

**AVISMA/VSMPO investors' meeting on October 14, 1998
in FMC Group office.**

MH - Michael Haywood of Dart Family Management Inc.
BB - Bill Browder of Hermitage Capital Management Ltd.
VK - Vadim Kleiner of Hermitage Capital Management Ltd.
BS - Brian Steere of Hermitage Capital Management Ltd.
GL - Gennady Lopatinsky of FMCG
YL - Yuri Lopatinsky of FMCG
TB - Tom Balestrery of FMCG
FB - Frank Baker of Andersen Group
MM - Michael Matlin of Gabriel Capital

FB - ...and provide us with the documents so we can assess what to do with TMC.

BB - Is there any money in TMC?

YL - ...we have a set of financial statements, management accounts not true financial statements...

FB - This is sort of an example of the need to understand what our rights and obligations are which is the kind of thing that would come out of the sale and purchase of assets agreement, if it was a complete one.

YL - I don't think that it would come out of here at all because I don't think the purchase and sale of AVISMA, you mean, would have any mention TMC at all. In fact, there is no legal right to TMC. The point of TMC was to dissolve TMC altogether and bring [] back on-shore. The reason of TMC became an issue is because of the process, the registration process of swapping the shares, which gave investors the right to a certain cash-flow, because we took the risk until the time VSMPO took over AVISMA. The issue was supposed to be resolved right away.

BB - Does TMC still accrue profits until this day?

YL - Yes.

BB - If they are not answering phone calls, why would you overpay for inputs today, nothing to do with anti-dumping, nothing to do with buying raw materials. It doesn't make any sense that TMC still exists to do the purpose...

YL - That is one of the purposes of the meeting, to replace TMC with a different TMC type structure under control of VSMPO and investors. Dissolve TMC altogether or leave TMC as is. The problem is that it is very difficult to borrow right now anywhere and usually it is very easy to borrow against cash - in order to minimize tax. One of the major reasons that TMC exists only until last week we were able to restructure the

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YL - [No].

BB - So when you asked them to make a US\$87 million payment they did it on the basis of what?

YL - On the basis that we had US\$2.5 billion of clients... we had worked for three years knew our business and it was successful. Lots of transactions were done...

FB - Are you guys ready to go onto TMC? We can always come back and talk about it after these other guys have arrived here. Bring us up to speed about TMC, Yuri. We talked about it a little bit before to the point where it is inaccurate for me... it is a piece of history in terms of what is written... we bought the company, we created an offshore to raise a lot of money it is clear from Tom's documents and from the inappropriate pricing setup as a skimming device. Huge percentage of the profits of AVISMA ended up in TMC. And we are sort of relying on the good will of the manager there to say you guys raise your right hand I will send you a packet of money.

VK - How it was mentioned, let's say in the verbal agreement? Some kind of terms, cut-off date. How were the assets...

YL - The cut-off date was the 6th of December. That is the agreement we had with Rosprom. January 22nd when I came back to Russia, I was asked to leave Creditanstalt. After that followed massive changes in management at Creditanstalt. And TMC/VSMPO/AVISMA and many many other projects fell into a huge hole.

FB - Huge cracks!

BB - Did you tell them that there was a problem that needed to be fixed at TMC?

YL - They were aware of the problem with TMC. There was no problem at that time. There was a problem later on when money had been paid out.

FB - Who authorized those payments?

BB - Who was Peter Bond taking instructions from?

YL - Peter Bond was taking instructions from on certain payments from us.

BB - Who was the payment from?

YL/GL - That was me.

BB - ... giving payment instructions to TMC.

BB – He provided these figures yesterday?

YL – But there were some later disbursements of roughly US\$1.3 million he is not clarifying.

GL – They should be sitting in some other account.

FB – So, it's US\$9.7 plus US\$1.6 million.

GL – Right, something like that.

TB – There was basically US\$500 thousand disbursed in the last 2 months. So, there is US\$250 thousand each in the last 2 months...

GL - ... which have been disbursed and we do not know what it is.

TB – And then there was US\$1.1 million disbursed in the course of the last 6 months which is a total of US\$1.6 million and then on account here, and I presume this is on accrued basis...is US\$8.9 million.

BB – These are the expenses of TMC, Yuri. So, you are saying instead of the US\$800 thousand he is actually charging us US\$3 million a year.

TB – This is basically their fiscal year which begins November 1 to October 31.

BB – Administration fee US\$479,000, selling and distribution US\$1.5million.

YL – Normally they get 2 percent of sales.

GL – There is a US distributor that gets a percentage of sales.

BB – Is that normal a business practice?

GL – Yes.

BB – If we were to terminate TMC, is there anything that he does that could not be done by somebody else? Do we know all the tasks that he actually performs?

YL – The problem with TMC is that it has long term contracts with RMI and others.

BB – Why don't we use TMC purely as a tax loop, you know, sell at market prices to TMC?

YL – Then there is no point in TMC. There are two issues: one is taking control of cash flows, which is pretty obvious to everyone. The next question is what to do should we

YL - ...not going to take away...

FB - We could end up having that as a subsidiary of VSMPO.

YL - What we thought about is a trust structure for the beneficiaries being VSMPO/AVISMA because the Russian government can't get its hands on that. But still I think we get too much scrutiny and you will not be able to sell below market prices to them but if VSMPO can have a TMC type structure finances it at a 150% annualized you can take the margin out of this and can write off against tax the interest expense by the way of transfer pricing as long as the transfer price is for the benefit of the company not for the benefit of investors.

FB - So the general framework is to negotiate with him to see if he can establish reasonable cost, adequate safeguards, some trust arrangement. You know what you want to achieve, you want to achieve a company offshore which can sequester and harbor funds for other use, you want to minimize taxes, you want to have a 100% control over the guy both as a trustee of AVISMA as well as directions coming from the company itself.

YL - You are not going to have a 100% control unless you own the company yourself. I think you can get control if the board limits his authority. You should always keep at the back of your mind that he is still doing similar schemes for Menatep/Rosprom when it comes to other products.

BB - I think the decision is you engage him just as long as it takes to get the money out and we decide very clearly on an arms length basis whether there is any reason to use him or anyone else. One thing we don't know is what kind of commitments the company has made that we are not aware of or that in some way could harm us if we do sever the relationship.

GL - You got to do more than that, you got to start negotiations with him and start getting the money out, to start changing transfer prices so there is no money that stays.

BB - There is no money that goes in and any money that is in starts coming out. I think that the main task.

GL - As long as you change transfer prices he knows the money stops coming in. I don't think there is any clear way to do anything without him knowing.

BB - He knows his time is up.

MH - We need to make a decision is to what to do with the money. Hey, this is what we are doing with the money, so we need to get it out.

YL – Where we need to make a decision is what to do with that money – VSMPO/AVISMA or us?

FB – The US\$10 to US\$11 million?

YL – Whatever is there.

BB – It goes pro-rata to the investors.

YL – At the same time there is US\$4.8 million stuck in Menatep, which AVISMA lost. We were only able to get US\$1 million out, the rest is stuck in the account at the moment.

BB – Whose money is stuck in Menatep? AVISMA's?

YL – Yes. AVISMA money. Three months ago we ordered the financial director to close all accounts at Menatep to transfer to IMB and so forth. We presumed that it happened, but it turns out on August 17th we still had accounts. There were payments made to Menatep by TMC or whoever that were passed down to AVISMA that were stuck in there as well... So since then we have forced the closure of all the accounts in Menatep and moved it all to Sberbank and IMB and we fired the financial director... Another capital expenditure that is going to be necessary for the company is working capital to make it through the difficult winter as well as money to settle the Permenergo debt obviously.

FB – You are saying that some of these accounts have to come out of this US\$12 million. The settlement of Permenergo debt...

BB – That is going to hyper-inflate away.

YL – In order to eliminate the fines and fix a price – that is not free.

FB – They are a major user there in...

BB – So is everybody else is major user and no one is paying them. We have looked in to this very carefully. These guys are probably some of the better payers around.

YL – Here is the situation with AVISMA. When we took over the company we stopped paying all the various bribes to the regional government. All of a sudden, we don't have a good friend in the administration anymore even the criminal groups are not getting paid. There are people who want to take over AVISMA and run AVISMA.

FB – How much is that? US\$1 million?

YL – No, it is RUR160 million about US\$20 million.

FB – I thought you guys had come up with an overall settlement...How much is that?