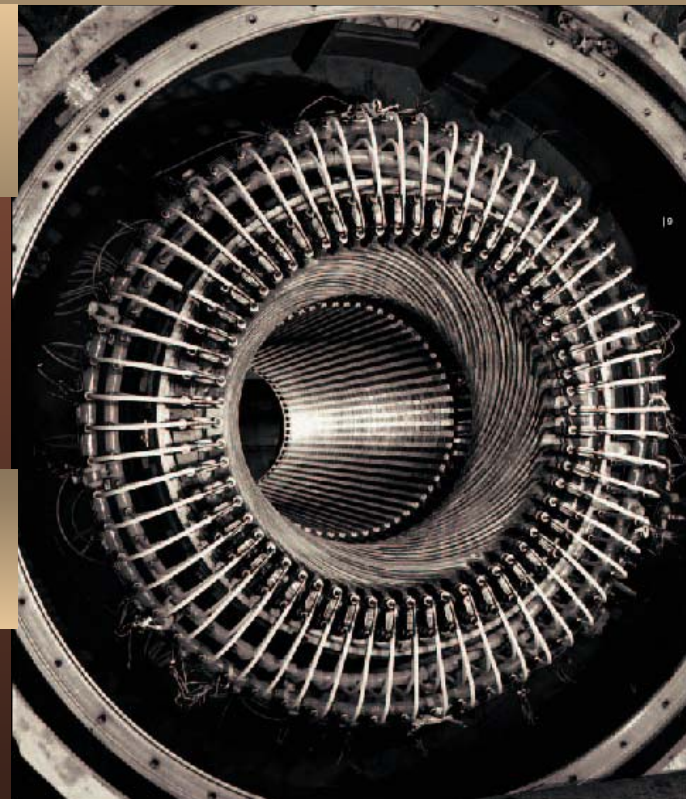




# OMZ-PM: FUTURE VISION

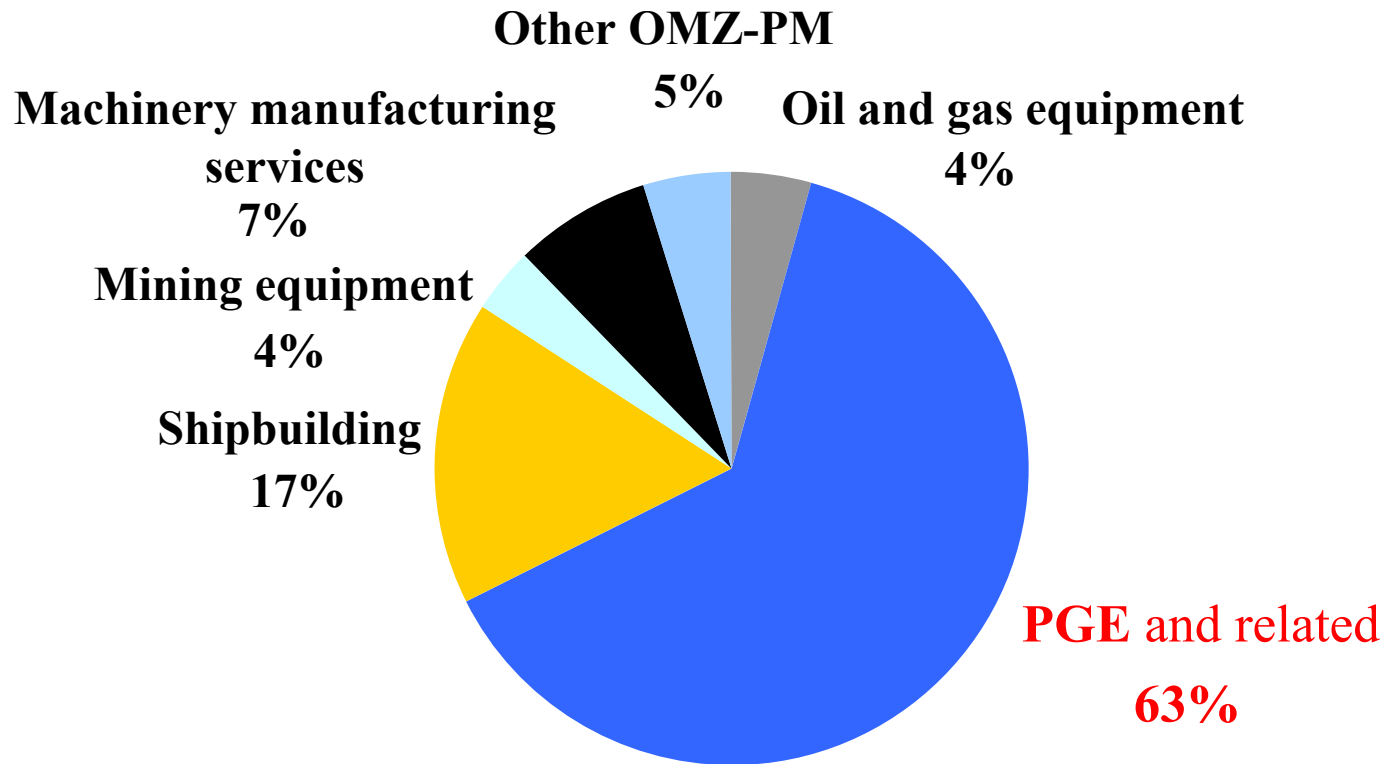
*E.K. Yakovlev presentation to Board  
Members, April 2004*



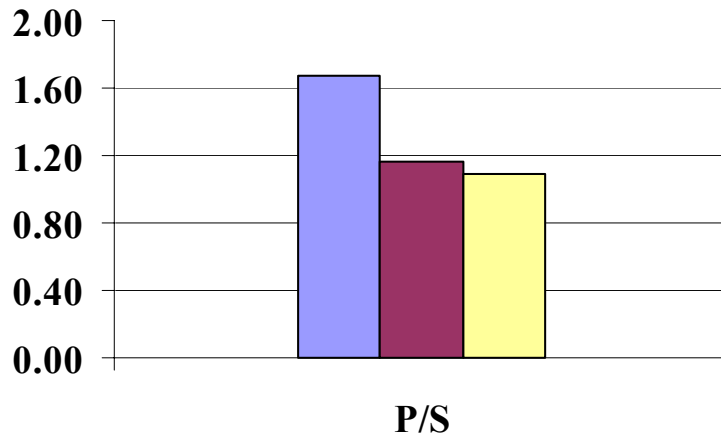
**The key rationale of the merger is to create a big company in order to improve liquidity of shares, to obtain financing at more favorable terms, to increase competitive power and improve position on the global market**

# OMZ – PM: sales breakdown after merger

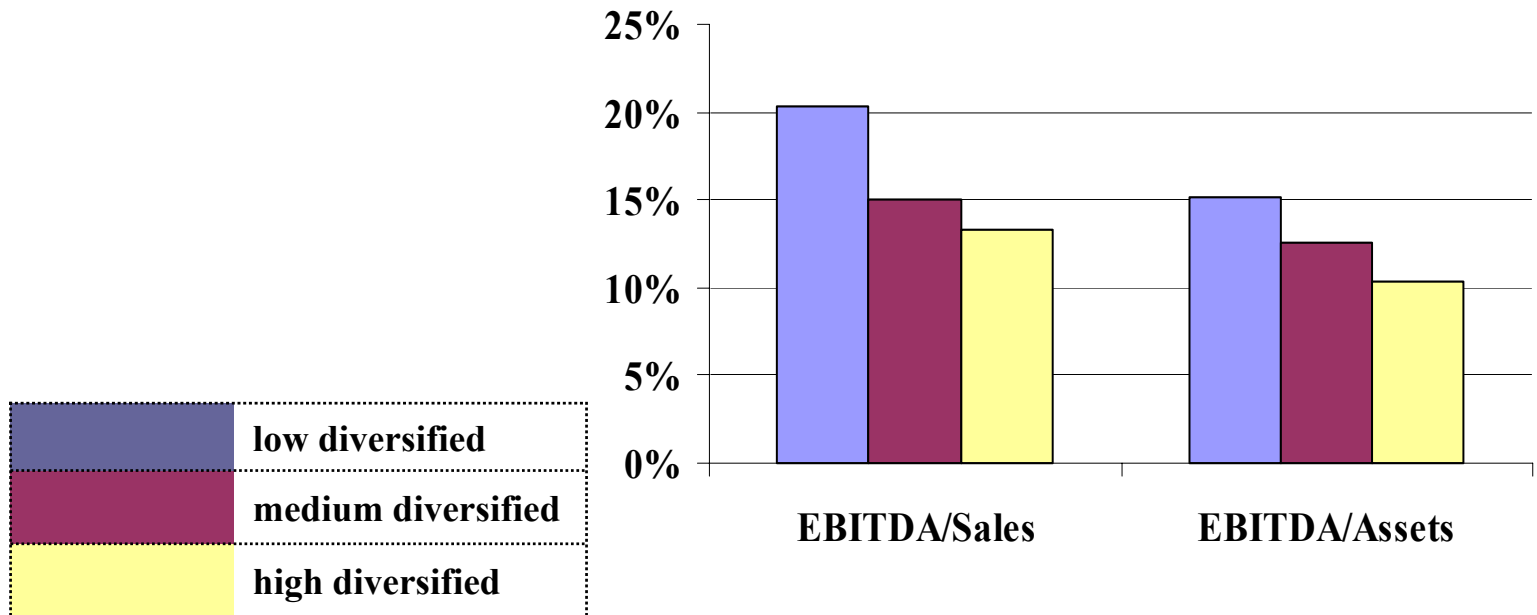
## 2004 Breakdown of Sales (Budget)



# OMZ-PM: focusing on key business



Restructuring experience of companies world-wide proved that specialization improves effectiveness by 50%



# OMZ – PM: focusing on PGE

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**The merger will result in combining  
OMZ-PM complementary power  
generation equipment (PGE)  
business lines and becoming a global  
supplier of power generation  
solutions including engineering,  
production and after-sales service**

# Why merger: market trends

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## High barriers to market entry:

- *Small number of global players dominating the world market with 3 major players controlling about 35-40% of the market*
- *Capital-, labour- and R&D-intensive nature of PGE business*
- *Fierce competition and high level of concentration*

**Becoming a truly global PGE manufacturer is only possible through M&A activity**

# Why merger: market growth prospects

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## Global market

- *Electricity consumption is expected to grow by 2.4% pa in 2002-2025*
- *PGE market is estimated at \$100-120 bn in 2002-2025*

## Russian market

- *Electricity consumption growth in 2002-2020 will average 1.7% pa*
- *PGE market is estimated at \$ 4.5 bn pa in 2004-2010 and \$10.5 bn pa in 2011-2020*
- *The market is expected to boom after energy market liberalization in 2007*
- *60% of capacity is more than 20 years old - requires modernization and replacement*

# Why merger: synergies

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**The merger will bring the following synergies:**

- ✓ *improved efficiency of capital expenditures*
- ✓ *improved efficiency of R&D investments*
- ✓ *development of new technologies*
- ✓ *more favorable terms of financing*
- ✓ *optimizing the use of production sites in St. Petersburg*
- ✓ *reduction of overhead administrative costs*



# Why merger: opportunities

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- ✓ *Concentrate on one key business segment*
- ✓ *Improving competitiveness of product line, extend product range with new competitive products*
- ✓ *Strengthen position in key markets and win new product and geographical segments*
- ✓ *Ability to provide comprehensive solutions for power generation plants*

# OMZ-PM: strengths

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- ✓ *Technological leadership in certain important areas*
  - **Producer of the most powerful steam turbine (1,200 MW) in the world**
  - **Turbine efficiency rates are on a par with major producers – Siemens, GE and Alstom**
  - **In turbo and hydro generators competes well with the top three global companies**
  - **Development of nuclear light water reactors of high capacity (1,500 GW)**
- ✓ *Price competitiveness: 15-20% cost advantage over western competitors*
- ✓ *Strong recognition in key markets, such as Russia and Asia/Middle East*

# OMZ – PM: market position

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## Installed base:

- ✓ 10 % of the global installed base of turbines and generators (MW)
- ✓ 70% of the installed turbines in the CIS (units)
- ✓ 80% of the installed generators in the CIS (units)
- ✓ 11% of all nuclear blocks in operation globally are equipped with OMZ-PM reactors

## Market share:

- ✓ 95% of the market for power generation machinery in the CIS (\$)
- ✓ #2 among emerging markets PGE players (\$)
- ✓ 28% of all primary circuits for nuclear reactors currently under construction worldwide

# OMZ-PM further development: divestitures

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**OMZ has already spin-off a number of non-key  
businesses and assets**

## Major spin-offs

- ✓ Rolling mill- 5000
- ✓ Seamless pipe manufacturing complex
- ✓ Metallurgical equipment engineering business
- ✓ ZSMK – welded metal constructions
- ✓ Avtokomplekt – muffler manufacturing
- ✓ Izoterm – convector manufacturing
- ✓ Heavy machinery and electric equipment maintenance shop (of Uralmash)

## Other spin-offs

- ✓ Transportation services of Izhora and Uralmash
- ✓ Auxiliary services
- ✓ Social services

**OMZ-PM strategy of focusing on PGE would imply  
further divestitures**

# Ways of divestiture

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- ✓ Spin-off
- ✓ Quasi spin-off
- ✓ Management buyout
- ✓ Free-floating of subsidiaries
- ✓ Splitting and sale in parts
- ✓ Sale of assets

**Way of divestiture for certain business is subject to its special features: structure, size, level of diversification, market position, complexity level of activities**

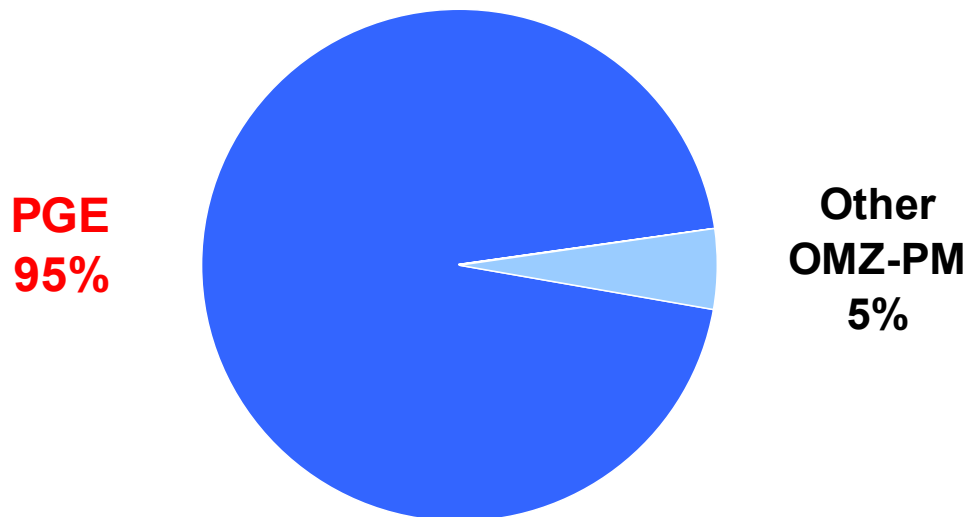
## Acquiring PGE-related businesses:

- ✓ *Skoda Steel and Skoda JS*
- ✓ *Kaluga Turbine Works*
- ✓ *Turboatom (Kharkov)*
- ✓ *Engineering, research and development scientific institutes*

# OMZ-PM: next stage

## Estimation of sales breakdown after:

- ✓ *non-core businesses spin-off*
- ✓ *acquiring PGE-related businesses (Skoda)*
- ✓ *specializing of machinery manufacturing services to PGE-related services*





# OMZ-PM: FUTURE VISION

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Members, April 2004*

