

Clements House  
14/18 Gresham Street  
London EC2V 7JE  
Telephone: +44 (0)171 367 8000  
Fax: +44 (0)171 367 8001  
DX 206 London  
e-mail: rakisons@rakisons.co.uk

**RAKISONS**

Solicitors

Mr Dan Wilson III  
Managing Director  
Creditanstalt Investment Bank  
Pavelelskaya Square  
1 Valovaya Street  
MOSCOW 113054  
Russia  
**BY COURIER**

and  
Mr Willi Hemetsberger  
Chairman  
CA-IB Investment Bank  
Nibelungengasse 15  
A-1011 Vienna  
Austria  
**BY COURIER**

and  
Board of Directors  
CIS Emerging Growth Limited  
50 Kensington Place  
St Helier  
JERSEY JE4 8PS  
Channel Islands  
**BY COURIER**

22 December 1998

Our Ref: ASWFB/CB/H0174000267/42964

Dear Sirs

**VERKHNE-SALDINSKOYE METALLURGICHESKOYE PROIZVODSTYENNOYE  
OBEDINENIE ("VSMPO") and JSC AVISMA TITANO-MAGNESIUM PLANT ("AVISMA")**

We are English solicitors instructed on behalf of Oba Enterprises Limited, Cerasus Investments Limited, Pascani Holdings Limited, Gabriel Capital L.P., Apricus Investments Limited, International Real Returns Inc., Andersen Group Inc. and Greencastle Enterprises Limited (collectively the "Investor Group"). We write in connection with the actions and representations of Creditanstalt Investment Bank ("CAIB") and its wholly owned corporate vehicle CIS Emerging Growth Limited ("CISEG") which resulted in the acquisition by our clients of VSMPO shares through an initial purchase of AVISMA shares which were subsequently exchanged for VSMPO shares issued to our clients (the "Transaction").

Anthony Wollenberg Joel Adler Paul Egerton-Vernon Simon Vivian Jane J.  
Christopher Hoyle Brendan Patterson Jonathan Polin Martin Gordon-Russ  
David von Hagen Daniel Preiskel Paul Hosford Mark Parkhouse Michael Thornpy  
Consultant: Professor Gerald Wakelin

RAKISONS

Mr D Wilson - Creditanstalt Invest Bank  
Mr W Hemetsberger - CA-IB Invest Bank  
Board of Directors - CIS Emerging

4

22 December 1998

honest agent of the Investor Group with no conflicting financial interests. Had the Investor Group believed otherwise they would not have participated in the Transaction.

(c) TMC

CAIB explained that under the ownership of the Sellers, AVISMA like many Russian companies, implemented a transfer pricing policy which was designed to divert profits and hard currency away from local tax authorities, currency regulators and minority shareholders. The Sellers controlled AVISMA's acquisition of raw materials and distribution of finished products through a company called TMC Trading International Limited ("TMC"). CAIB represented that TMC skimmed profits using transfer pricing methods which essentially transferred profits from AVISMA to TMC. This was achieved by causing AVISMA to sell its output of titanium sponge at less than market prices to TMC and to purchase related inputs of ilmenite at prices in excess of the market price, to the significant detriment of AVISMA's bottom line profitability. In essence, AVISMA showed profits of US\$2.69 million in 1996 while TMC was estimated to have made up to US\$20 million. The "profit" was going directly back to the Sellers instead of being channelled back to AVISMA.

CAIB represented and agreed that as soon as the Investor Group obtained control of AVISMA, CAIB would terminate the transfer pricing operations which were eroding or eliminating AVISMA's profits. CAIB represented that any profits which accrued during the dismantling of the TMC transfer pricing operation would be the property of the Investor Group, and that the Investor Group through its acquisition of AVISMA shares would acquire complete control over TMC.

The Investor Group participated in the Transaction because it believed and relied on CAIB's representations that the transfer pricing operations would be terminated immediately upon their purchase of the AVISMA shares by the Investor Group. This was important to the Investor Group both because of its bottom line economic effect on AVISMA (that is, that the transfer pricing operations prevented AVISMA and its shareholders from receiving profits), and because the elimination of the transfer pricing operation would end AVISMA's participation in an uncertain network of relations and activities with unknown liabilities for AVISMA and possibly the Investor Group. Without CAIB's representations in relation to the transfer pricing operations, the Investor Group would not have participated in the Transaction.

(d) Bank Menatep

CAIB represented and agreed that as soon as the Investor Group obtained control of AVISMA, CAIB would procure that CAIB, or its indirect parent company, Bank Austria, or some other suitable banking service provider would be appointed as bankers to AVISMA in place of Bank Menatep.

Both CAIB and the Investor Group believed that there were unnecessary credit risks as well as risks of being overcharged by continuing to keep AVISMA's cash reserves in Menatep bank accounts after the purchase of AVISMA shares by the Investor Group.

RAKISONS

Mr D Wilson - Creditanstalt Invest Bank  
Mr W Hemetsberger - CA-IB Invest Bank  
Board of Directors - CIS Emerging

12

22 December 1998

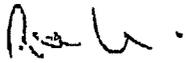
---

**Conclusion**

The Investor Group's participation in the Transaction was induced by material representations which are now established to have been false at the time they were made. In addition CAIB and CISEG have acted negligently and in breach of agreements and fiduciary duties. They and/or their employees have secretly and unjustly enriched themselves at the expense of the Investor Group and the value of the Investor Group's interest in VSMPO has been eroded as a result of this egregious conduct on their part.

In the light of the facts presented above, the Investor Group is entitled to the fullest of explanations supported by the relevant documentary evidence. We look forward to receiving your written explanation, supported by all relevant documentation, in the next 14 days. If an adequate explanation is not obtained, proceedings will be commenced claiming rescission of the Transaction and the repayment of US\$35,640,000 with a claim for damages and/or an account of profits in the alternative.

Yours faithfully

**RAKISONS**