

**ZEiM**

**annual report 2003**



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*Our challenge is to reach a level of the Company of an international class, conducting its business according to the universally accepted business standards of the world.*

**Nenad Popovich**

**Dear shareholders!**

Considering the results of operation of ZEIM last year, it is possible to state with a full responsibility, that the Company fulfilled all its obligations both to shareholders and employees. Highest possible openness, responsibility and taking into account wishes and needs of a customer - our major objective. Our activity in the market of manufacturing a hi-tech equipment proves accuracy of Strategy and Mission of the company.

Modernization, introduction of new technologies, re-orientation to offering of complex solutions for our customers - all these allowed our Company within a number of years to achieve a high level of economic indices and thus to secure for the enterprise a leading position among manufacturers of complexes of means for automation of technological processes.

The Company holds a steady position on the internal market and it is also growing internationally as to its activity.

The results of our operation in 2003 are rather impressive. Compared to 2002 the Company increased its output by 36,7%. The proceeds from sales of products and services increased by 43%, the balance profit went up by 47%. In 2004 the Company plans to gain its balance income 91% more.

For stable development of the Company it is important that the interests of all the related parties, participating in formation of the final result of its operation - the personnel and manager, shareholders, suppliers, clients and a company itself – be observed. Following the interests of all the parties, participating in formation of the resulting operation of the company, - shareholders, managers, the personnel, suppliers, clients and a company as a whole - allows us to develop consistently.

We strive to balance economic, charitable, social and ecological aspects of our business, following the standard principles of corporate management. Top managers of the company jointly with the Board of directors achieved significant results in the use of principles of corporate management in order to increase transparency and its overall performance. It also became the reason for its high operational indices. The Board of Directors is grateful to employees of the Company for their professionalism and dedication to our common goals. It is very important for us that people feel themselves an integral part of a big team, try to show their initiative, observing mutual respect and trust.

Favorable changes in our economy create good opportunities for a further growth of the Company. Improvement of business-processes, skillfulness to quickly and effectively react to constant changes in the market, development of new markets, exact planning of investments are the main principles of the Company for the next year which will determine our thinking and our actions, directed to achievement of a long-term business success.

With the best regards,  
Chairman of the Board of Directors  
Nenad Popovich

*Our factory develops dynamically – this is a result of joint work of managers and all the personnel of the company.*

**Stanislav Lyapunov**



**Dear clients, partners, shareholders!**

Managers of the company would like to inform you that we are satisfied with how our business has been developing. The last year, 2003 was the best as to the results of our work within the last 10 years!

Summarizing our operation in a financial year always means evaluation of the chosen strategies of development and our ability to implement them.

Performance of tasks of development proceeded through improvement of quality of relations with clients and partners, as well as improvement of professionalism of the personnel.

Due to consecutive and persistent fulfillment of the tasks in view, the Company accumulates its productive and intellectual potential, it creates a sound basis for competitiveness of its business.

Based on MRPII, the processes of control of the resources function steadily, productive capacities are renewed and optimized consistently, a high share of the new equipment is maintained in sales.

The Russian market has more and more demand in providing service for the products, manufactured by the Company. Having been aware of such tendencies, in 2003 the Company continued developing a business unit «Service». In order to protect its clients the Company has repeatedly stated for the public at large about a complex of measures, taken to protect its consumers from forged products. The attitude of the company evoked a good response: from active support of diligent commodity producers, up to open counteraction of falsifiers.

Enhancing culture of corporate management, the Company has consistently carried its activity, taking into account expectations of shareholders, managers and the personnel.

A business plan of the Company for 2004 is focused on further increase of its potential and allows the managers to confidently resolve the tasks in view in the interests of shareholders and the Company.

With the best regards,  
General director  
Stanislav Lyapunov



## Bodies of management and control

### The Board of Directors

#### **Nenad Popovich**

Doctor of economic sciences, Chairman of the Board of Directors of ZEIM, chairman of the Board of Directors of the Joint-Stock Company "The Russian electrical engineering" ("RUSEL"), chairman of Board of the Charity Fund "Slavyansky".

#### **Stanislav Lyapunov**

Doctor of economy and management, general director of ZEIM, general director of "RUSEL", Chairman of the Board of Directors of companies "VNIIR", "ZEIM-LINE".

#### **Vladimir Kovalev**

Minister of power economy, housing and communal services of the Chuvash Republic, chairman of the Republican power commission of the Cabinet of Ministers of the Chuvash Republic, head of Directorate for implementation of the program of reforming a control system of public finances in the Chuvash Republic.

#### **Alexander Stukushin**

Director in charge of investments for ZEIM, member of the Board of Directors of "RUSEL", as well as its partner companies; director in charge of investments and development of "RUSEL".

#### **Georg Solovyev**

General director, member of the Board of Directors of the "ZEIM-LINE" company.

#### **Sergey Biryukov**

Director in charge of legal issues and those of corporate management of "RUSEL", as well as its partner companies; chairman of the Board of Guardians of the Charity Fund "Slavyansky"

#### **Alexander Gorelov**

Financial director of "VNIIR" company.

### Managing Board

**Stanislav Lyapunov** – general director

**Dmitry Lyapunov** – executive director

**Tatyana Selivanova** – chief accountant

**Sergey Ganin** – director in charge of quality

**Galina Lyukshina** – director of the personnel

**Nina Egorova** – technical director of the product

**Leonid Kuz'min** – technical director of fixed assets

**Vladimir Borodulin** – director of the division of electronics

**Natalia Guseva** – chief of department of strategic planning and forecasting

**Svetlana Lobanova** – chief of investment and financial department

**Vadim Sirotkin** – deputy commercial director of sales

### Revision committee

**Tatyana Tsvetkova** – shareholder, manager of quality of ZEIM

**Elena Kuznetsova** – financial inspector of ZEIM

**Tatyana Shevchenko** – leading expert of the financial group "RUSEL"

**Elena Ogikova** – chief accountant of "TILLEV" Ltd.

**Iya Sirotkina** – chief of the administrative department of ZEIM

## Profile of the Company

The plant of electronics and mechanics – one of the leading Russian manufacturers of a complex of means of automation of technological processes.

### Mission

We strive to achieve a complex and engineering solution of the business problems of our clients through producing and supplying them with the means of automation of control and management of household and industrial systems of high quality.

We contribute to the progress of our society and make our firm attractive for our clients through continuous innovations and development of all the employees.

### Philosophy

Strategic thinking

Orientation to the client

Continuous changes at preservation of the best

### Our slogan

Innovations – our way to leadership

Our system of quality meets the requirement of ISO 9001:2000 (certificate TUV NORD CERT, Germany). All the basic products meet the GOST P requirements. The product is marked by Gold and Silver quality signs at the competition «All-Russia Brand (3d millennium). Quality Sign of the XXI century». The product of the Company is recognized as a winner of All-Russia Program-Competition «100 Best Goods of Russia».

The company has actively been resisting dissemination of the forged products.

For this purpose it combines all the ways of resistance, uniting efforts of all the participants of the process, forming a negative attitude to counterfeit products.

### Business principles of the Company (extracts)

- Orientation to quality:

We aim not only at making our products strictly meeting requirements of technical specifications, having an attractive design, supplied in due time, but we also provide them with a system of maintenance service; accompanied by full and true information, favorable conditions for socializing with employees of the Company.

- Orientation to action:

Each employee should use all their abilities to implement a policy of the Company with a high quality and duly performing their duties.

- Efficient work, taking into account individual capabilities of everyone:

Achievement of the best results by the Company is possible only at full disclosing of potentials of each of us. Each of us has strengths and a challenge for the Company – to provide all the conditions for self-realization of an employee in the interests of our common pursuit.

### Positioning of ZEIM

The company positions itself as a supplier of complex solutions for the systems of automated control of technological processes.

The company supports the Code of corporate behaviour, recommended for joint stock companies to apply by the Federal Commission of Securities of Russia ([www.fcsm.ru/catalog.asp?ob\\_no=1772](http://www.fcsm.ru/catalog.asp?ob_no=1772)).

There is a mechanism of self-estimation, based on application of the principles of benchmarking. Case studies are used for training. A case study about the problems of cooperation between Eastern and Western countries where ZEIM was representing the East has won an award of the European fund of development of management as the best of the international category.

ZEIM is a parent company of the business system, established by reforming the Cheboksary PO “Prompribor”. It has a network of daughter and affiliated firms.

### Business directions of ZEIM and its affiliated firms:

- Electric executive mechanisms and drives for shut down and regulating valves;
- Devices for ASUTP and microprocessor controllers;
- Devices of ultrasonic flow measuring;
- Equipment for energy saving;
- Products for atomic power plants;
- Automobile electronics;
- Microelectronics and gauges;
- Engineering.

ZEIM is a part of the holding “RUSEL”, uniting enterprises of electro-technical, instrument-making industry and technologically allied industries. The general director – Stanislav Iosifovich Lyapunov is one of the distinguished Russian experts on corporate management, doctor of economy and management, a corresponding member of a number of Academies, vice-president of the Scientific-industrial Association of manufacturers of fittings, he has government awards as well.



## History

The company was established in Soviet times at the end of the 50th as the first specialized plant to produce electric executing mechanisms. Necessity to launch such a production was caused by the needs of science and engineering. In those years quite new technologies and branches, spheres of activity were born and fast developed: atomic power plants, chemistry and petro-chemistry, automation and astronautics.

**1956, January.** The decision of the USSR Council of Ministers about starting construction of the Cheboksary plant of electric execution units – ZEIM was taken.

**1958, June, 3** – Birthday of the Company. This day the first industrial set of electro-executive mechanisms was manufactured.

**1960.** A special design office (SKB) of the systems of industrial automatics was established. Manufacture of electronic devices for automation of technological processes was started. The company was selected as the headquarters plant for manufacturing of devices of electronic unified systems for ASU TP (automated systems of control of technological processes). Products of the Company are supplied to major plants of black and nonferrous metallurgy, chemistry and petrochemistry, metallurgy, to power units of thermal and atomic power stations.

**1972.** Among the first enterprises of the USSR the Company introduces the automated production control system.

**1975.** The company starts production of consumer goods. The first experimental set of automatic game devices “Good shot” was made. It was a great success, so soon it became an integral part of human services on the territory of the former USSR and friendly countries.

**1976.** Based on the Company and SKB, a production association “Prompribor” was established. In the 70th the Company develops and improves legendary devices AKESR. Their development, manufacture and introduction – the first large scale attempt of successful automation of processes in the former USSR.

**1980 and subsequent years.** The company develops and starts manufacture of microprocessor units. Of the greatest popularity was a device, a microprocessor controller “Remikont P130”. The company manufactured about 60% of the Russian market of those controllers.

**1989.** Disintegration of the state and economy of the USSR. Restructuring of the company in order to increase competitiveness and adaptation to conditions of the market.

**1992.** The company is transformed into an open joint-stock company. Experience of re-structuring is so successful, that it will be well known in Russia and abroad. The company as the main enterprise for implementation of the all-Russian project “Development of Small Businesses on the Basis of Reorganization of Large Enterprises”. The World Labor Organization (WLO) recommends experience of the Company for duplicating in the countries of Central and the Eastern Europe: active transfer of experience of reforming began, a methodological manual on restructuring is published to be used for managers.

**1994.** In the interests of shareholders the first corporate report on operation of the Company is published. Information technologies of management, designing, communications were actively introduced. Production business units are organized according to product directions.

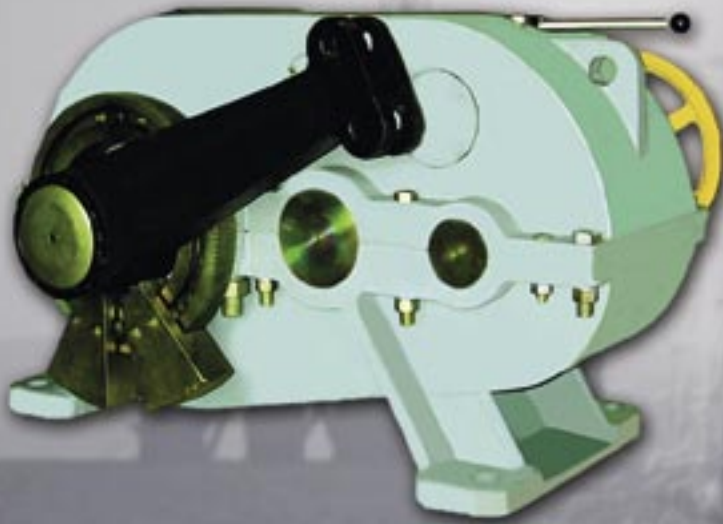
**1998.** A new project “Transition To The Divisional Structure of Management” is implemented together with a consulting company KPMG (Great Britain) and a Fund “Know How”. The ERP system “MAX” is introduced, based on the principles of MRPII. An official website of the Company is launched. ([www.zeim.ru](http://www.zeim.ru))

**1999.** ZEIM starts electronic designing in the uniform CAD/CAM environment.

In the 90th the Company was awarded Diplomas of the Best Russian exporter twice. New business directions were launched: manufacture of ultrasonic devices for flow measuring, equipment for energy saving, electric drives for pipeline valves, engineering.

Director general Stanislav Lyapunov is awarded a title “The Best manager of Russia” in the nomination “For significant contribution into production of new types of competitive products”.





## Products and services

### Electro-executive devices and drives

Are intended for moving regulating parts in systems of automatic control of technological processes. For a long time our electro-executive mechanisms and drives keep a reputation of highly reliable products. The company offers a wide range of devices and drives: of various types and sizes, climatic modifications and categories of accommodation, types of protection of cases from various influences, electric supply.

Electric executive units are mounted near regulating devices and linked to them by means of a system of rods and levers – MEO\*.

Electric drives are mounted directly on pipeline valves and are incorporated to them by means of assembly parts – MEOF, MEP, MEPK, MEM, PEM, PEOZ, ПЕОМ\*\*.

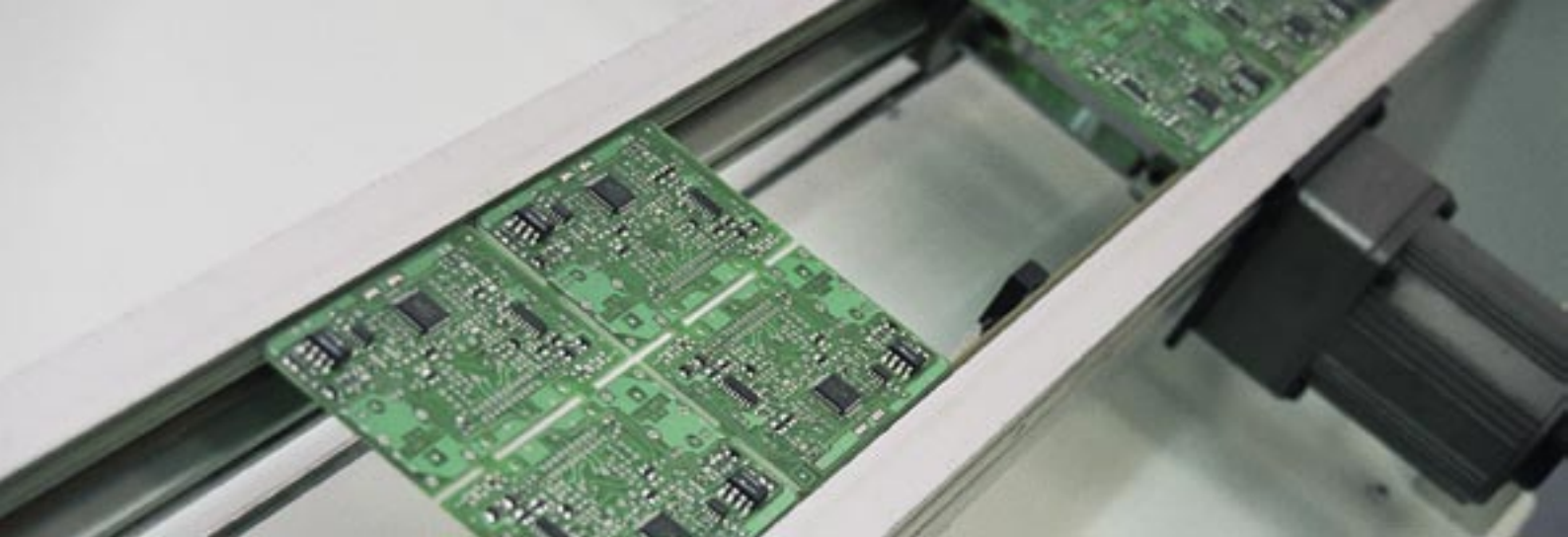
In 2003 the Company started supply of a complex product – a driving unit, consisting of a valve and an electric drive. At the request of clients we can supply valves of well known manufacturers in Russia or foreign countries. We cooperate with leading valve building plants – “Armatek” (St. Petersburg), “Armagus”.

### Situation in the markets

The market of electro-executive devices is stable. Mechanisms and drives are products, having high and steady demand in the market of power supply and metallurgy – traditional segments of the Company. The market of drives for closing-regulating valves grows by 10–15 % every year. The main competitors – AUMA (Germany), ROTORK (Great Britain), TOMZEL (Tomsk), Regada (Czechoslovakia), Tulaelectroprivod. A priority direction in 2003 was promotion in the market of intellectual drives.

### Strategy of development for 2004

- Strengthening of positions in the regions by launching a dealer network.
- Winning new segments (oil-and-gas, ventilating systems, a railway transport) through working with manufacturers of valve and enterprises of engineering.
- Expansion of the product liner.



## **Microprocessor controllers and devices of ASU TP**

In 2003 the Company has introduced on to the market new models of controllers: multi-channel – “CROSS”, few channel – field devices “TRASSA”.

The instrument direction of the Company is traditionally represented by instrumentation of ASU TP (automated system of control of technological processes): measuring, normalizing converters; power units; functional, intensifying, regulating, panel devices.

### **The situation in the market**

The Russian market of controllers develops rather dynamically, annually the market capacity is increased by 25% approximately. Its growth is caused by need for automation of even small industrial technological processes. In the market there is a plenty of foreign manufacturers. The share of the company in the market is stable.

## **The equipment for energy saving**

Used for water, -heat, -steam flow measuring; for regulating heating systems and of hot water supply, ventilation. Those who try to consume power resources efficiently and decrease their losses particularly need it.

It is represented by a number of units, developed on the basis of transonic jet devices “Fisonik”, their principle of action is based on the results of the new theory of hydrodynamics. Devices are used in the heating systems and of hot water supply, they can simultaneously be operated as a heat exchanger a pump in all the range of loads. They can work as an amalgamator, homogenizer, batcher, and a vacuum pump.

A series of steam-ejecting devices and devices for warming up of black and mineral oil allows to accelerate 2–2,5 times warming up, discharge of black oil and other mineral oils.

This direction of products is also represented by units, developed as block-modular thermal stations – BTP.

## **Engineering**

One of the strategic directions of development of the Company. The main purpose – to provide the utmost satisfaction of needs of clients through increase of a degree of integrated approach to the services to be offered. Engineering is developed as a spectrum of services - from consulting and designing up to providing services. Specialization - automation of technological processes, solution of problems of clients in the sphere of energy saving in various branches. Projects are implemented both on the basis of products, manufactured by the Company and on the basis of products of partner companies. These projects were implemented at large industrial plants, objects of municipal housing and communal services, as well as at construction and reconstruction of thermal power stations:

Thermal power station of the Kanash train-car repairing plant; the Ulyanovsk sugar factory, in Pilnya; Boiler-house of Savinovo area, Kazan; TEZ 3. Novocheboksarsk; Boiler-house No. 18Z of the printing houses No.1, TEZ2, Boiler of JUL341 UIN MJU of Russian Federation in the Chuvash Republic, company «Bouquet of Chuvashia» brewery, Cheboksary.



## The main markets of the Company

Products of the Company are applied in all the main branches of economy.

In power supply (thermal power stations, GRES, TES, atomic power stations, boiler-houses of industrial enterprises):

- For regulating:
  - Feed lines of boilers of small and middle capacity, gas turbines;
  - Water level in heaters of low and high pressure;
  - Parameters in structure of the boiler equipment;
  - Water flow in regeneration of filters;
- In systems of water-preparation, warming up of water in systems of hot water supply and heating;
- Technological measuring of water, black oil and other liquids flow;
- At warming up of black oil and steaming up of tanks;
- During injection and of cooling up of steam; a continuous purge;
- In systems of chimneys.

In an oil-and-gas complex (NGDU, NPZ):

- In control systems of reactor block of catalytic cracking, of complex columns of oil and gas treatment; drying up of passing gases;
- In control of the flows of gas and petroleum, products of treatment;
- At pumping out of mine water from catchment's basins;
- In commercial measuring of discharge of mineral oil.

In metallurgy:

- For control of rolling mills, open-hearth and blast furnaces;
- For regulating of pressure under the throat of a blast furnace;
- For regulating of temperature of heating of ingots and billets in rolling shops, coke-chemical production;
- For technological measuring of power resources;
- In systems of chimneys.

In mining (at ore dressing plants):

- In systems of pipelines of:
  - Back water,
  - blast furnace granulation of slag and water sludge;
  - transporting water, pulp liquids in pump stations;
- In circuits of devices of pulp pumping stations.

In municipal power supply and communal housing services (heating systems, water-channels):

- At transportation of water through pipelines;
- For maintenance of commercial measuring of water flow;
- For control of water flows in systems of preparation; at pump stations of water supply; on water treatment and water supply plants.

In chemistry and petrol-chemistry:

- In systems of batching, control of hydrolytic devices.

In mechanical engineering:

- In systems of ventilation, control of vacuum furnaces and thermal plastic making plants;
- For technological measuring of water flow, in systems of measuring of discharge and regulation of consumption of energy carriers;
- At a complete set of complex machine-building equipment.

In transport branch (at enterprises of Ministry of Railways):

- In systems of warming up of viscous mineral oil, at steaming up of tanks;
- In systems of hot water supply of passenger carriages and car-restaurants of the rolling stock.





## OPERATION OF THE COMPANY IN 2003





## Events of year

### March

ZEIM was awarded a Diploma and a Gold medal at the Siberian industrial-innovational forum "Promtechexpo" "for having developed a product of universal purpose – an electric drive in a blast proof case MEPK-6300Ex". The company was a general sponsor of the festival "Student's spring – 2003", conducted under aegis of UNESCO.

ZEIM became a member of the Union of manufacturers of oil-and-gas equipment.

### April

The delegation of Gosstroy of Russia, headed by its chairman Nikolay Koshman had a meeting with managers of Holding "RUSEL", ZEIM and some other partner companies – "ABB-Automation", "Fisonik", Consortium "Energoproektgroup". Technologies and new units, developed for communal housing services were discussed.

ZEIM was visited by a Chinese delegation of the state power supply corporation "SAC" to discuss issues of cooperation in the field of means of relay protection and automation (electric drives, controllers, driving valve, devices for ASU TP (automated system of control of technological processes). Annual general meeting of shareholders of the Company took place.

ZEIM was visited by the president of world famous basketball club «Partizan» (Belgrade) Mr. Predrig Danilovich, many times champion of Olympic Games, of the World and Europe.

### May

The Plant of electronics and mechanics and its head Stanislav Lyapunov were awarded a Gold medal of the Russian-Swiss business club – "For Faultless Business Reputation".

### June

Anniversary birthday – 45 years of the Company. The general director of the Plant of electronics and mechanics Stanislav Lyapunov was awarded "The Certificate of Honor of the Chuvash Republic" for success, achieved in his life and for a long-term conscientious work.

Meeting of representatives of enterprises, participants of NPAA, a conference of consumers of products, made at ZEIM, linked with its anniversary. About 70 representatives of more than thirty enterprises arrived to participate at celebrations.

A Certifying audit TUVNORDCERT (Germany) confirmed conformity of the system of quality to requirements of ISO 9001:2000.

### August

For a big contribution into social and economic development of the city and in honor of 30th anniversary of constitution of Cheboksary districts the Electronics and Mechanics Plant was awarded a Certificate of Honor of Administration of Cheboksary city.

### September

ZEIM was announced to be a winner of economic competition among the enterprises of Chuvashia.

ZEIM took part at the conference "Russian electronics – to an oil-and-gas complex". Participants of the conference visited the Plant, familiarized with production and had talks about possibilities for further cooperation. General director of ZEIM Stanislav Lyapunov was included into the 4th Rating of "1000 most professional managers of Russia", his final rating being 3565. It is the best result among representatives of business of Chuvashia. The rating was determined by the Association of Managers of Russia.

ZEIM was visited by the delegation of businessmen of Russia and Serbia. At a meeting opportunities and prospects of cooperation were discussed.

### November

The company was conferred an official status of the Leader of Business of the Volga region in a nomination "Mechanical engineering and Metal Working".

### December

A forum of dealers was held at ZEIM, where representatives of more than 30 firms of Russia, Belorussia, Ukraine, Kazakhstan participated. New contracts were signed; opportunities to increase sales volumes and expansions of commodity markets of the Company were discussed. Representatives of ZEIM participated at work of Expert Council of the All-Russia competition of student's works in the field of development of public relations "The Crystal Orange". The Company was awarded a Letter of Gratitude "For having helped to implement a regional round and for assistance in Formation of the future intellectual elite of Russia".

At the 10th world exhibition (competition) "All-Russia mark (III millennium), a Sign of quality of the XXI century". An electric multi-speed unit MEM 100A in a nuclear proof case was awarded a Gold Quality sign.

#### **ZEIM**

One of the leading Russian manufacturers of a complex of means of automation of technological processes.

#### **VNIIR**

A major developer of products of intellectual property, supplier of scientific and technical products and products of electrical engineering for various industries.

#### **ZEIM-LINE**

Develops and makes hi-tech automobile and industrial electronics. An official supplier of conveyors for OJSC "GAS" and OJSC "VAZ".

#### **ZEIM-Esko**

The company operates in the market of energy saving services, specializes in automation of control systems in production and consumption of power resources, revealing and introducing energy saving actions in various branches, developing and introducing projects in the use of non-conventional energy sources.

#### **VNIIR Marin**

Development, manufacture and supply of ship switching centers and systems of automation of ship equipment.

#### **RUSEL Engineering**

It works on projects for intersystem electric networks of Volga, Kursk spirit producing factory and other companies.

#### **RUSEL Cable**

Manufacturing of a wide range of cable products.

#### **RUSEL Automation**

Complex solutions for enterprises of oil-and-gas, chemical, food and other areas of industry in the field of designing, system integration, system engineering, as well as programming, supply, introduction, starting-up and adjustment works, guarantee and warranty service of the equipment and systems of automation.

#### **RUSEL Eksim**

A trading house RUSEL – uniting in the framework of one organization a great number of trading flows of enterprises of the Holding, including sales engineering and building services.

#### **RUSEL Energoinvest**

Organization of effective circuits of electrical supply for consumers, optimization of expenses of consumers on power supplies.

#### **EPI -Sakhalin**

Specialization in working in seismically unstable zones.

#### **Stroienergосervice and Ko**

Construction «on a turn-key basis» of electric substations and other power plants.



## **The company and RUSEL**

The Holding "RUSEL" unites enterprises of electro-technical, instrument-making complexes, technologically allied industries. It is possible to single out the following directions of activity of the holding:

- integrated solutions for various branches of economy, first of all power supply;
- Technical solutions «on the turn-key basis» in the area of energy saving;
- automated control and monitoring systems for resources, control of technological processes.

Taking into account a high social importance and perspectives for businesses of the enterprises of the Holding, "RUSEL" in Chuvashia was determined as a highly effective direction of development of an industrial complex of the Republic for the period up to 2010.

Development in the framework of the Holding meets expectations of shareholders of the Company to raise competitiveness of business. Participation of the Company and other firms in operation of the Holding means to fulfill a task: how to be small, flexible and at the same time a powerful player in the market. It gives an opportunity to implement a strategy of reducing the costs due to a scale effect and internal cooperation in "RUSEL".

Development of partner relations in the framework of "RUSEL" in 2003 provided increase of opportunities for participation of the Company in federal and international business projects. For example, participation in projects of a series "Sakhalin" – development of oil-and-gas deposits of a shelf of island. Integration processes in the framework of "RUSEL", uniting businesses of various profiles, industrial, accumulating of scientific, financial resources of enterprises of the allied industries create preconditions for strengthening of the Company in the field of its key competent activities due to increase of opportunities of granting complex solutions.



*Our main competitive advantage – a high level of relations with clients.*

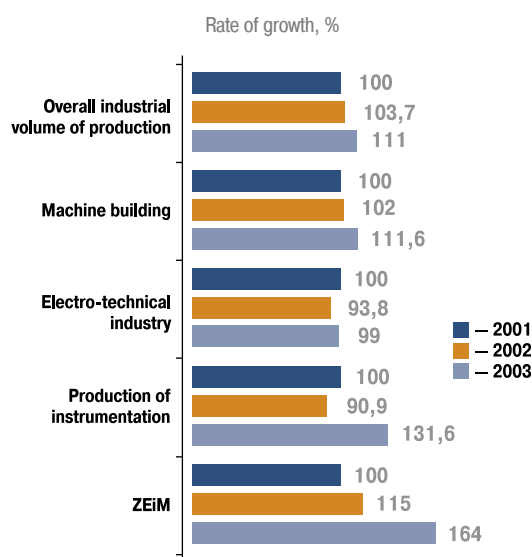
**Vadim Sirotkin**

## Sales

### Position of the Company in the Branch

One of the major tendencies of 2003 - an industrial boom: the rate of growth of industrial products in 2003 is estimated to be 7,0% (against 3,7 % in 2002). The Russian economy managed not only to overcome delay of growth, observed in 2001-2002, but it went up new orbits of «doubling the gross national product within ten years».

As a whole, the volume of production in mechanical engineering increased by 9,4%. In the electro-technical industry the volume of manufacture has grown by 5,5% and after falling in 2002 has practically reached a level of 2001.



The most successful development – in instrumentation production - in 2003 its volume of manufacture increased by 44,8 %. On this background the Company managed to preserve its positions, gained before. The sales volume of basic products in comparison with the previous year increased by **43,7%**.

### The results of commercial activity

The proceeds of the Company have a steady tendency of growth. The volume of export supplies made 1,8 million dollars (5,1 times growth compared to 2002). Regions of export - Iraq, India, Bulgaria, Ukraine, Byelorussia, Kazakhstan.

Growth of sales volumes makes:

For objects of power supply – 50%;

For metallurgical and ore dressing plants – 51%;

For oil and gas extraction branch – 32%;

For valve building – 49 %.

### Development of partner relations

Since 1995 the Company gained more than 4000 clients of its client base. In 2003 relations with the largest clients were strengthened. High quality of products, qualification of the personnel, constant search for new solutions, following the norms of business ethics by ZEIM considerably allowed to change a specific volume of shipment to one client – growth by 58%.

In 2003 the largest customers of the Company were:

Holding company “AMAKS”, NPK “KEDR89”, (Moscow), “ARMATEK”, NPO “Promarmatura” (St. Petersburg), regional centre of MTO subsidiary of OJSC “TNK”, “Tyazhpromarmatura” (Aleksin), “Severstal”, “Armagus”, “Borisoglebsky kotelno-mekhanicheski zavod”, “Lebedinsky GOK”, AK “ALROSA”, (Yakutsk-Moscow).

### Our partners

Cooperation with leading valve-building plants of Russia – one of the components of success of the Company. In 2003 the sales to valve builders in comparison with 2002 increased 1,5 times. The company created a backlog of new units, developed to secure growth of sales in 2004-2006 for the segments of big capacity – the oil-and-gas market.

The Company has relations with more than 100 design institutes, such as “All-Russia aluminium–magnium institute VAMI”, St. Petersburg research and project-construction institute “Atomenergoproject”, “Novosibirskteploelectroproject”, “SurgutNIPIneft”, “Teploenergoproject”, Moscow.



### New focus of a marketing policy

In 2003 active formation and development of the dealer network began, aimed at promotion of products up to the most remote clients. Sales in the regions were handed over to dealers, due to which there was some recession in quantity of clients, but there was an increase in the total amount of sales.

The nearest 2-3 years ZEIM intends to not only actively use an emerging trading network in the corporate market of supply of instrumentation and automation, but also to develop it.

### Why the client chooses us

In 2003 our offers to the Client became more valuable.

Stability of the Company increased due to:

- Improvement of quality of products;
- Development of a product line;
- On time reaction to dynamical change of needs and wishes of clients;
- Comprehensive support of clients and partners.

### Strategy of sales is implemented due to the set of competitive advantages:

#### Technical:

Functional, system and nomenclature completeness of offered products for construction of ASUTP of various complexity and assignments;

#### Operational:

- Shipment of serial units of products within 3 days;
- Processing of applications of clients within one working day;
- Reduction of duration of accomplishing orders;
- Free-of-charge delivery.

### System of interrelations with consumers:

The company is fully competent to fulfill its tasks and can use every opportunity to use a final cycle of manufacture – from developing a new unit and up to its technical maintenance. For this purpose we do the following:

- Constant monitoring of needs of clients;
- Development of a product according to the requirements of clients;
- Manufacture and testing;
- Complex supply and technical support;
- Training and consulting.

A full range of engineering services means:

- Pre-design audit;
- Research work and estimation of the technical solution;
- Designing;
- Supply, mounting, start up and adjustment work;
- Consulting.

Engineering works, first of all in the field of power supply, include objects of the following technological line:

- Sources of thermal energy (boilers);
- Sources of electric energy (generators, turbines);
- Systems of distribution, control, regulation and measuring of thermal energy;
- Systems of distribution, the control and the account of electric energy.

Infra-structural provision of the opportunities:

- Own engineering-research base;
- Constantly developing production capacities;

- Information technologies of designing, management, including on the basis of MRPII;
- Successfully functioning marketing and sales services;
- Own marketing network in Russia and in foreign countries;
- Strategic partnership with leading companies of Russia.

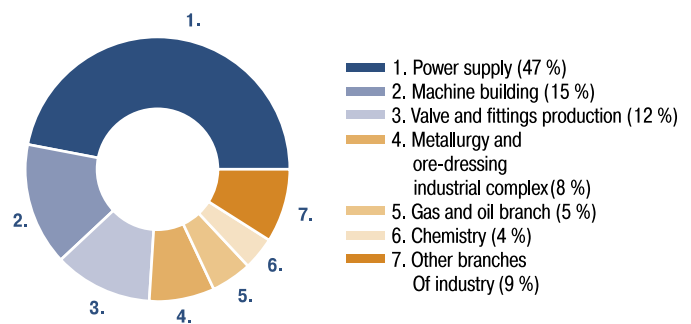
An individual manager takes care of the project of automation of our partner at all stages of its implementation.

Moving forward

### The main goals for 2004:

- To provide growth of sales by 35% in contractual prices or by 19% in comparable prices.
- To create an efficient network of dealers.
- To carry out process of «Satisfaction of needs of consumers» with the least mistakes.

Structure of sales of the Company (branches)



Structure of sales of the Company (types of product)



Dynamics of the number of clients of the Company





*We constantly work on improvement of Culture of production*

**Liubov Makeeva**

## Production

In 2003 our production division had the following goals and tasks:

- Duly satisfaction of needs of a client;
- Development of new types of products;
- Development and improvement of organizational structure and planning of production, using the ERP system "MAX".

The company worked on reduction of duration of order accomplishment for clients. We managed to accomplish orders of our clients "exactly in time" due to the number of factors: development of culture of production in MRPII standards, improvement of planning and logistics, growth of qualification of employees, increase of rhythm and loading of the high-efficiency equipment.

Timely supply of production with materials and assembling parts is secured. It allowed to speed up release of products, so that a cycle of manufacturing for serial products makes not more than 30 days, for products of special execution – 45–60 days. It also allowed improving control after work in progress.

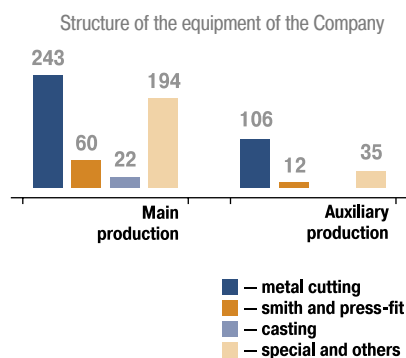
In 2003 the total amount of release of commodity has grown in comparison with 2002 by 35%. The company achieved a growth of volumes of production compared to 2002: electro-executive mechanisms – 43% more; drives for locking-regulating valves - 74% more; instrumentation for ASUTP – 22% more. The share of drives in the total production volume of commodity increased from 18 % in 2002 up to 24 % in 2003.

## Quality of production capacities

Expenses of the Company for technical modernization in comparison with the previous period increased by 20%. Priorities in development of directions: introduction of modern technologies and high-efficiency equipment, having a high degree of automation. Modernization allowed to essentially increase quality of products, production efficiency, to improve working conditions for employees, to lower negative influence on ecology. New high-efficiency tools were actively introduced. 16 stands for control of tests of mechanisms and drives have been made. According to the results in 2002-2003 labour productivity grew by 52%.

Good results were achieved in saving expenses for power consumption and labor costs:

The share of power resources in the total amount of costs decreased by 3%.





### Structure of production

Today the Company uses the following technologies:

- Molding under pressure of aluminum alloys;
- Molding and pressing of plastic;
- Mechanical working on digital-program machines and processing centers;
- Cold sheet punching;
- Machining by cutting, using automatic and semi-automatic devices;
- Heat treatment;
- Welding;
- Galvanic and paint and varnish coverings, including higher corrosion resistance, based on powder paints;
- Assembling;
- Precision spatial measurements by coordinate-measuring machines.

At the end of 2003 the number of industrial equipment of the Company was 672 units, including:

- In the main production – 519 units;
- In auxiliary production – 153 units.

One of key directions of operation of the Company is improvement of culture of production. A number of projects of reconstruction of floor spaces were implemented, which provided more comfortable conditions for work of employees: floors and premises were repaired, a new convenient warehouse complex was put into operation.

### Moving ahead

Business plan for 2004 sets a task of preservation of the rates of intensive modernization and improvement of production culture. The following tasks were put forward:

- Increase of reliability of supply;
- Increase of the degree of quality of products;
- Optimization of the technological flow of production and use of floor spaces;
- Increase of the production yield per worker due to increase of efficiency of use of the equipment;
- Elimination of «bottlenecks» in production and preparation of the base for expansion of the volumes of production;
- Speeding up the process of manufacturing of pre-production models of new products due to application of the equipment with digital-program control;
- Increase of the technological level, culture of production, industrial, fire and ecological safety.

Quantity of the equipment – 672 units.

Increase of expenses for modernization – by 20%.

Rate of growth of labor productivity in 2003, compared to the one in the previous year – 132%.



*We do react to the change of the needs of our clients promptly.*

**Nina Egorova**

## The New equipment

The company tries to continuously enhance the rates of development of new units and their introduction on to the market. This year a share of the new equipment resulted in 20,5% of the total amount of the sold product.

### Involving of consumers in development of product

Development of new equipment is conducted on the basis of the tendency analysis in the market, taking into account the interests and technical requirements of clients, coordinated technical assignments with them.

Experts of the Center of Engineers and Researchers closely cooperate with consumers and manufacturers of valves, involving them in work of acceptance commissions, conducting tests of pre-production models on stands and in operating conditions. Offers, remarks, results of tests are carefully analyzed. It allows creating products, needed by consumers.

Among our consumers there are many big enterprises, such as: Irkutsk, Krasnoyarsk, Rostov, Mosenergo, Kalinin, Tyan-Vyan atomic power stations (China). Their requirements to products and services are very high.

In 2003 the Company actively continued cooperating with leading research institutes and design offices, such as: "NVT-Avtomatika", "ZNIKA", "RTSoft", "MIFI", FPG "New technologies", "Scientific-Research Institute of Pulse Engineering" – Moscow; NPF "ZKBA" – St. Petersburg; "Impuls AVIA" – Arzamas; "NPP»Microchip" – Saransk; "Chuvash state university", "VNIIR" – Cheboksary, - all in all more than 50 enterprises and organizations of Russia.

### New developments

#### Drives for multipurpose valves

A new direction of the Company is development and introduction of manufacture of drives for pipeline shut off valves in common industrial execution.

In 2003 the following developments have been carried out:

- Drives of one-wind shut off PEOZ-100, PEOZ-250, intended for control of none-fully-wind valves – spherical cranes and disk valves. These drives were added to the series of flanged drives MEOF;
- Drives of one-wind of lower capacity PEOM-8, PEOM-16 – for control of air valves and gates in the systems of heating, ventilation and air-conditioning;
- Drives of multi-wind shut off PEMA, PEMB and mechanisms of direct stroke in explosion proof cases MEP 25000PVT4, intended for control of valves and stops, as well as for regulating drives with a unified power signal in a blast proof execution.

Within a year the market saw blast proof drives MEOF 630PVT4, electric motors DAT56A for atomic power station, multi-wind mechanisms MEM100, direct stroke mechanisms MEP25000-00K



### Controller units of new generation

This year we have broken through in development of controllers. The first device of the new generation of controllers of the international level was designed. This device meets all the modern requirements to systems of automation.

Principles of construction of controllers with non-conventional functional-decentralized multi-micro controlling architecture, implemented in controllers "CROSS" were developed.

Function of these new devices:

- Control of objects of medium and high complexity – multi-channel controllers "CROSS".

A controller is a hi-tech product. It includes «specific features of national automation», it is adapted to the needs of the Russian industry as much as possible. It meets standards of open systems. It has a certificate of means of measurements of Gosstandart of Russia, permits of Gosgortekhnadzor to apply it in automation of hazardous productions.

- Control of simple objects – few channel controllers R130ISA, made on the basis of built-in one-board PC computer of industrial execution. They have an open program-unit architecture and a built-in system of technological programming ISaGRAF.

Recently the first responses about the results of operation of controllers «CROSS» on objects of TEZ 10 "Irkutskenergo", "Uralskaya nef" were received. Comparison with a number of foreign and Russian prototypes, made by experts of "Irkutskenergo" with reference to the tasks of control of the complex thermal power equipment, has shown a good ratio of «price/quality» at advanced functionality of the "CROSS".

### Toolkit for designing

In order to develop and manufacture new units the Company widely uses modern technologies of designing T-Flex/CAD (development of construction) and Techno-Pro (development of technology). The toolkit, developed and put into operation last year was replenished with a system of engineering analysis WinMachine which allows to reduce time for calculations at designing products and to carry out virtual tests of technical solutions.

### Moving ahead

Tasks for 2004 include new developments of electric drives and mechanisms, controllers and instrumentation, introducing new products into the market, implementation of which will raise competitiveness of the business of the Company.

Introduction of the following electric drives into the market is planned:

- Multi-wind;
- One-wind of locking action;
- Direct stroke blast proof;
- One-wind for systems of ventilation and air-conditioning.

The following items will receive further development:

- Expansion of a range of multi-wind drives of common industrial and blast proof type;
- Development of drives for petro-chemistry and communal housing services on the basis of new technical solutions, using progressive materials and modern manufacturing techniques.

In 2004 possibilities of intellectualization of control facilities for production processes will be essentially expanded. Developers of the Engineering-research center build in the advanced chips of microcomputers practically into all the products: from complex industrial controllers up to power supply switching units and gauges of position and moment.

Share of new units in the total amount of sales is 20,5%



*We consider the concept of «quality» much more widely, rather than only quality of the product, — first of all it is a quality of mutual relations with clients.*

**Sergey Ganin**

## Striving to quality

Striving to high quality – an obligatory component of efficient management, corporate ideology of our Company and an integral part of our corporate culture. The goal of work in the field of quality is to increase satisfaction of our partners and clients by quality of our products and services, establishment of a long-term cooperation with them. Basic directions of activity in the field of quality in 2003 were:

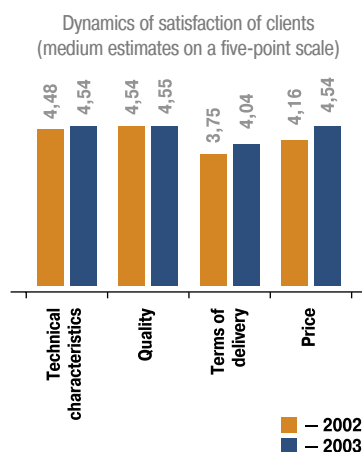
- Orientation of the personnel of the Company to the client, both external, and internal;
- Formalization and improvement of business processes and transition to mainly processing methods of management.

The system of quality, used in the Company since 2000 was changed according to “The Policy in the field of quality” and MC ISO 9001:2000 into the System of Quality Management (SMK), introduced in January 25, 2003.

### The company, as seen by our clients

Regular monitoring of opinions allows quantitative measuring of satisfaction of our clients by cooperation with the Company as a whole. We trace changes of loyalty of clients to the company due to independent factors (quality and reliability of products, characteristics, prices, conditions and terms of supply, level and quality of service).

The researches show that requirements of clients to the quality of products increased significantly (by 49%) and requirements to their characteristics (by 59%). The level of quality is the most important thing for the majority of clients. An integrated degree of satisfaction of clients by operation of the Company in comparison with 2002 increased by 5%.



### Quality of product

In comparison with 2002 expenses on quality decreased from 4,0% to 3,02% per 1 ruble of the manufactured product.

The level of defectiveness of purchased spare parts and materials was also reduced.

In order to reduce a human factor influence on stability and repeatability of parameters of the parts machining of the latter is done by processing centers with a digital-program control, rather than by universal equipment.

In 2003 certificates of conformity were acquired for 2 types of products, on a voluntarily basis, re-certification was done for 6 types of products. On obligatory certification 1 type of product was done and 3 types of products were re-certified. Work on obligatory certification of products in nuclear execution was started. You can see a list of certificates of conformity on the Internet portal of the Company at the address: <http://www.zeim.ru/ru/quality/sertificats/>

### Primary goals in the field of quality for 2004:

- To increase efficiency of monitoring and improvement of SMK processes by their owners and to pass inspection audit TUV CERT on conformity to requirements of EN ISO 9001:2000;
- To reduce by 50% the amount of mistakes at acceptance and execution of orders through analysis of the reasons of occurrence of mistakes and improvement of the processes;
- To achieve a stable reduction of indices on discrepancies;
- To improve work with suppliers;
- To develop a System of Management of the Environment according to ISO 14000, integrated with the system of quality management;
- To increase stability of performance of procedures at rotation of the personnel through cyclic training and check of performance of the personnel of the requirements of procedures;
- To increase a level of quality of the developed product through its improvement at the stage of verification of the project, introducing prototyping and research tests of basic units.



*We use modern technologies of management —  
we create a basis for competitive advantages.*

**Dmitry Lyapunov**

## **Improvement of management**

In 2003 we continued internal transformations, aimed at increase of the overall performance of the Company and creation of steady competitive advantages. We introduced modern standards of management, providing high efficiency of activity, satisfaction of clients and transparency of business of the Company intensively.

In 2003 a special attention was paid to improvement of key business processes, to effective interaction of various services and development of human resources. The system of management of the Company was improved through performance of successive stages of the project "Self-estimation", the project of transition to process management, the project of development of corporate information system.

Owners of processes continued improving both the resulting criteria and processes themselves. The organizational structure, aimed at increase of efficiency of interaction of services in the framework of key business processes also changed. A major direction of activity of managers is development of the personnel. The motivation of employees to achieve the goals of the Company improved, conditions for using potential of each worker were created. Implementation of the policy of continuous training proceeded, both in the field of professional specialization, and in the field of management. The corporate information system and the improved operational efficiency allowed to achieve a new degree of quality of management of the Company.

In 2003 we improved the ERP system, which was actively used by managers and experts during more than 3 years. The information-analytical module was developed, which provided effective access to a huge file of the information, accumulated during all these years of work of the system. The volume of the existing information allowed to increase quality of forecasting. The system enabled to plan rationally and distribute the resources in a real time mode, to coordinate organization of production, sales and financial flows. Use of the system increased transparency of activity, which is a major condition of reduction of the cost price and productive struggle against losses.

In 2003 work on improvement and expansion of use of SAPR was continued. Creation of a uniform information space and use by engineers of new technologies of work allowed to accumulate the relevant information, to considerably increase productivity and quality of developments.

In order to implement the goals of business plans for 2003, managers tried to use the main principles of management: to take decision on the basis of the facts, to stimulate leadership, to prefer team work, to delegate powers at all levels, to constantly be trained and self-trained. Primary goals of the business plan of the Company for 2003 were executed in full.

The goals of the business plan for 2004 reflect strategy of the Company on dynamic, perspective development and achievement of balance of interests of the related parties. Business plan provides development of the key competencies of the Company, allowing creating of steady competitive advantages to gain leading positions in segments of the market in the main product directions. Therefore, attention is paid to growth of productivity and a degree of intellectualization of work; growth of innovational components in development of the Company. The main risks of operation were determined, indemnification of which will allow to achieve success in future.



*The key value of the Company is professionalism of our employees*

**Galina Lyukshina**

## The personnel

### **The personnel — a basis for success**

The primary goal of managers of the Company is continuous development of competitive advantages of the business. One of the main advantages of any Company is a highly professional personnel, sharing the stated values of the company. Our concept of work with the personnel is directed to development of potentials of each worker, motivation to maximum effective achievement of the goals of the Company, taking into account individual interests of workers and increase of a degree of satisfaction of the personnel by his (her) work at the enterprise. On the basis of this concept in 2003 the policy of the Company was pursued, concerning relations with the personnel.

### **The best conditions for the best experts**

We understand that success in business is determined by ability of the Company to involve the best experts and its capacity to create for them all the conditions for self-realization. Therefore, in 2003 in order to increase attractiveness of the Company as a place to be employed and to maintain its competitiveness, a number of tasks were implemented. One of these tasks: "to provide attractiveness of work at the enterprise through achievement of market wages and expansion of a package of social bonuses". Rate of growth of wages in 2003 was 143%. We began spending significantly more funds on social services for the personnel. The fund of social charges has grown by 59%.

The important factor to maintain attractiveness of the Company on a labor market, its competitive advantage is availability of the effective system of development and training of the personnel. In 2003 the enterprise trained 40% of its employees. One of determining factors of success of the Company is availability of professional leaders. In the framework of growth of administrative potential of the Company the following tasks were solved: «Increase of administrative competence of leaders-managers» and «Formation and development of a personnel reserve». Within a year corporate trainings "Organizational culture" and "Selection and an estimation of the personnel", field seminars, training at School of Business Administration "CheLink" at the courses of "Effective manager", "Financial management", "Practical marketing" were provided. Employees of the company have also been trained under the Presidential program of improvement of professional skills of the administrative staff.

In 2003 with a view to maintain conditions for career growth of perspective experts and creation of a personnel reserve there have been taken the following measures:

- Perspective candidates for understudies of key experts and retiring leaders-managers are selected;
- The personnel reserve (18 persons);
- More than 100 students passed an industrial practice in divisions of the enterprise.

### **In focus — labor productivity**

Significant criterion of competitiveness of the Company is its overall performance, i. e. performance of a bigger volume of work by smaller number of people or increase of labor productivity. But for all that a very important criterion is maintenance of interrelation between growth of wages and growth of labor productivity.

In 2003 for realization of this goal we put forward a task: "to increase labor productivity by 30%". It was achieved through improvement of professional skills and development of adjacent professions by workers, introduction of the new equipment and modern technologies, as well as due to optimization of the number of the personnel of the Company. Compared to 2002 labor productivity in 2003 increased by 52%.

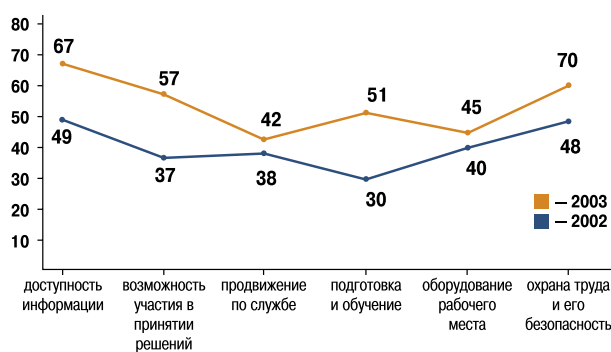




### The loyal personnel — stable work of the enterprise

One can speak about the positive results of the Company in 2003 only if performance of the goals of the Business plan and its planned financial results were achieved. However, a company has one more parameter to estimate its activity – increase of satisfaction of the personnel. In 2003 a corporate research showed that there is a tendency of growth of a degree of satisfaction of workers, employees of the Company. To some extent, this result characterizes work of the team of managers of the Company. In comparison with 2002, the results testify to increase of satisfaction of the personnel of the enterprise according to such criteria as availability of the information, preparation and training, promotion, opportunity to participate in taking decisions, workplace equipment, labor safety and its security.

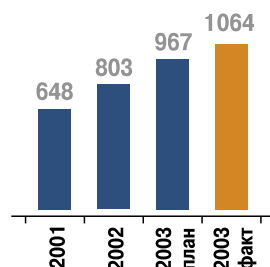
Satisfaction of the personnel



### Moving forward

In 2004 accomplishment of the tasks in the field of management of the personnel will demand a qualitative improvement of professional skills of employees of the personnel development department and also further improvement of professional skills of managers and experts of the Company. A major task of management in 2004 is that a majority of our people felt themselves as a part of the Company and were interested in its success. For this purpose it is essential to increase available competencies of managers in the field of general management and management of the personnel.

Dynamics of growth of the budget of training



## Social responsibility

### Parameters of work of the Company on increase of satisfaction of society

The company will pursue a policy of openness and transparency of the information about its activity. Since 1994 we publish an annual report on operation of the enterprise. Since 1999 we publish information materials about changes in our joint stock company.

The company adheres to the Code of corporate behavior. In the framework of support of the Code in 2003 we adopted Provisions about an information policy, according to which:

- Informing investors and all the interested parties on operation of the company is provided;
- Opportunity for free and easy access to the information about the Company is provided.

According to these Provisions and depending on a target audience, the Company uses various ways and channels of disclosing the information:

- Submitting to FKZB of the Russian Federation quarterly reports of the issuer, reports on results of accommodation of securities, essential facts;
  - The Press and MASS-MEDIA, Internet, mail, exhibitions, presentations, personal meetings, inter-corporate channels.
- Our company is a good tax bearer: in 2003 and during a number of years we provided positive dynamics of tax payments.

In order to organize more exact planning of economic indices at the republican level the Company submits accounting and forecast information to the Ministry of the Industry and Transport of the Chuvash Republic, city Administration of Cheboksary.

In 2002–2003 ZEIM actively participated in monitoring of enterprises, presenting the tactical questionnaire for the National Bank of the Chuvash Republic every month.

In 2003 the Company participated in federal, republican and city programs “Energy Saving in Russia in 1998–2005”.

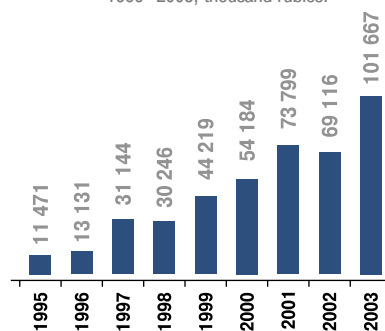
The Company participated in implementation of some Agreements:

- About cooperation between enterprises of Chuvashia and Byelorussia;
- About cooperation between enterprises of Chuvashia and Ministry of Railways of the Russian Federation;
- About information interaction and maintenance of the Republican information-analytical system (RIAS, of the project “Electronic Russia”). The company contributed to financing projects in holding of the 5th European Cup on walking race, to construction of the Monument “Mat’Pokrovitel’niza” (“Mother the Patroness”). In order to maintain confidence of consumers in safety of the product certification of products is provided in the system of certification of GOST P. The plant continuously cooperates with authorities on the issues of certification of products and System of the quality Management. Every year the company measures parameters of dangerous and harmful production factors by experts of the certified internal laboratory. Actual working conditions at workplaces are studied; actions for their improvement are taken. In 2003 working conditions at all the workplaces were improved.

Providing protection of the interests of the personnel, the Company solves its problems at a local level. Every year, according to the Law of the Russian Federation “About Collective Agreements” a Collective Agreement is signed between employees and the administration of the Company. It defines mutual obligations of the administration and employees, issues of their social development, labor safety and health, guarantees and privileges, funded within the limits of the sums, stipulated by the budget.

One of the parameters of participation of the company in public life of the republic is its charity activity. Many years ZEIM has been helping Kugessi house for disabled children and a secondary school No.24 in Cheboksary. In 2003 ZEIM was a general sponsor of the Republican festival “Student’s spring – 2003”, having held under aegis of UNESCO. In comparison with 2002 the volume of expenses for socially significant charitable programs has grown by 21%.

Dynamics of tax payments to the budgets of all the levels, 1999–2003, thousand rubles.



Structure and dynamics of volumes of the charitable help on directions, %

Directions of funding	2002	2003
Support of science, education, culture	75,7 %	33,5 %
Support of law enforcing bodies and other authorities	16,7 %	23,2 %
Support of sport	5,7 %	37,9 %
Direct support of socially unprotected layers of the population	1,9 %	5,4 %

## The ecological responsibility

Production and products of the Company meet the requirements of industrial and ecological safety. In order to reduce and prevent harmful influence of industrial emissions and to estimate conformity of actual values to the accepted norms, the Company has regularly been providing the industrial ecological control of industrial emissions and the air of a sanitary-protective zone of the enterprise. Emissions of polluting substances in an atmosphere in 1999–2003 do not exceed allowable norms and tend to decrease.

The company conducts a strict account of waste products of manufacture with the purpose of their reduction, their recycling and destruction. Recycling and processing of waste products is made by specialized enterprises on a contractual basis. The project of specifications of formation of waste products and limits on their accommodation for 2004–2008 was developed.

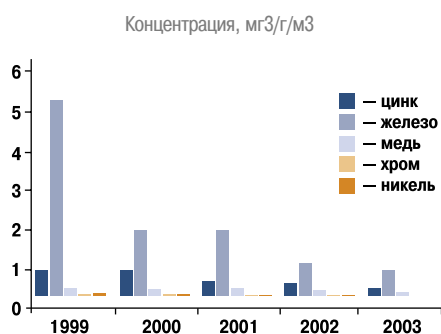
The company has a license for implementation of activity on work with dangerous waste products.

In 2003 the following actions for protection and rational use of resources were taken:

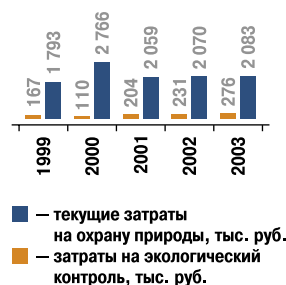
- Reconstruction of the treatment plant for galvanic production is completed. The project of its reconstruction was developed by "RADAN" Ltd., (St. Petersburg).
- Put into operation:
  - Unit of processing of chrome sewage; unit of additional cleaning of acid-alkaline sewage. The amount of expenses in 2003 was more than 3600 thousand rubles. Realization of the project essentially improved ecological conditions of the Company, regarding protection of water resources.
- 3 units of dust catching equipment were put into operation: on grinding and repair sites of IEP, procuring site BE "EIM and Privody" which allowed to reduce emissions in an atmosphere of abrasive and metal dust 9 times.
- For duly detection and prevention of extra (above standard) amount of pollution daily ecological control of dumps of polluting substances into the system of city water drainage is carried out.
- Sanitary control of soil in a sanitary-protective zone of the Company is provided. Percentage of harmful substances in soil is within the established maximum concentration limits.
- Leveling and gardening of the territory in order to protect the atmospheric air against industrial pollution is made. The fixed territory is supported in a good condition at active participation of employees of the Company.
- Monitoring of the noise level at the border of a sanitary-protective zone of the enterprise is provided; actual values of the noise level meet the normative ones.
- Energy saving technologies are introduced: replacement of physically worn out power equipment, introduction of local compressors, creation of the uniform ring circuit of air supply, refusal from supply of the compressed air by outside organizations, creation of the system of monitoring of the power resources usage and energy saving technologies. Energy saving equipment was introduced: infra-red and induction

heaters, devices "Fisonik", foam polyurethane materials for insulation of pipelines; exhaust devices "SovPlim".

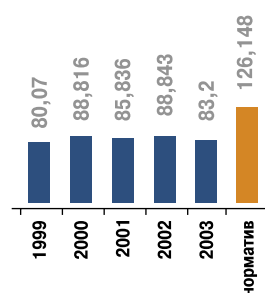
- All the supplied materials and raw materials are exposed to the entry control in order to maintain safe working conditions. In case of necessity certificates of radiation and sanitary safety are required. Inappropriate products are not used at the plant.
- Audit of completing parts and materials, stored in warehouses was done, inappropriate products are isolated and transferred for recycling.



Expenses on protection of the natural environment and expense for the ecological control (thousand rubles)



Dynamics of the amount of emissions in one year (tons)







**Svetlana Lobanova,**  
*Chief of the investment-financial department*



**Tatyana Selivanova,**  
*Chief accountant*



**Natalia Guseva,**  
*Chief of department of strategic  
planning and forecasting*



# FINANCIAL REPORT

# INVESTMENT AND FINANCIAL ACTIVITY

As in the previous years, in 2003 the Company paid special attention to the issues of realization of investment programs. Directions of investment were defined by solving the following strategic tasks:

- preservation and consolidation of leading positions in the target markets;
- improvement of quality of products, its technological level;
- striving to further growth of efficiency of work of the personnel;
- improvement of quality of corporate management;
- performance of tasks of business planning.

As to the results of the year, all the programs have been funded in full. The company continued to independently provide financing of developments. The basic source of investments was the own profit of the Company. The main direction of investment policy in 2003 was renewal of the active part of the main assets. From the total amount of money of 105,6 million rubles, invested for the last year, investments into a fixed capital were 43 493 thousand rubles or 85% of the amount for 2002 and 153% in relation to the investments for 2000. In order to purchase the main assets the profit in the volume of 33 402 thousand rubles was allocated.

Investments were directed to modernization of production and increase of its culture, research work (NIOKR) and intensification of the process of development of new units, improvement of the quality control system, training and improvement of working conditions for the personnel, development of marketing. Having renewed the main assets significantly in 2002, in 2003 the Company continued directing money resources for purchasing of modern equipment of high quality. In order to increase awareness of the environmental issues in production and to reduce its harmful influence on the environment in 2003 the Company implemented a project on reconstruction of blocks of industrial sewage facilities. Due to investments in development of automation of engineering work and intensification of the process of development of new units a park of computers and copying machines was essentially renewed, packages of the newest software were purchased.

In order to present the authentic financial information, increase of transparency of activity and attractiveness of our business to Russian and foreign investors the Company continued its operation in conditions of transformation of its financial reporting according to standards US GAAP.

# COMMENTS TO THE FINANCIAL REPORT

The company prepared the accounting report for 2003 according to the Order, established by the Ministry of Finance of the Russian Federation (Order No. 34H of 29.07.1998 "Provisions for conducting book keeping and compiling an accounting report in the Russian Federation"), to the Federal Law of the Russian Federation No.129/FZ of 21.11.1996 "About book keeping". Reliability of the information of the annual accounting report of the Company is confirmed by an auditing company "Auditing company "REKONA", having a license for providing auditing services in the field of general audit No. 009620, issued by the Ministry of Finance of the Russian Federation on February 6, 2002 (date of expiration - February 6, 2005).

During 2003 the Company had enough financial resources for carrying out its economic activity. Settlement of payments with all the partners were done in due time, there were no claims for infringement of terms of payment, nor any fines or other penal sanctions for delay of payment. In due time the company paid off wages to workers, making payments every ten days, i. e. 3 times per month.

All the year the company conducted its activity according to the accounting policy for 2003. According to this policy the balance was made, accounting proceeds in the course of shipment of products. According to the legislation since 2003 settlement of the profit tax was made by the method of charging.

The currency of the balance as of 01.01.2004 was 388 113 thousand rubles, compared to 01.01.2003 it increased by 51 623 thousand rubles or 15,3%. The own capital of the Company increased by 51 396 thousand rubles or 18,3%. The main source of growth of the own capital is the profit, gained during the year. In structure of balance a share of the own capital as of January 1, 2004 was 85,7% (as a rule - more than 60%), which testifies to the good solvency of the company. A total amount of sales, estimated in the process of shipment, was 412 013 thousand rubles and in comparison with 2002 it increased 1,4 times. In 2003 the Company made payments to budgets of all levels in due time. Only monetary forms of settlements were used.

Receivables as of January, 1, 2004 in comparison with January 1, 2003 increased by 10 823 thousand rubles.

In 2003, taking into account tactical tendencies, occurring in the market of mechanical engineering, the Company reconsidered conditions of supply of products. In 2003 key clients of the Company were granted delays of payments for the supplied product. The company considers, that it can receive a net price of sales of receivables by acquiring the funds directly and settlement of payments in cash. In 2003 repayment of receivables of the company in 99% was made in money resources. The company involved additional extra funds due to increase of debts on advance payments, received + 6 070 thousand rubles in comparison with 2003.01.01. During all 2003 the Company had steady indices of liquidity.

The main parameter of financial stability is a factor of probability of bankruptcy Z (parameter of Altman) was 4,19, while the recommended value is  $Z > 3,0$ , it means that this index is at a level "very low probability".

Directions of investments of 2002-2003, thousand rubles	2002, thousand rub	2003, thousand rub
Modernization, including purchase of new equipment, reconstruction of the assets	86 055	63 500
NIOKR (Research), preparation of production	9 402	10 900
System of quality	8 425	200
Marketing	939	3 200
Training of the personnel	803	1 188
Increase of floating assets	–	–
<b>In total</b>	<b>105 624</b>	<b>78 988</b>

## ACCOUNTING BALANCE/ASSETS

	Code of the line	As of 2003.01.01, thous, rubles	As of 2004.01.01, thous, rubles
<b>I. NON-WORKING ASSETS</b>			
Intangible assets	110	1 918	1 194
Fixed assets	120	190 341	216 719
Incomplete construction work	130	6 137	2 591
Long-term financial investments	140	13 139	22 590
Other non-working assets	150	7 356	9 797
<b>Total of section I</b>	<b>190</b>	<b>218 891</b>	<b>252 891</b>
<b>II. CURRENT ASSETS</b>			
Inventory	210	44 468	48 017
Including:			
Raw material, materials and other similar values		26 152	29 736
Expenses in work in progress		8 986	9 058
Finished goods and goods for resale		8 355	7 127
Expenses of the future periods		975	2 096
Value-added tax on the acquired values	220	3 483	4 140
Receivables (payments, expected within 12 months after accounting date)	240	42 413	53 236
Including:			
Buyers and customers		9 208	18 804
Short-term financial investments	250	19 975	13 724
Cash	260	6 255	15 105
Other working assets	270	1 005	1 000
<b>Total of section II</b>	<b>290</b>	<b>117 599</b>	<b>135 222</b>
<b>BALANCE</b>	<b>300</b>	<b>336 490</b>	<b>388 113</b>

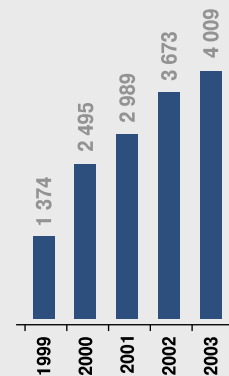


## ACCOUNTING BALANCE/LIABILITIES

	Code of the lines	As of 2003.01.01, Thous. rubles	As of 2004.01.01, Thous. rubles
<b>III. CAPITAL and RESERVES</b>			
Charter capital	410	79 100	79 100
Own shares, redeemed from shareholders		–	- 349
Additional capital	420	41 758	41 758
Reserve capital	430	19 775	19 775
Including:			
Reserves, formed according to constituent documents		19 775	19 775
Fund of accumulation	470	136 995	188 403
Fund of dividends	480	3 673	4 010
<b>Total of section III</b>	<b>490</b>	<b>281 301</b>	<b>332 697</b>
<b>IV. LONG-TERM LIABILITIES</b>			
Deferred tax liabilities	515	–	3 027
Other long-term liabilities	520	435	435
<b>Total of section IV</b>	<b>590</b>	<b>435</b>	<b>3 462</b>
<b>V. SHORT-TERM LIABILITIES</b>			
Loans and credits	<b>610</b>	12 800	1 200
Payables	620	41 087	49 687
Including:			
Suppliers and contractors		6 709	6 016
Debts to the personnel of the organization		94	–
Debts to the state none-budget funds		22	113
Debts as taxes and tax collections		4 806	5 182
Other creditors		29 456	38 376
Debts against participants (founders) on payment of incomes	630	867	1 040
Profits of future periods	640	–	27
<b>Total of section II</b>	<b>690</b>	<b>54 754</b>	<b>51 954</b>
<b>BALANCE</b>	<b>700</b>	<b>336 490</b>	<b>388 113</b>

## CHARACTERISTICS of the share CAPITAL

*Dynamics of the fund of dividends*



Company consistently realizes a dividend policy of balance of the current profits of shareholders and investments in development, providing growth of its cost, price of shares. In 2003 the Company has preserved the tendency of outstripping growth of the real size of dividends (in view of an inflation index). Successful implementation of the tasks of business allowed to increase the fund of dividends by 9,1%.

	2001	2002	2003
Number of shares	1 130 000	1 130 000	1 130 000
of them			
exclusive, pieces	231 250	231 250	231 250
ordinary (voting), pieces	898 750	898 750	891 530
Charter capital, thousand rubles	79 100	79 100	79 100
Nominal value of a share, rubles	70	70	70
Profit of share capital (one ruble of net profit for one ruble of share capital), rubles.	720	520	702
Capital profit (1 ruble of net profit for 1 ruble of capital), rubles	23	15	17
Dividends for one preference share, rubles	3,6	5,0	5,0
Dividends for one ordinary share, rubles	2,4	2,8	3,2
Balance cost (cost of net assets) one share, rubles	216	248	294
Aggregate profit of shareholders (net profit, directed for payment of dividends, without taking into account taxes), thousand rubles	2 989,5	3 672,75	4 009,15
for preference shares	832,5	1 156,25	1 156,25
for ordinary shares	2 157,0	2 516,5	2 852,9

## REPORT ON FINANCIAL RESULTS

	Code Lines	For similar The period Previous Year, thousand rubles.	For accounting The period, Thousand rubles.
<b>Profits and expenses of common types of operation</b>			
Proceeds (net) of sale of goods, products, works, services (less VAT, excises and similar obligatory payments)		295 139	412 013
Cost of sales of the goods, products, works, services		146 963	199 702
Gross revenue		148 176	212 311
Commercial expenses		24 388	33 695
Administrative expenses		71 865	103 743
Sales profit (loss)		51 923	74 873
<b>Other incomes and expenses</b>			
Receivable interest		1 872	718
Payable interest		1 660	680
Profits from participation in other organizations		4 553	9 254
Other operational profits		4 064	547
Other operational expenses		5 627	7 751
Non-sales profits		1 444	1 021
Non-sales expenses		4 335	2 455
<b>Profit (loss) before tax</b>			
Deferred tax assets		–	4 316
Deferred tax liabilities		–	7 343
Current income tax		10 893	17 083
<b>Net profit (loss) of the accounting period</b>		<b>41 341</b>	<b>55 417</b>

## CONCLUSION of the AUDITOR

### The auditor

**Name:**

Society with limited liability "Auditing company "REKONA".

**Location:**

119530, Moscow, Ochakovskoe shosse, house 13, building 2.

**State registration:**

Registration certificate No. 1150425, issued by Moscow registration chamber on 21.12.95.

**License:**

No. 009620, issued by Ministry of Finance of the Russian Federation on February 06, 2002 for auditing activity in the field of general audit, valid till February 06, 2005.

### Audited entity

**Name:**

Open joint-stock company "Plant of electronics and mechanics".

**Location:**

428020, Russian Federation, Chuvash Republic, Cheboksary, Ivan Jakovlev ave., house 1.

**State registration:**

Registration certificate No.526/7, issued by the Decision of the Head of Administration of the Lenin district of Cheboksary in Chuvash Republic on 12.08.92.

**Licenses:**

BO 12 101 0065 of 20.06.1998 - valid till 20.06.2003 (activity is prolonged by license BO-12-100-0942 of 18.07.2003 - valid till 18.07.2008), BO-11 101 0157 of 10.11.1998 - valid till 10.11.2003 (activity is prolonged by the license BO-11 101 0968 of 19.11.2003 - valid till 19.11.2008) and BO-12 101 0196 of 23.02.1999 - valid till 01.02.2004, issued by the Volga district Federal supervision of Russia on nuclear safety (Gosatomnadzor of Russia) for manufacturing of devices of control and regulation of technological processes at atomic power stations.

A number of permits, issued by the Federal Mountain and Industrial Supervision of Russia (Gosgortekhnadzor of Russia) for manufacturing and application of various devices and equipment.

## The results of auditing

We have carried out auditing of the enclosed financial (accounting) report of OJSC "Plant of electronics and mechanics" for the period from January 1 to December 31, 2003 inclusive. The financial (accounting) report of OJSC "Plant of electronics and mechanics" consists of:

Accounting balance (form No. 1);  
Report on profits and losses (form No. 2);  
Report on movement of the capital (form No.3);  
Report on cash flow (form No. 4);  
Appendices to accounting balance (form No.5);  
Explanatory notes.

The responsibility for preparation and presentation of this financial (accounting) report is upon the executive body of OJSC "Plant of electronics and mechanics". Our duty is in expressing our opinion about reliability in all its essential relations of this report and conformity of conducting book keeping to the legislation of the Russian Federation, based on this audit.

We have conducted auditing according to:  
The federal law of 07.08.2001 No.119-FZ "About the auditing activity";  
Federal rules (standards) of auditing activity, authorized by the decree of the Government of the Russian Federation of 23.09.2002, No.696;  
rules (standards) of auditing activity of an auditor;  
statutory acts of the body which carries out regulatory activity of the entity to be audited.

Audit was planned and carried out so that we receive a reasonable confidence that the financial (accounting) reports do not contain essential distortions. Audit was carried out on a selective basis and included studying (of the basis of testing) the proofs, confirming value and disclosure in financial (accounting) reports of the information about financial-economic activities, estimation of principles and methods of book keeping, rules of preparation of financial (accounting) reports, definition of the main estimated values, received by the manager of the entity to be audited, and also estimation of the general presentation about the financial (accounting) reports. We believe that this audit provides sufficient basis for expression of our opinion about reliability in all its essential relations of the financial (accounting) reporting and conformity to conducting book keeping according to the legislation of the Russian Federation. In our opinion, the financial (accounting) reports the OJSC "Plant of electronics and the mechanics" reflects authentically in all its essential relations its financial position in December 31, 2003 and the results of financial-economic operation for the period from January 1 to December 31, 2003 inclusive.

General director  
"Auditing company "REKONA" Ltd.  
L. Y. Zubynin

Head of auditing inspection  
The qualifying certificate of the auditor in area of general  
audit No. K 002556, unlimited validity  
(Order of Ministry of Finance of the Russian Federation  
No. 23 of 31.01.2003)  
G. A. Isaev

**March, 22, 2004.**

## TRANSFORMED FINANCIAL REPORTING ACCORDING TO US GAAP

Balance of the Company  
As of December 31, 2003

Balance Sheet  
KUSD, excl. VAT

Rep Code	ASSETS	OPENING BALANCE	CLOSING BALANCE
UB101	Cash and equivalents	197	615
UB140	Marketable securities	0	34
UB161	Trade Receivables	287	638
UB191	Non-trade receivables	519	387
UB192	Short-term loans	660	352
UB221	Prepaid expenses/accrued income	268	69
UB251	Advances to suppliers/contractors	644	765
UB270	Materials	824	994
UB272	Work in progress	313	327
UB274	Finished goods	274	252
UB290	Deferred taxes - current assets	0	0
<b>UB299</b>	<b>Total current assets</b>	<b>3,986</b>	<b>4,431</b>
UB381	Shares and participations	1,042	1,128
UB407	Other Intangible Assets	87	59
UB430	Construction in progress	196	417
UB450	Machinery and equipment	4,142	4,673
UB470	Land & Buildings	2,799	2,544
UB480	Deferred taxes - non-current assets	0	147
<b>UB498</b>	<b>Total non-current assets</b>	<b>8,266</b>	<b>8,968</b>
<b>UB499</b>	<b>Total assets</b>	<b>12,252</b>	<b>13,399</b>

Rep Code	LIABILITIES	0212AM	0312AM
UB521	Trade payables	204	204
UB595	Provisions	0	0
UB601	Income taxes due	0	0
UB611	Non-trade payables	357	584
UB621	Accrued expenses/deferred income	0	1
UB652	Other short-term loans	403	41
UB680	Deferred taxes – current liabilities	0	0
<b>UB699</b>	<b>Total current liabilities</b>	<b>964</b>	<b>830</b>
UB701	Advances from customers	743	1,001
UB726	Other non-current liabilities	0	0
UB731	Long-term loans	14	15
UB795	Deferred taxes – non-current liabilities	0	0
<b>UB798</b>	<b>Total non-current liabilities</b>	<b>757</b>	<b>1,016</b>
<b>UB799</b>	<b>Total liabilities</b>	<b>1,721</b>	<b>1,846</b>
UB819	Common and Preferred stock	3,448	3,436
UB820	Additional capital	0	0
UB869	Retained Earnings	7,083	6,967
UB880	Net income	0	1,150
<b>UB889</b>	<b>Total Stockholders' equity</b>	<b>10,531</b>	<b>11,554</b>
<b>UB899</b>	<b>Total liabilities and equity</b>	<b>12,252</b>	<b>13,399</b>

## EXPLANATORY NOTES TO THE BALANCE

The US dollar is accepted as an accounting currency.

### Assets

Balance entries "Machinery and equipment", "Land and Buildings" reflect the main assets of the company in the amount, estimated by an expert as of January 1, 2002 at final exchange rate of USD on December 31, 2001 and the main assets, acquired after 2002 at a historical rate of exchange at the date of acceptance to the account, taking into account the charged amortization.

Amortization is charged, proceeding from the service life, accepted in estimation of US GAAP standards. The data of the balance entries "Work in progress", "Finished goods" are evaluated at a monthly average rate, taking into account the entered balance and corrected with the amount on amortization, charged additionally according to US GAAP standards. The data of the balance entries "Materials", "Prepaid expenses/accrued income, Third party", "Other Intangible Assets" are evaluated at a monthly average rate of exchange, taking into account the entering balance.

The data of the balance entries "Shares and participations" (Long-term investments) are evaluated at a historical rate at the date of their entry, expenses incurred, of the balance entries "Advances to suppliers/contractors, Third party" - at a historical rate of exchange at the date of transfer. Other entries of the Assets are re-evaluated at a final rate of exchange at the date of closing of balance.

### Liabilities

The data of the balance entry "Advances from customers, Third party" (Advance payments, received from customers) are evaluated at a historical rate of exchange at the date of acquisition. The data of the balance entry "Common and Preferred stock" (Charter fund) remain constant at evaluation of the entering balance.

The amount of the balance entry "Retained Earnings" decreased in the amount of the charged dividends. The balance entry "Net income" is a rated one which is formed in the "Income statement" (Report on profits and losses). Other balance entries of the Liabilities are re-evaluated at a final exchange rate at the date of closing of the balance.

## TRANSFORMED FINANCIAL REPORTING ON US GAAP

Report on profits and losses of  
the company as of December  
31, 2003

Income Statement,  
KUSD, excl. VAT

Rep Code	INCOME STATEMENT	TOTAL
UE060	Revenues	13,463
UE063	Other operating income	0
<b>UE069</b>	<b>Total revenues</b>	<b>13,463</b>
	Material Costs	3,053
	Material Overheads	172
	Other Production Costs	3,716
<b>UA174</b>	<b>Production Cost of sales including calculated interest</b>	<b>6,941</b>
UA199	<b>Gross profit</b>	<b>6,522</b>
UA277	Total selling expenses	1,129
UA278	Total general & administrative expenses	3,781
<b>UA279</b>	<b>Total selling, general &amp; administrative expenses</b>	<b>4,909</b>
<b>UA399</b>	<b>Earnings before interest &amp; taxes</b>	<b>1,613</b>
UA438	Interest income	23
UA478	Interest expense	- 25
UA490	Financial gains/losses	93
<b>UA599</b>	<b>Income from continuing operations before taxes and minority income</b>	<b>1,704</b>
UA620	Current income taxes	554
UA636	Deferred Taxes	0
UA702	<b>Taxes</b>	<b>554</b>
<b>UA780</b>	<b>Net Income</b>	<b>1,150</b>



## EXPLANATORY NOTES TO THE REPORT ON PROFITS AND LOSSES

The proceeds are evaluated at a monthly average exchange rate. As a result of reassessment by the direct account the net profit has made 1 317 thousand USD. After adjustment according to the requirements of the US GAAP methodology the net profit has made 1 150 thousand USD. The reasons, which have influenced reduction of the profit after adjustment, are caused due methodological differences in formation of the financial report according to Russian requirements and US GAAP standards. Amortization in the amount of 557 thousand USD was charged;

The difference between the actual and historical exchange rates of withdrawal of long-term financial investments has made a negative value, i. e. the loss from sales and liquidation of long-term financial investments has made 220 thousand USD;

A positive exchange rate difference at transformation of all the balance entries has made 130 thousand USD.

Production cost, sales and general expenses are evaluated at an average monthly rate. The balance entry "Financial gains/losses" (Other non-sales profits and expenses) reflect incomes of participation in other organizations and from sales of the main assets, as well as losses from exchange rate differences in balance entries of cash and liabilities.

## General information

**Full name of the Company:**

Open joint-stock company "Plant of Electronics and Mechanics "

**Abbreviated name of the Company:**

OJSC "ZEIM"

**Legal and post addresses:**

428020, Russian Federation, Chuvash Republic,  
Cheboksary, I. Yakovlev Ave., 1

**State registration:**

Registration number - 526/7;  
Date of registration - 12.08.1992  
OGRN 1022101130314

**Tax payer Identification number:**

2128006240

**Register keeper:**

Cheboksary branch of OOO "REESTR RN" (Cheboksary)  
License for activity on conducting a register of owners  
Nominal securities No. 10-000-1-00246, issued by FKZB of the Russian Federation on 2001.12.25

## Contacts

**General director**

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**Executive director**

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**Director of quality**

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**Technical director of fixed capital**

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**Director in charge of the personnel**

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**Director of production**

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**Director of logistics**

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**Technical director of product**

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**Representations of the Company**

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