,973)	–
Capital investment and other deductions	**(1,078)**	(7,841)	–
Effect of exchange rate differences in translation of expenses	**2,451**	5,997	5,359
Non-taxable gain on sale of non-core business units	**(130)**	(1,589)	(4,397)
Non-taxable gain on release from tax penalties	**(5,932)**	(1,510)	(4,485)
Non-taxable gain on release of government financing	**(8,207)**	–	–
Other permanent differences	**2,568**	(483)	3,009
Effect of changes in tax rate	**–**	4,882	(4,139)
Temporary differences not recognized as measured by the change in the valuation allowance during the year	**4,951**	(1,824)	3,884
Income tax expense reported in the accompanying consolidated financial statements	**$ 10,135**	$ 1,374	$ 3,527

14. Income Taxes (continued)

As of the acquisition dates (November 11 and 25, 2002), deferred tax liabilities of Almaz and Pavlovsk Machinery amounted to $1,711 and $68, respectively. As of those dates, valuation allowance at Almaz and Pavlovsk Machinery for deferred tax assets amounted to $835 and $212, respectively.

As of the acquisition date (June 20, 2002), deferred tax asset of Nizhegorodskiy Teplokhod amounted to $70, net of valuation allowance of $889. As of the acquisition date (April 17, 2001), deferred tax assets of Burovaya Tekhnika amounted to $0, net of valuation allowance of $419. As of the acquisition date (December 19, 2000), deferred tax assets of Krasnoe Sormovo amounted to $0, net of valuation allowance of $548.

The deferred tax balances were calculated by applying the statutory tax rates (24%, 24%, and 35% as of December 31, 2002, 2001, and 2000, respectively) in effect at the balance sheet dates to the temporary differences between the tax basis of assets and liabilities. The amounts reported in the accompanying consolidated financial statements are comprised of the following as of December 31:

	2002	2001	2000
Deferred tax assets current:			
Revenue deferrals under long-term contracts	**$ 4,915**	$ 5,469	$ –
Deductible inventory provisions	**3,777**	4,986	–
Other accruals and provisions	**7,691**	–	–
Total deferred tax assets – current	**16,383**	10,455	–
Deferred tax liabilities – current:			
Inventories expensed for tax purposes	**(7,281)**	–	–
Revenue taxed on cash basis	**–**	(2,438)	(2,938)
Revenue accruals under percentage-of-completion method	**(1,264)**	–	–
Other	**(761)**	(18)	–
Total deferred tax liabilities – current	**(9,306)**	(2,456)	(2,938)
Valuation allowance for deferred tax assets	**(10,591)**	(4,949)	–
Net deferred tax assets – current	**$ –**	$ 3,393	$ –
Net deferred tax liabilities – current	**$ (3,514)**	$ (343)	$ (2,938)
Deferred tax assets non – current:			
Property, plant and equipment	**$ 1,125**	$ 372	$ 299
Available loss carry-forwards	**2,598**	184	1,715
Other	**–**	2,528	7,843
Total deferred tax assets – non-current	**3,723**	3,084	9,857
Deferred tax liabilities – non-current:			
Difference in depreciation	**(1,431)**	(36)	–
Interest accruals on trust fund	**(395)**	(395)	(395)
Total deferred tax liabilities – non-current	**(1,826)**	(431)	(395)
Valuation allowance for deferred tax assets	**(3,368)**	(3,084)	(9,857)
Net deferred tax assets – non-current	**$ –**	$ –	–
Net deferred tax liabilities – non-current	**$ (1,471)**	$ (431)	$ (395)

14. Income Taxes (continued)

For financial reporting purposes, a valuation allowance has been recognized to reflect management's estimate of the deferred tax assets that are not likely to be realized.

Net statutory operating loss incurred by Izhorskiye Zavody in 1998 can be carried forward five years and expires December 2003. Net statutory operating losses incurred by Specstal, Krasnoe Sormovo, and Nizhegorodskiy Teplokhod in 2002 amounting cumulatively to $8,579 can be carried forward ten years and expire in 2012.

15. Taxes Payable

Taxes payable consisted of the following as of December 31:

	2002	2001	2000
VAT	**$ 24,120**	$ 27,376	$ 28,644
Tax penalties	**14,986**	26,575	31,652
Unified social tax	**8,164**	11,066	13,437
Unified social tax penalties	**5,812**	15,572	13,375
Income tax	**6,131**	2,978	1,624
Road-users' tax	**4,910**	8,317	7,596
Personal income tax	**1,847**	2,045	3,085
Assets tax	**1,565**	1,860	2,404
Other taxes	**1,603**	1,233	2,201
Total taxes payable	**69,138**	97,022	104,018
Less long-term portion	**(33,236)**	(49,732)	(24,968)
Taxes payable, current portion	**$ 35,902**	$ 47,290	$ 79,050

Tax Restructuring

Uralmash

On September 18, 2000, Uralmash signed a restructuring agreement with the state and local budgets and non-budget funds to repay its overdue taxes of $14,985 during the period of 2001-2010, and tax penalties of $9,074 during the period of 2001-2010. During 2001, Uralmash signed additional restructuring agreements with the state and local budgets to repay its overdue tax penalties of $2,216 during the same period. These restructured tax obligations bear interest at one tenth of the refinancing rate (which was approximately 28% per annum as of the restructuring date).

During 2002, Uralmash signed two restructuring agreements with non-budget funds (i) for repayment of its overdue road-users' tax of $2,993 during the period of 2002-2006 and related penalties of $1,670 during the period of 2006-2010, and (ii) for repayment of 15% (or $848) of the total penalties accrued for social taxes of $5,655 during the period of 2003-2006. In accordance with the restructuring agreement the remaining 85% of the social taxes penalties will be fully forgiven by the government if Uralmash continue to make its payments under the restructuring agreements on time.

Through December 31, 2002, 2001, and 2000, Uralmash paid $2,700, $4,473, and $538 of overdue taxes, respectively.

15. Taxes Payable (continued)

Izhorskiye Zavody

On March 10, 2000, Izhorskiye Zavody signed a restructuring agreement with the state budget to repay its overdue taxes of $4,074 during the period of 2000 - 2006, and tax penalties of $3,515 during the period of 2006 - 2010. These restructured tax obligations bear interest of one tenth of the CBR refinancing rate (which was approximately 55% per annum as of the restructuring date).

Through December 31, 2002, 2001, and 2000, Izhorskiye Zavody paid $3,015, $801, and $417 of overdue taxes, respectively.

On December 27, 2001, Izhorskiye Zavody signed another restructuring agreement with the state social non-budget funds to repay its overdue social taxes and related penalties of $30,345 during the period of 2002-2006, net of $6,718 reversal of pension fund penalties.

In 2002, $21,675 of the restructured penalties were forgiven and $3,015 of the restructured taxes and penalties were repaid. As of December 31, 2002, Izhorskiye Zavody had $8,692 of remaining restructured taxes and tax penalties.

UPET

As of December 31, 2002, UPET had $1,883 of taxes and related tax penalties restructured by the Ministry of Public Finance of Romania over the period through August 2006. Such restructured tax obligations bear interest at 0.06% per day. In addition, in case UPET does not comply with established schedule of payments it will become subject to additional accruals of $747 that had previously been forgiven by the Romanian tax authorities.

Other Subsidiaries

As of December 31, 2002, Pavlovsk Machinery, Nizhegorodskiy Teplokhod, and certain other Russian subsidiaries acquired over 2002 had $2,137 of remaining taxes and related tax penalties restructured under similar conditions as those applied to Uralmash and Izhorskiye Zavody over the period of 2002-2009.

Pursuant to the statutory legislation on restructuring, the above tax penalties might be fully or partially forgiven by the government if the subsidiaries make their payments under the restructuring agreements ahead of the schedule above, as follows: 50% of the penalties will be forgiven if the subsidiaries repay 50% of the principal due within two years; and the entire amount of penalties due will be forgiven if the subsidiaries repay 100% of the principal due within four years.

Aggregate maturities of taxes payable as of December 31, 2002, were as follows:

2003	$ **35,902**
2004	**5,505**
2005	**5,463**
2006	**9,886**
2007	**3,614**
2008	**3,207**
2009	**3,208**
Thereafter	**2,353**
	$ **69,138**

16. Short-Term Borrowings

Short-term borrowings consist of the following as of December 31:

	2002		2001		2000	
	Annual rate	**Amount**	**Annual rate**	**Amount**	**Annual rate**	**Amount**
Alfa-Bank	**12.5-14.0%**	**$ 8,960**	14.0%	$ 9,451	14.0-16.0%	$ 6,000
Raiffeisen Bank	**6.5%**	**6,017**	–	–	–	–
Promstroibank	**12.5-13.0%**	**4,013**	–	–	–	–
Nizhegorodskiy PromstroiBank	**10.5%**	**606**	–	–	–	–
Konversbank	**–**	**–**	14.8%	5,942	–	–
Bank Petrovsky	**–**	**–**	14.0-14.5%	3,437	–	–
Avtobank	**–**	**–**	14.0%	1,700	–	–
Gazprombank	**–**	**–**	9.0-9.8%	1,019	–	–
Probusinessbank	**–**	**–**	–	–	28.0%	5,327
Short-term borrowings in USD		**19,596**		21,549		11,327
Sberbank	**18.0%**	**24,466**	17.0-20.0%	5,318	–	–
Gazprombank	**18.0%**	**3,146**	–	–	–	–
Vneshtorgbank	**18.0%**	**2,370**	18.0%	2,322	–	–
Alfa-Bank	**21.8%**	**1,894**	18.5%	2,322	–	–
Nizhegorodskiy PromstroiBank	**15.5%**	**852**	–	–	–	–
Short-term borrowings in RBS		**32,728**		9,962		–
BCR (Romania), Romanian lei	**32.0-55.0%**	**604**	–	–	–	–
Other		**401**		472		591
Total short-term borrowings		**$ 53,329**		$ 31,983		$ 11,918

As of December 31, 2002, Alfa-Bank loans were secured by the Company's finished goods with carrying amount of $9,743. As of December 31, 2001, such loans were secured by plant and equipment with book amount of $5,844.

As of December 31, 2002 and 2001, Alfa-Bank loans received by Izhorskiye Zavody for $7,397 and $9,451, respectively, were secured by the guarantee of ASE (one of the Company's major customers). Based on the agreement with ASE, a portion of advances for future deliveries is effected through the arrangement of loans to the Company, that are guaranteed by ASE. The Company repays the loan upon the receipt of the payment for delivered equipment. Interest expense incurred in respect to such transactions was included in total contract price with ASE.

As of December 31, 2002, Alfa-Bank loans received by KomplektAtomIzhora for $1,563 were secured by the guarantees of ASE and Izhorskiye Zavody.

16. Short-Term Borrowings (continued)

As of December 31, 2002, Alfa-Bank loans received by Specstal for $1,894 were secured by the guarantees of OAO OMZ and Izhorskiye Zavody.

Loans received from Sberbank as of December 31, 2002 and 2001, were secured by the Company's plant and equipment with net book value of $21,498 and $5,150, and finished goods with carrying amount of $13,889 and $7,649, respectively.

As of December 31, 2002, Gazprombank loans were secured by the Company's plant and equipment with carrying amount of $7,027, of which $3,715 were also pledged under Sberbank loans. As of December 31, 2001, Gazprombank loans were pledged by finished goods with carrying amount of $4,609.

As of December 31, 2002 and 2001, Vneshtorgbank loans were secured by finished goods with carrying amount of $6,055 and $4,916, respectively.

As of December 31, 2002, Promstroibank loans were secured by finished goods with carrying amount of $2,693.

As of December 31, 2002, loans received from Nizhegorodskiy Promstroybank were secured by plant and equipment and inventory with carrying amount of $507 and $6,416, respectively.

As of December 31, 2001, Konversbank loans were secured by plant and equipment and inventories with carrying amount of $871 and $6,236, respectively. As of that date loans obtained from Bank Petrovsky and Avtobank were secured by inventories of $8,166 and $2,149, respectively.

As of December 31, 2002, a loan received from Raiffeisen Bank was secured by the Company's common stock with market value of $14,140 and guaranteed by OMZAR.

17. Non-Convertible Bonds

On April 12, 2001, the Company issued 280,000 bonds (First Tranche) with a nominal value of 1000 rubles per bond. The bonds mature 720 days from the issuance date. Izhorskiye Zavody acted as a guarantor for the total amount of $11,982 for the repayment of principal and coupons of the First Tranche. The entire bond issue was purchased by OOO Russian Funds, an underwriter, for $9,596, net of issuance costs of $93. The bonds bear interest at a constant rate of 18% per annum with the interest payable semi-annually. By December 31, 2002, the Company repurchased 149,614 of these bonds, of which 109,788 were purchased in 2001, worth $3,462 at par value, and were acquired in 2001 for a token cash consideration of $360, and the assets of OOO Tube Works (Note 20). By December 31, 2002, 39,826 additional bonds were purchased from third parties for $1,370. On April 2, 2003, the First Tranche was fully redeemed.

On September 6, 2001, the Company issued 390,000 bonds (Second Tranche) with a nominal value of 1,000 rubles per bond. The bonds mature 900 days from the issuance date. The entire bond issue was sold at an action, for $13,227, net of issuance costs of $16. The bonds bear interest at a variable rate determined by the Board of Directors with the interest payable semi-annually. The coupons bear interest as follows: the first coupon - 20.85%, the second - 20.50%, the third - 18.10%, the fourth – 16.50 % and the fifth – 16.50% per annum, respectively.

17. Non -Convertible Bonds (continued)

On October 4, 2001, the Company issued 390,000 bonds (Third Tranche) with a nominal value of 1000 rubles per bond. The bonds mature 900 days from the issuance date. The entire bond issue was sold on an action for $13,213, net of issuance costs of $16. The bonds bear interest at a variable rate determined by the Board of Directors with the interest payable semi-annually. The coupons bear interest as follows: the first coupon - 20.85%, the second - 20.15%, the third - 18.50%, the fourth – 14.00%. On March 7, 2003, the Company issued an irrevocable offer for early redemption of the Third Tranche in full amount that may be exercised by holders during September 3-9, 2003, at par value plus accrued coupon. By December 31, 2001, the Company repurchased 161,191 of these bonds and subsequently resold them to third parties at market value.

Uralmash acted as a guarantor for the total amount of $24,544 for the repayment of the principal of the Second and the Third Tranches.

The bonds of the First, Second and Third Tranches are traded on MICEX and the Russian Trading System (“RTS”) Stock Exchange. The holders of the Company’s non-convertible bonds are not entitled to any additional rights or preferences.

Aggregate maturities of non-convertible bonds as of December 31, 2002, are as follows: 2003 - $4,102, and 2004 - $24,544.

As of December 31, 2002 and 2001, $1,484 and $1,333 of interest accrued on bonds held by third parties were included in other accounts payable and accruals, respectively. During the years ended December 31, 2002 and 2001, the total interest expense under three tranches of non-convertible bonds held by third parties was $6,224 and $2,233, respectively.

18. Long-Term Accounts Payable

Long-term accounts payable consisted of the following as of December 31:

	2002	**2001**	**2000**
Lentransgaz	**$ 409**	$ 3,769	$ 5,597
Peregrine	**956**	–	–
Other	**57**	–	–
Total long-term accounts payable	**1,422**	3,769	5,597
Less current portion	**(409)**	(1,271)	(2,042)
Accounts payable, non-current	**$ 1,013**	$ 2,498	$ 3,555

As of December 31, 1999, Izhorskiye Zavody had notes payable to Lentransgaz of $9,594 for the supplies of gas. As part of the restructuring plan, Izhorskiye Zavody signed restructuring agreements with Lentransgaz to repay its accounts payable in installments through 2003. The notes are ruble-denominated and interest-free. $6,667 of such notes are payable through supplies of finished goods manufactured by Izhorskiye Zavody through December 31, 2003, with the remaining balance payable in cash over the same period. In 2002 and 2001, the Company repaid $3,251 and $1,508 to Lentransgaz, respectively.

19. Long-Term Debt

Long-term debt consists of the following as of December 31:

	2002	2001	2000
ING-Bank N.V.	**$ 30,000**	$ –	$ –
Rurkela (Ministry of Finance)	**2,639**	2,639	2,639
Bhilai (Ministry of Finance)	**1,312**	1,312	1,312
Uraltransportbank	**859**	–	–
Alfa-Bank	**677**	–	–
Sberbank	–	1,000	–
Other	**232**	762	–
Total long-term debt	**35,719**	5,713	3,951
Less current portion	**(3,248)**	(3,255)	(2,544)
Long-term debt, non-current	**$ 32,471**	$ 2,458	$ 1,407

In November 2002, the Parent Company obtained an unsecured $30,000 loan from the London branch of ING-Bank N.V. The loan bears interest at a rate of 11.25% per annum, payable semi-annually. The principal of the loan is repayable on November 11, 2004.

In April 2002, Uralmash obtained a Euro-denominated loan from Uraltransportbank for the purchase of foreign metallurgical equipment. The loan bears interest at a rate of 7.25% per annum and is payable on April 1, 2005. The loan is secured by the underlying foreign equipment.

In May 1993, Uralmash obtained a loan from the Ministry of Finance of the Russian Federation for delivery of equipment for the plant in Rurkela, India under an agreement between Uralmash and Steel Authority of India, Ltd. The loan bears interest at a rate of 10% per annum. The repayment of the loan should be effected in full by July 2005. The loan is secured by the rights to receive payments under an agreement between Uralmash and Steel Authority of India, Ltd. on delivery of equipment to Rurkela Metallurgical Plant in India. The Ministry of Finance can withhold from the Uralmash bank accounts the amount of indebtedness, or the Company's assets in the outstanding amount.

In November 1993, Uralmash obtained a loan from the Ministry of Finance of the Russian Federation for delivery of equipment to Bhilai Metallurgical Plant in India. The loan bears interest at a rate of 12% per annum. The repayment of the loan was to be effected in full by April 1995. Due to this fact the outstanding balance is shown as current portion of long-term debt. The loan is secured by the rights to receive payments under an agreement between Uralmash and Tyazhpromexport on delivery of equipment to Bhilai Metallurgical Plant. The Ministry of Finance of the Russian Federation can withhold from the Uralmash account the amount of indebtedness, or the Company's assets in the outstanding amount. No action has been taken by the Ministry of Finance of the Russian Federation to obtain immediate repayment.

19. Long-Term Debt (continued)

In 2001, Krasnoe Sormovo obtained a US dollar-denominated loan from the Volgo-Vyatsky branch of Sberbank of $1,000. The loan bears interest at a rate of 1.5% per annum during the period from November 16, 2001 to January 25, 2003, and at a rate of 15% per annum for the period from January 25, 2003 through the repayment date (March 25, 2003). The loan is secured by US dollar-denominated promissory notes of Sberbank of $1,068 at par value (Note 6). In 2002 the loan was fully repaid.

As of December 31, 2002 and 2001, other long-term debt consisted primarily of a long-term liability for the rent of land of Izhorskiye Zavody and long-term promissory notes issued.

Aggregate maturities of long-term debt as of December 31, 2002, are as follows:

2003	**$ 3,248**
2004	**30,583**
2005	**353**
2006	**1,535**
	$ 35,719

20. Minority Interest

As of December 31, 1999	$ 165,551
Acquisition of Krasnoe Sormovo	40,281
Minority interest in net income of subsidiaries	1,234
As of December 31, 2000	207,066
Acquisition of Burovaya Tekhnika	6,523
Acquisition of additional share in Krasnoe Sormovo	(8,601)
Acquisition of additional share in Izhorskiye Zavody	(1,318)
Minority interest in net losses of subsidiaries	(1,970)
As of December 31, 2001	201,700
Acquisition of subsidiaries during 2002:	
Almaz	**5,880**
Pavlovsk Machinery	**1,640**
UPET	**2,777**
Third International	**1,167**
Nizhegorodskiy Teplokhod	**572**
Other	**96**
Minority interest in subsidiaries incorporated during 2002:	
OOO OMZ Sibir	**953**
Other	**27**
Acquisition of additional share in Krasnoe Sormovo	**(12)**
Disposal of 19% share in Uralmash-Tovary	**358**
Minority interest in net income of subsidiaries	**14,719**
As of December 31, 2002	**$ 229,877**

21. Shareholders' Deficiency

Common and Cumulative Preferred Stock

The Company's original charter provided for 2,830,000 shares of authorized 100-ruble par value common stock. Subsequently, the Board of Directors has authorized the issue of additional charter capital of 9,420,000 shares of common stock in April 1997, 2,750,000 shares of cumulative preferred stock in May 1997, and 4,500,000 shares of common stock in June 1997. On May 27, 1998, the Company additionally issued 18,600,000 shares of common stock with par value of 0.1 ruble. All newly issued stock was used by the Company for acquisition of its subsidiaries (Note 4) or transferred to related parties, ZAO Neftyanoi Investitsionnyi Dom and OOO Novye Vozmozhnosti, at par value with an option to re-acquire them at par value in the future.

The shares of cumulative preferred stock do not have a voting right, except for certain issues pertaining to the liquidation or reorganization of the Company or changes in the charter documents, earn dividends at 12% per annum, and have a liquidation value of 0.1 ruble per share.

In August 2000, the Company additionally authorized 30,000,000 shares of common stock for future issuances. As of December 31, 2000, the Company's authorized charter capital consisted of 66,250,000 shares of common stock and 2,750,000 shares of cumulative preferred stock with par value of 0.1 ruble per share, of which 35,350,000 and 2,750,000, respectively, were issued and outstanding at that date.

In February 1998, the Company's shareholders converted 12.2% of shares of its common stock to Global Depositary Receipts and American Depositary Receipts for trading on international stock markets. As of December 31, 2002, 2001 and 2000, Global and American Depositary Receipts amounted to 7,475,251 (23.83% of shares of its common stock), 8,259,752 (26.33% of shares of its common stock) and 8,157,133 (23.08% shares of common stock), respectively.

Treasury Stock

In December 2001, the Company re-acquired 4,424,718 shares of its common stock at a price of 0.1 ruble per share from ZAO Neftyanoi Investitsionnyi Dom and OOO Novye Vozmozhnosti, both related parties. Such repurchase of treasury stock was made under the stock option agreement that had been concluded by the parties in 1998, when these related parties acquired the Company's common stock at similar prices.

In December 2001, 450,000 shares of the treasury stock were sold to the Company's management at a price of 0.27 ruble per share. As of the dates of such sale, the Company's common stock was quoted at \$4.00 per share. The Company recognized management compensation expense of \$1,800 in its consolidated statement of income being the fair value of the common stock given with a corresponding increase in additional paid-in capital.

As of December 31, 2002 and 2001, 3,974,718 shares of the Company's common stock remained in treasury stock (nil in 2000). The fair value of such treasury shares as of December 31, 2002, using the RTS stock quote as of that date, was \$23,252.

21. Shareholders' Deficiency (continued)

Stock Awards

In December 2002, the Company's Board of Directors approved a plan to distribute 442,500 shares of treasury stock to top managerial employees at a price of 10 cents per share as compensation for their services during the period of 2000 - 2002.

As of December 31, 2002, the Company's common stock was quoted at $5.80 per share. The Company recognized management compensation expense of $2,522 in its 2002 consolidated statement of income. No treasury stock was distributed through December 31, 2002.

In December 2002, the Company's Board of Directors approved an executive stock option plan for its top executives for the period of 2003 - 2005, to become effective on January 1, 2003. The Plan provides for 4,000,000 shares of the Company's common stock to be vested over the period of three years. Full vesting is conditional on the Company's share price reaching $11 over the period of three years ended December 31, 2005.

Additional Paid-In Capital

Additional paid-in capital was formed mainly in 1997-98 as a result of the issuance of the Company's common and cumulative preferred stock at prices in excess of par value or as a consideration for the acquisition of controlling stakes in Uralmash, ZSMK and Izhorskiye Zavody. As described above, $1,800 of additional paid-in capital originated in 2001 from the re-issuance of the Company's common stock to management as the consideration for the past services.

Distribution of Statutory Earnings

In accordance with Russian legislation, the Company can distribute all profits as dividends or transfer them to reserves. Dividends may only be declared from accumulated undistributed and unreserved earnings as shown in the Russian statutory financial statements. Dividends are subject to a 6% withholding tax, which can be reduced or eliminated if paid to foreign owners under certain applicable double tax treaties.

22. Gain on Sale of Non-Core Business Units

As part of its on-going restructuring, effective 2000, the Company has started to dispose of certain of its non-core business units.

In April 2000, Izhorskiye Zavody sold a unique Mill 5000 facility, at carrying value of $5,274, to Severstal plant for $19,930.

In April 2001, the Company transferred certain tube production equipment of $1,561 at net book value as a 100% capital contribution to a newly organized legal entity, OOO Tube Works. In June 2001, the Company sold these production facilities to a third party for a total consideration of $6,100 paid in cash, various corporate promissory notes and the Company's non-convertible bonds (Note 15). The Company realized a gain of $4,539 on this sale.

23. Gain on Release from Tax Penalties

Prior to September 1, 1999, Izhorskiye Zavody recorded a $15,594 accrual related to tax penalties in respect to road-users' tax and pension funds levied by the St. Petersburg tax authorities.

In the course of 2000, various clarifications from regulatory bodies confirmed that the additional social fund accruals assessed by the tax authorities had been levied in violation of the then current tax and pension fund laws. Whereas Part One of the Tax Code of the Russian Federation, which covered the period under dispute (from January 1 through August 18, 1999), confirmed the Company's position, Izhorskiye Zavody filed an appeal with the St. Petersburg Arbitration Court. In 2000, Izhorskiye Zavody also filed an appeal in regards to the penalties on road-users' tax of $3,780.

The decision of the St. Petersburg Arbitration Court of May 28, 2001, ruled that the Company be released from the accrued pension fund penalties. In addition, during the period from April 28, 2001 to May 24, 2001, the St. Petersburg Arbitration Court passed several verdicts in the Company's favor and released it from penalties for non-timely payment of road-users' tax. Consequently, in the year ended December 31, 2000, the Company reversed contingent loss accruals made in 1999 of $11,172 and $3,780 on the release from pension fund and road-users' tax penalties, respectively.

In October 2001, following further court hearings, Izhorskiye Zavody recorded an $11,667 accrual related to tax penalties for the non-payment of its contributions to the pension fund in 1998, which was treated as a change in an accounting estimate. Subsequent to December 31, 2001, the decision of the North-West Federal Arbitration Court of June 14, 2002, ruled that the Company be released from $6,718 of such accrued pension fund penalties. Therefore, the accrual of additional pension fund penalties during the year ended December 31, 2001, was recorded net of a reversal of a portion of such penalties, in the amount of $4,949 in the consolidated statement of income.

In April 2002, the Government of the Russian Federation issued Decree No. 251 in accordance with which all entities that had been involved in the production of military equipment under governmental defense orders in 1994 – 1999 became entitled to full forgiveness of penalties accrued through January 1, 2002.

Accordingly, in 2002, Izhorskiye Zavody recognized a gain on release from tax penalties of $23,647, of which $21,675 was previously covered by restructuring agreements and $1,982 related to non-restructured penalties accrued by non-budget funds.

In addition, in 2001, following decisions of several court hearings, the Company reversed tax penalties recorded in 2000 and prior years regarding delayed payments of personal income tax in the amount of $4,313.

24. Provision for Tax Penalties

Provision for tax penalties in the year ended December 31, 2002, consisted of penalties assessed by the St. Petersburg, Nizhny Novgorod, and Romanian tax authorities for the non-timely payment of the following taxes: $714 – VAT, $523 – unified social tax or similar taxes, $491 – road-users' tax, $243 – corporate profits tax, $15 – other taxes.

In addition to pension fund penalties of $4,949 as discussed in Note 3, provision for tax penalties in the year ended December 31, 2001, consisted of penalties assessed by the Ekaterinburg and St. Petersburg tax authorities for the Uralmash and Izhorskiye Zavody non-timely payment of the following taxes: $1,721 - road-users' tax, $1,693 - VAT, $1,326 - unified social tax or similar taxes, $622 – personal income taxes, $924 – other taxes.

24. Provision for Tax Penalties (continued)

Provision for tax penalties in the year ended December 31, 2000, consisted of penalties assessed by the St. Petersburg tax authorities for the Izhorskiye Zavody non-timely payment of the following taxes: $2,460 - personal income tax, $1,748 – unified social tax or similar taxes, $1,242 – VAT, $1,334 – road-users' tax and $1,215 – other taxes.

25. Commitments and Contingencies

Tax Optimization

The Company uses a number of methods to reduce or minimize its tax obligations, including transfer of its profits offshore or to domestic tax havens. This resulted in significant tax savings to the Company in 2001 and prior years. There is a risk that certain tax optimization transactions may be challenged by authorities and result in significant penalties and other liabilities, or the opportunities to execute such transactions may cease.

Management believes that the Company will continue to manage and adapt to any amendments or new regulations, which may impact upon current business practice and operations to avoid any material adverse effect.

Economic and Political Environment in Russia

The Russian economy while deemed to be of market status beginning in 2002, continues to display certain traits consistent with that of a market in transition. These characteristics have in the past included higher than normal historic inflation, lack of liquidity in the capital markets, and the existence of currency controls, which cause the national currency to be illiquid outside of Russia. The continued success and stability of the Russian economy will be significantly impacted by the government's continued actions with regard to supervisory, legal, and economic reforms.

As of December 31, 2002, the Company does not believe that any material matters exist relating to the developing markets and evolving fiscal and regulatory environment in Russia, including current pending or future governmental claims and demands, which would require adjustment to the accompanying consolidated financial statements for those statements not to be misleading.

The Company may be subject to loss contingencies pursuant to Russian national and regional environmental claims that may arise from past and current operations. As Russian laws and regulations evolve concerning environmental assessments and cleanups, the Company may incur future costs, the amount of which is currently indeterminable due to such factors as the current state of the Russian regulatory process, the ultimate determination of responsible parties associated with these costs and the Russian government's assessment of respective parties' ability to pay for these costs related to environmental reclamation.

The Company's operations and financial position will continue to be affected by Russian political developments including the application of existing and future legislation and tax regulations. The likelihood of such occurrences and their effect on the Company could have a significant impact on the Company's ability to continue operations. The Company does not believe that these contingencies as related to its operations, are any more significant than those of similar enterprises in Russia.

26. Segment Information

The Company has six reportable operating segments. These segments are combinations of business units that have separate management teams and offer different products and services. A brief description of each segment is as follows:

Oil and gas equipment segment produces three major types of drilling equipment, specifically oil and gas drilling rigs, drilling rig units and components and drilling rig spare parts and related services. Drilling equipment is manufactured at Uralmash, ZSMK, Burovaya Tekhnika, Krasnoe Sormovo, Pavlovsk Machinery and UPET. One of the new Company's subsidiaries, FGL Buyer, is specializing in naval architecture and marine engineering in the offshore drilling industry.

Metallurgical equipment segment specializes in equipment for all consecutive stages of ore processing and metal production. The product range includes sintering machines, burning kilns, blast furnace equipment, continuous casting machines, rolling-mill equipment, forging, and molding equipment. The major production sites for metallurgical equipment are Uralmash and Izhorskiye Zavody.

Mining equipment segment engineers and manufactures three major types of mining equipment: excavators (electric mining excavators and walking draglines), crushing equipment, and rock-drilling machines. Mining equipment is produced at Uralmash and Izhorskiye Zavody.

Specialty steel segment produces 150 specialty steel grades and a variety of castings and forgings. The Company produces high-strength structural grades, corrosion-resistant, radiation-resistant, heat-resistant, cold-resistant, non-magnetic and high-alloyed grades of steel. Standard types of casting, forging, and molding production include retaining rings for power generating equipment, chill mould blanks, bearing ring blanks, column equipment, ship spindles, mill rolls, tank courses, as well as similar custom-made metal products. A significant part of the basic metal production is used internally as an input for metallurgical equipment, equipment for nuclear power plants, mining equipment, and drilling equipment. Specialty steels are manufactured primarily at Uralmash, Izhorskiye Zavody and Krasnoe Sormovo.

Nuclear power plant equipment segment production is based at Izhorskiye Zavody and produces three major types of equipment for the nuclear power industry:

- Primary circuit equipment for nuclear power plants. A standard set of primary circuit equipment produced by the Company comprises of a reactor vessel, in-vessel components, and a cover with extending pipes.
- Spent nuclear fuel containers for nuclear power blocks. The Company manufactures containers for storage and transportation of spent nuclear fuel from pressurized water reactors and scientific nuclear reactors.
- A wide range of spare parts.

In addition, the segment provides services for installation of nuclear power plants equipment and project management of long-term contracts for construction of nuclear power plants.

Shipbuilding segment designs and manufactures a wide range of civil, military, and special-purpose vessels. The Company's current product range includes dry-cargo carriers with deadweight of up to 6,000 tons and oil tankers with deadweight of up to 8,000 tons. Shipbuilding production is located at Krasnoe Sormovo, Nizhegorodskiy Teplokhod, Third International, and Almaz.

All remaining activities are included in "Corporate and Other" category for reporting purposes.

26. Segment Information (continued)

All six segments meet the criteria set for reportable segments. The Company evaluates performance and allocates resources based on gross margin. Intersegment turnover is shown at market-based prices, at a gross margin of 23%, 26% and 1% in the years ended December 31, 2002, 2001 and 2000, respectively. Management believes that the utilization of profit (loss) from operations has limited usefulness as it involves significant judgment in allocating overhead costs because of the Company's complex operating structure. Selling, general, and administrative expenses and indirect production costs were allocated among business segments in the same proportion as direct costs.

A significant part of plant and equipment at the Company's major production facilities, specifically Uralmash and Izhorskiye Zavody, may be used, and is actually used, for various business segments depending on available production capacity and customers' orders. In addition, significant quantities of raw materials could also be used for different business segments. Such multi-purpose plant and equipment and inventories totaled $137,134, $156,065, and $163,396 as of December 31, 2002, 2001 and 2000, respectively. The depreciation charge for such plant and equipment was allocated to business segments in proportion to man-work hours charged to segments.

Segment information for 2002:

	Oil and gas equipment	**Metallurgical equipment**	**Mining equipment**	**Specialty steels**	**Equipment for nuclear power plants**	**Ship-building**	**Other**	**Total**
Revenues from external customers	**$ 141,327**	**47,836**	**37,818**	**46,425**	**74,266**	**46,470**	**41,241**	**$ 435,383**
Intersegment revenues	**$ –**	**–**	**–**	**58,216**	**–**	**–**	**–**	**$ 58,216**
Gross margin	**$ 30,507**	**16,982**	**7,599**	**14,390**	**24,262**	**6,728**	**(4,150)**	**$ 96,318**
Gross margin, %	**22%**	**36%**	**20%**	**14%**	**33%**	**14%**	**-10%**	**22%**
Depreciation and amortization	**$ 8,053**	**2,089**	**1,397**	**3,025**	**1,918**	**1,038**	**7,670**	**$ 25,190**
Income (loss) from operations	**$ (1,935)**	**16,723**	**1,167**	**6,818**	**13,390**	**777**	**(16,330)**	**$ 20,610**
Interest expense	**$ 143**	**62**	**–**	**46**	**–**	**223**	**11,616**	**$ 12,090**
Segment assets	**$ 75,833**	**23,722**	**34,554**	**62,938**	**66,830**	**86,899**	**241,756**	**$ 592,532**
Capital expenditures	**$ 1,908**	**4,214**	**–**	**715**	**–**	**1,495**	**14,449**	**$ 22,781**

Segment information for 2001:

	Oil and gas equipment	**Metallurgical equipment**	**Mining equipment**	**Specialty steels**	**Equipment for nuclear power plants**	**Ship-building**	**Other**	**Total**
Revenues from external customers	$ 45,835	47,553	36,493	57,163	58,709	18,557	48,806	$ 313,116
Intersegment revenues	$ –	–	–	81,265	–	–	–	$ 81,265
Gross margin	$ 6,658	8,733	4,932	29,007	6,977	(3,619)	10,539	$ 63,227
Gross margin, %	15%	18%	14%	21%	12%	-20%	22%	20%
Depreciation and amortization	$ 4,441	3,503	2,375	6,525	1,985	650	3,081	$ 22,560
Income (loss) from operations	$ (7,028)	(2,189)	(1,862)	17,141	(2,816)	(2,153)	(179)	$ 914
Interest expense	$ –	265	–	–	–	–	8,043	$ 8,308
Segment assets	$ 77,492	27,776	26,943	53,663	54,941	29,102	264,046	$ 533,963
Capital expenditures	$ 6,800	1,091	–	7,578	230	786	19,650	$ 36,135

26. Segment Information (continued)

Segment information for 2000:

	Oil and gas equipment	Metallurgical equipment	Mining equipment	Specialty steels	Equipment for nuclear power plants	Ship-building	Other	Total
Revenues from external customers	$ 19,479	53,927	33,992	62,755	23,592	–	47,279	$ 241,024
Intersegment revenues	$ –	–	–	89,930	–	–	–	$ 89,930
Gross margin	$ (4,607)	13,929	5,854	1,364	6,069	–	(2,628)	$ 19,981
Gross margin, %	-24%	26%	17%	1%	26%	–	-6%	8%
Depreciation and amortization	$ 2,501	3,825	1,877	9,544	1,064	–	1,861	$ 20,672
Income (loss) from operations	$ (12,721)	2,516	(1,053)	(9,795)	3,276	–	(14,007)	$ (31,784)
Interest expense	$ –	230	–	–	–	–	1,109	$ 1,339
Segment assets	$ 23,820	18,608	27,258	54,956	28,631	35,062	317,371	$ 505,706
Capital expenditures	$ –	13	259	991	38	11,289	14,825	$ 27,415

In addition to the segment-based accountability, the Company has developed an internal measurement system to evaluate performance and to drive continuous improvement by subsidiary. This measurement system, which is not based on US GAAP, is intended to motivate desired behavior of executive-level employees and drive performance, and specifically achieve cost reduction. This information used for internal purposes varies significantly from the Company's consolidated, externally reported information resulting in substantial reconciling items.

The Company sells its products in several markets. External sales by major geographic region were as follows:

	2002	2001	2000
Russia	**$ 280,036**	$ 231,313	$ 200,524
Asia	**84,763**	50,298	22,300
Commonwealth of Independent States	**24,705**	16,309	6,300
Europe	**39,389**	15,092	11,600
North America	**4,204**	–	–
Other regions	**2,286**	104	300
Total sales	**$ 435,383**	$ 313,116	$ 241,024

27. Subsequent Events (unaudited)

In March 2003, the Parent Company issued 900,000 corporate bonds (Fourth Tranche) with a nominal value of 1000 rubles per bond. The entire bond issue was sold at an auction for $28,200, net of issuance costs of $290, in the domestic market. The bonds have a 6-year maturity, pay semiannual coupons, and feature an auction rate re-set mechanism. The bonds are redeemable at the option of holders on the 18th and 42nd month, at par. The initial coupon rate was set at 13%.

27. Subsequent Events (unaudited)

On January 8, 2003, the Parent Company purchased 19.998% of the common stock of ZAO Atomenergoexport ("AEE"), which represent 40.8% of the outstanding common stock, for the total consideration of $4,858. AEE is engaged in the export of nuclear power plant equipment and services, and owns 49% of the issued shares of ASE, one of the largest EPIC (engineering, procurement, installation, commissioning) contractors in the nuclear equipment industry, with 9% of the ASE issued common stock being held as treasury. Since its foundation in 1973, ASE has constructed 29 generation blocks for nuclear power plant stations. ASE is the Company's largest individual client handling all sales of the Company's nuclear power plant equipment abroad. AEE and ASE currently specialize in providing turnkey solutions for nuclear power plant stations, including current construction of stations in Iran, China, and India (with a total contract price approximating $4,500,000), as well as certain minor projects in Bulgaria and Slovakia. Management believes that this investment represents an important step in the Company's strategy to position itself as a major player on the growing market for nuclear power plant equipment. The Company has not completed its assessment of the impact of the acquisition of AEE and ASE on its financial position and results of its operations.

In January 2003, the Parent Company acquired a controlling 50.94% interest in OAO Zarubezhenergoproekt, a research and development institute specializing in engineering and new technology development for both nuclear and traditional energy generation plants, for $1,100.

In January 2003, the Company acquired 32.7% of the outstanding common stock of BioLink through Lotterby, a related party, for a total cash consideration of $3,517.

In May 2003, the Company acquired 50% plus ten shares of the outstanding common stock of Volgograd Shipbuilding Plant, which specializes in the manufacturing of river-sea vessels as well as other equipment for the oil and gas industry, for a total cash consideration of $4,500.

In May 2003, the Severstalmash group of companies, machine-building division of Severstal Group, entered into an agreement to acquire the Company's metallurgical equipment business. According to the agreement Severstalmash will make use of the sales organization and the engineering expertise of the Company's metallurgical equipment segment and also acquire the right to use the corresponding trademarks. The deal does not entail the transfer of the Company's production facilities to Severstalmash, and the latter is expected to continue placing its orders for metallurgical equipment as well as spare parts at those facilities. The parties agreed to postpone the disclose of certain details of the sale, including price, until after the completion of the transaction, which is expected to occur by early August 2003.

On November 25, 2002, the AICPA International Practices Task Force concluded that, effective January 1, 2003, Russia should cease being considered a highly inflationary economy for purposes of FAS 52, "Foreign Currency Translation". The Company is currently evaluating the impact the pronouncement will have on future financial statements.

In 2003, the Company obtained a $10,000 ruble-denominated loan from Sberbank. The loan bears interest at a rate of 18% per annum and payable by November 24, 2003. The loan is secured by inventories of Izhorskiye Zavody and is guaranteed by the Parent Company.

On April 9, 2003, Krasnoe Sormovo received the first advance for the construction of a diesel submarine from Rosoboronexport of $38,506. According to the contractual terms, this advance was secured by Vneshtorgbank promissory notes with comparable book value purchased by the Company and deposited with Vneshtorgbank. The Company financed the acquisition of the Vneshtorgbank promissory notes through long-term borrowings from Vneshtorgbank of $37,000.