

**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

Permenergo debt. Last week we restructured the Permenergo debt. The risk was that Permenergo files for bankruptcy and take all the funds that are coming in. There is no point in bringing money on-shore until AVISMA is clear of debt. Otherwise the company would be liable to Permenergo for its debts. Now that VSMPO/AVISMA have signed an agreement with Permenergo for the debt, canceling out all the fines, and going to pay out the body over a two-year period. Fixing or lowering the price ... now that that is pretty much in place.

FB - The problem Yuri is obviously we don't own TMC and TMC is accumulating most of the profits out of AVISMA, and you don't own it, that is a problem. Maybe they will be nice guys and give you your money but how do you know.

YL - You absolutely right, that is the problem. Menatep/Rosprom never really owned TMC either, they could never sell it.

BB - That doesn't matter. We could've stopped the day we bought the company, stopped buying raw materials for AVISMA, stopped selling finished products.

YL - But we didn't.

BB -OK, well, anyways. Today we can stop doing that. Apparently this guy was making US\$800,000 a year.

YL - I think that he was making more than that -- much more.

FB - Yes, but you guys from the very beginning identified that huge skim-off operation. One of the things that was amazing was the profitability of AVISMA despite the skim-off.

YL - No. There are two issues here: one, bringing money back on-shore, effectively bringing money back on-shore through loans from TMC that will not be repaid from investors and forget about TMC or leave it for the benefit of the company. It is very difficult to run a company to pay proper salaries using large petty cash to pay bribes necessary to keep the business function. There needs to be some sort of monies from TMC to settle US\$2 million to Soda. We had decent relationship more or less...reduces the risk that Mr. Peter Bond will not pay any money out.

BB - Do you have any kind of written agreement with him?

YL - No. There is an understanding that the monies due, no documentation to show that the cash flow belongs to VSMPO. And he has never said anything different. There is a whole...

BB - Do we have any legal recourse if he says "F--- you" I'm keeping this US\$10 million?

YL - No, there would be no legal recourse because he is the sole owner - that is the way - that it was structured so there would be no anti-dumping.

BB - Anti-dumping only applies to the products being sold out, if I am not mistaken. If you look at the E&Y report about half of the profits come from over-paying for raw materials going in.

GL - No, no that is not correct. It is about 10-15 per cent of the profits. One transaction which Menatep did.

VK - Maybe we can start just from the very beginning of this deal because there is a lot of black holes for us from the very beginning. Can you depict us what was verbal agreement with Menatep, what was written from your point of view.

YL - Let me just clarify that. I am not going to discuss the role of CAIB, not going to discuss anything which would compromise CAIB's relationship with investors given that there may be legal proceedings in the future. Let me explain the size of the deal. Neither Menatep nor Rosprom was a party to the transaction - these were all companies unaffiliated with Menatep. The number of the shares participating in the swap was 776,000 shares of which 45,000 did not qualify for TMC or participation in the profits.

FB - Yuri, just for all our benefit, let me distribute this around.

(Michael Matlin, Gabriel Capital called in)

FB - Michael, this is Frank Baker from Andersen, we were just ... we have about an hour or so before the accountants arrive and representatives of the company to talk about other subjects so we began this morning, ... Yuri was about to begin with a general discussion on the acquisition of AVISMA, the exchange of VSMPO. So, we started going back over the basics on the transaction. Two pieces of paper have been distributed which you obviously can't see - one was a letter to Creditanstalt asking them for transparency and disclosure of particular documents. The second was just a summary that Yuri put out back in April on what the number of shares are that were involved in the transaction. I think that is exactly where you were with the talk Yuri. Do you want to go back over that number of shares again?

YL - The number of shares was 731, 000 shares of AVISMA that were purchased for the purpose of converting into VSMPO. 45,000 shares were allowed to convert with the same co-efficient as if they were current management shares of AVISMA. [missed quote]

The clients, I am not at liberty to discuss which clients got what. We figured that what Menatep was offering, 60/70 per cent of the company would not be enough to take control of the board. Tried to get as far as possible to 75% and we settled, without putting much more money to work, at 70% of the company through various negotiations and agreements with Menatep, Menatep did not own much more of the company than 60 % themselves. After agreements with Solikamsk Magnesium, after agreements with

Pioneer, no it wasn't Pioneer, it was First Voucher we stopped at 70% instead of going on to 75%. Regarding the money paid to Menatep, once again, the money was never really paid to Menatep or Rosprom, it was paid to the companies affiliated with Rosprom, there were consultant fees paid out and there were shares bought from management at prices that do not correspond to Menatep's prices.

BB - Menatep's price was the same price as we paid?

YL - Menatep's price was not the same price as you paid. Menatep's price was US\$ 30 per share which went to the Registrar because we didn't want the price to be lower than the market price otherwise we would have an obligation and the rest was paid in consulting agreements and total up the number and this was paid to Menatep because you have the entire transaction as a whole.

FB - While we are all focused on this thing, I had from my own agreements and from a couple of others that I have seen, the all in price US\$125.83. In other words, when we got our agreements back from Creditanstalt that was the number they had inscribed US\$125.82 multiply that by 696,626 you get US\$87 million for the transaction. Does that make sense to you? Does anybody else any other number as a basis than US\$125.83. That's your basis?(Darts)

MH - US\$ 87 million is the number I have seen.

FB - The individual contracts that were sent back, sort-of, remittance advices kind of formal brokerage piece of paper, in our case had this much money. Bill, is that your number?

BB - That's our number.

FB - That is the all in price? If one was to sell it in New York where you had a basis, that would be your basis?

YL - Yeah, for certain investors. Don't forget that there were 40,000 that were purchased extra.

FB - They were what?

YL - The difference between 731,000 and 696,000 shares that were purchased later or earlier for that matter.

FB - Out of the US\$ 87 million number, roughly, because I understand exactly what you went through and I think that we all ought to say, jumping ahead of the conclusion, we got, despite the present prices, a real good company. We went out there and looked at this company and it is a real good company so let's remember that. Obviously, this is a whole very complex exercise. But if you add up all the stuff that went to affiliates and consultant contracts and everything, what number do you think that is in there?

YL - I believe that all in for the 731,000 shares roughly the same price.

FB - US\$ 87 million?

YL - Roughly, yeah.

FB - The 731,000...

BB - Is it 731,000 or is it 696,000?

YL - 731,000. This was not all one deal. It was supposed to be an agency transaction, but because of the complexity of the transaction and because investors did not pay what they were supposed to pay, Creditanstalt took a big chunk of risk of the sub and also, only in December did we realize that the Menatep stake would not be enough to take full control of the company. The assumption was that the Menatep stake alone in the Registrar would be enough to take 100% cash flow and full management. That was not the case because there are lots of general directors, top management held shares, were awarded shares for free by Menatep and so forth. They had to be taken out so as not to screw up the situation. There was some time lag until new management would come into AVISMA and we only had a few people on the board - Max, the Chairman and Vice-Chairman. With the change in management in Russia there is a lot of theft. We were afraid that things would be moved out. We had to eliminate other people associated with the company.

BB - So, US\$87 million was exchangeable for more than 696,000 shares? It was exchangeable for 731,000 shares?

YL - We were not exactly sure exactly what the dollar amount was until the transaction - you have to look at all. It is not easy to see what the price per share was because lots were minimizing the money because of certain investors not paying what they were supposed to pay. We had to figure different methods of payment. For example...

FB - Certain investors didn't pay? They all paid eventually to get those shares, is that right?

BB - Was I subsidizing other investors?

YL - No, other investors were subsidizing you.

BB - Was he (Darts) subsidizing me?

YL - Yes.

BB - So, he was paying a higher price per share that I was?

YL - No, that's not the way it turned out to be.

BB - How did that work out? If I paid US\$ 125 and he paid US\$ 125.

YL - Actually, in matter of fact, I don't think any other investor was subsidizing. I think they were subsidized by Creditanstalt and Creditanstalt affiliate companies.

BB - Creditanstalt lost money on this transaction?

YL - That may be the case. Take a look at it, since there was not enough cash to go round, other shares were swapped for shares of AVISMA as well at a similar coefficient.

FB - So, why have we got the subsidy?

YL - Because... somebody had to pay for those shares. And times were very difficult and we had to bring in other investors, others who brought in new money that were not part of the deal and Creditanstalt and related funds had to participate because it was more important - I was taking control of AVISMA, making sure that the company functioned. We had no firm obligations from investors, although we as Creditanstalt, had committed.

FB - Yuri, was Creditanstalt a...they were an agent of VSMPO because they took a consultant contract with VSMPO to pull this deal together. Is that right?

YL - That was a nominal contract representative... As a matter of fact, I think, I am sure Creditanstalt lost money because VSMPO never paid. No, that was simply nominal. VSMPO, somebody had to negotiate in good faith with the various organs in order to get this thing done which a lot of money was spent on paying for anti-monopoly approval, the Federal Securities Commission, somebody speaks with Bank, somebody speaks with Soda, somebody speaks with the Property Fund (who tried to investigate the transaction).

FB - The way that works... Creditanstalt had US\$87 million of investor money in a segregated account somewhere probably.

YL - No.

FB - They didn't have US\$ 87 million?

YL - No.

BB - When did the trade settle?

YL - The trade settled - I am not sure. All I know is that Creditanstalt signed a sale and purchase agreement for funds committed.

BB - So if we committed in September on a subscription agreement.

YL – Those subscription agreements were made pretty clear to us by a number of investors were not valid. If they were valid, then all investors would have paid in full the money – not all investors paid.

FB – I guess what I'm saying is, whether the agreements were valid or not, cash eventually went into Creditanstalt. For example, we sent our cash straight according to the wire transactions and most of the rest of it is here. We must all have written or checks and done wire transfer to Creditanstalt. So they had a pool of money. And I guess my question is, do you think that that pool of money was US\$87 million at the end of day?

YL – You have to look at the whole transaction, not just at one part of the transaction.

FB – By "all transaction" you mean all of these other costs that you just ran through.

YL – It refers to the other shares that Creditanstalt – the swaps of the shares – all the other payments.
[missing]

FB – Obviously, it is very complicated. So we asked them [Creditanstalt] to give accounting fundamentals.

YL – I am sure you will be comfortable with it. In fact, you should be very comfortable with it.

FB – So what you're saying is you really don't know whether the total transaction was US\$87 million or not?

YL – I could estimate that... The question always was did we make a spread or not. I don't think there was a spread. I don't think that after all the things []. The difference between what was paid to Menatep or rumored that were paid to Menatep and payments made not only to Menatep...and to various associates of Menatep, and when you take everything together there was no spread. Officially, there was spread. Shares were paid at US\$ 30 per share. That was the registrars price because if VSMPO completed the purchase of AVISMA prior six months you would use that price as the exchange price – as the price at which you have to offer all other shareholders of AVISMA to sell their shares. That would put an undue burden on VSMPO's cash flow. It turned out not to be important actually because it took 9 months. At the same, it was those agreements that Pioneer and Ermak brought up as examples. Now if the price was US\$125, we would have a much harder case than the US\$30 in the registrars.

BB – Just going back to this US\$ 87 million and we could probably confirm right now if we went around the room how much you put in, how much we put in, whether we had US\$ 87 million and we could also probably confirm how many shares that represented.

FB - I think we are pretty safe on the US\$87 million Bill, because so much of it has been accounted for amongst three or four people.

BB - You put in US\$50 million (Darts)-is that correct? We put in US\$18.64 million, US\$10 million (Ofer), US\$2 million (Andersen).

MH - I think that the question is not the US\$87 million but where the US\$87 million ended up going. Whether there is any extra we can not account for.

BB - How much did you put in (Gabriel Capital-US\$5 million)? Ok, so far I have US\$85.64 million based amongst what we have in the room and US\$85.64 million was exchangeable, as far as I can tell, for 696,626 shares, is that correct?

YL - It is your transaction.

BB - Why is it our transaction? It is not my transaction. 696,626 which are from the Rosprom block and then we have this management for 34,000, which works out to be US\$124.88 per share.

FB - That's very close to what they confirmed at US\$125.

BB - So, US\$87 million, everyone paid the same amount per share - there was no subsidy as far as I can tell and we have this US\$124-125 share price. Are you saying that that amount of money was paid to Creditanstalt?

YL - ... I have a separation agreement with Creditanstalt and I can't discuss ... No one benefited directly from Creditanstalt in this transaction. We had a shit load of problems on the first week of December when we realized that certain investors were changing their investment. We had to find various means to get to our goal. Our goal was to take control of AVISMA...

FB - The issue, of course, will come from Creditanstalt themselves as to where they spent the money. They had US\$87 million, how much did they pay Menatep, how much did they have to pay to the lawyers and all these other services that Yuri has just gone through.

YL - There was due diligence by Le Boeuf, Lamb, due diligence by local law firms.

BS - But I thought this is separate from the purchase price, the expenses were going to be paid by the investors outside of that. That's what the agreements...

YL - But they never did.

BS - That's not the point. The agreements say that. And that money that we paid for the investment was not meant to be going towards due diligence cost, legal costs because we were going to pay that outside of that.

YL – You were not going to pay that, that's the whole point... If they were going to pay that would have been a much different transaction. It would have been an agency transaction and it would have been transparent from every single point. The situation changed. People defaulted on their obligations.

BB – Is it our business if someone else defaults on their obligations. If you wanted to rely on people's commitment to you, should it be our business to subsidize somebody else's default, should we take the credit risk of your other clients?

YL – No, Creditanstalt did.

BB – You are saying that the deal has changed and there is a different term to the deal because of default by another one of your clients.

YL – Creditanstalt was taking a principal role in this because two investors out of the group defaulted on their obligations.

BS – Which affected all the other shareholders?

FB – So, you were short against your goal?

YL – Sorry, three investors. One walked away altogether.

FB – One guy walked away altogether. At the end of the day you were short on the total amount of money raised?

YL – Absolutely.

FB – Ok. So how did you handle that?

YL – We did various swaps- asset swaps with people within Menatep...

BB – How could that have happened though? Because it looks to me like we spent the money – the US\$87 million went to pay for the shares.

YL – 731,000 shares...

BB – The only difference between 696,000 and 731,000 is CADRM which as far as I can tell is a Creditanstalt growth fund or something like that.

YL – Which purchased a lot of the shares because Creditanstalt could not take as much on its books as it wanted to.

BB – So these CADRM shares were purchased from Menatep at the same time as transaction was going through?

YL – They were swapped – some for cash, some were given VSMPO shares... We scrambled as much as possible whatever cash and assets we had available.

BB – Why did you purchased shares... There is Rosprom block, there is management. These CADRM shares came from where? – came from Rosprom block, came from management?

YL – Came from management, came from other people... it's not just that, it wasn't like that, it was Rosprom people...

BB – The Rosprom block is one block. We all know that, it is a confirmed fact. It was one seller, it was one entity that made a decision about selling its block.

YL – It was three, four, no, five different sellers. There was the existing management of Rosprom, there was the existing management of AVISMA, there were consultants, there were people responsible for illuminate – who also had shares, there was management of AVISMA who stayed on – we had to be sure that they would be working for us rather than for themselves.

FB – It seems to me we can't get blood out of a stone. This is a transaction where there is a ton of individual transactions that we have to get an accounting on. If you want to get to the bottom, you are going to have to get an accounting on it.

BB – So far these guys have refused to supply us with an accounting.

FB – At the moment they have refused.

BB – We have been asking questions about this transaction since February and we haven't gotten any answers from CA or the guys who did the transactions.

FB – Would you be willing to move on to a slightly different subject in view of the fact that in an hour this guy is going to be here. If you want to get anything you can deal with, you are going to have to lay it off line by line.

BB – I don't want to give this up in totality but if you want to move on, we can come back to it.

FB – Is that all right. Yuri, what documents exist? At the end of the day, so we can figure out when we came down to TMC, do you have any rights on those guys or not? What documents exist on this deal? Was there a purchase and sale of assets agreement?

YL – We do not own TMC.

FB - Was there ever a purchase and sale of assets agreement? Never? In other words a classic thing where the target company, or in this case AVISMA, lists its licenses, liabilities, warrants its balance sheet - all that stuff never existed?

YL - No. All we have is a legal due diligence. Check on privatization. This is work you really can't do...[]. TMC was never that much of an issue because the whole point was that TMC was going to be dissolved.

FB - Ok.

YL - ...regardless of the various changes within the management in CAIB, this project...

FB - Did we did get down to... I know of an agreement that circulated around, may be some of the larger investors got it, which was an agreement to subscribe. A 4 or 5 page agreement to subscribe that went back and forth between Le Boeuf and major investors 2 or 3 times.

YL - It was in the folder. In the memorandum...

FB - The point is, the ones I have seen are scribbled all over, and people making lots of corrections and changes, did that thing ever get finalized in your view?

YL - It was never finalized.

FB - But people did sign them sort of in blank.

YL - They signed the paper just saying that, some sort of agreement. We had to go to Creditanstalt and say, hey, let's commit this money because we have been working with these investors and they are not going to default on commitments that have been made. So we just asked for a nominal piece of paper. Everyone agreed, Le Boeuf agreed that... the agreement of all the investors to make payments to purchase the shares was not enforceable. This was in September. In December... we had spoken to investors again and realized that we had a changed situation and some said yes and some said no.

BB - Prior to the default of certain investors in this transaction, how were you expecting to make your money?

YL - Actually, at that point, we were going to make our money somehow from this transaction. VSMPO giving us shares, paying us some money.

BB - Did you have an agreement with them to give you shares?

YL - Verbal agreement.

BB - And agreement was to give you, if I remember correctly, they were going to give you some options on shares that they had. So, basically in your mind that was your compensation for having brokered this transaction.

YL - That was supposed to be the compensation. But we couldn't...

BB - Just to characterize it, in your own mind, you said to yourself: this is a complex transaction, we are working for VSMPO, they are going to pay us some money - 4% options something like that plus some money, and you would try and find some investors to buy AVISMA and swap it for VSMPO.

YL - That's not how it started. It started, not with VSMPO, by the investors, let's buy a controlling interest in a key sponge producer and then through it take a large stake in VSMPO. We weren't really thinking about the money. We would make somehow later on. It was supposed to be a simple transaction but... complicated and this market wasn't ready for this.

BB - Just sort of to go through how you were hoping to make your money, you were hoping to make your money through VSMPO?

YL - ... we never really thought how we were going to get paid for this transaction.

BB - But at the end of the day, before there was any problems with who was not honoring their commitment and soon on, in your mind it was an agency transaction, you were going to get paid by VSMPO.

YL - Not really... that was something that... we started accumulating AVISMA since 1996. This deal was going to go into the Harvard Business school case study.

BB - But at the point in September 1997, when we all were reading through Tom's research report and we were discussing the transaction, the way it had been characterized in your mind, is that your upside was in owning VSMPO shares and it was an agency transaction? It didn't turn into a principal transaction until later, is that correct?

YL ... the upside was the fact that we were going to [] management...

BB - I guess I am trying to be very specific. What I am trying to understand is were you acting as an agent or were you acting as a principal? Prior to the time when the transaction closed.

YL - We were hoping to get as many [] as possible...like we usually do.

FB - These are agency agreements I think. Do you guys think? Mike, did you sign one of these?

MH - I can't say, I am not sure.

FB – This appears to be the fundamental agreement, this is an agreement to purchase shares, it is an agency agreement. On the back of this thing, not on this one, there is a subscription agreement, so everybody signed these his own subscription – like this. That is why I asked you earlier, what was the final status of this thing?

YL – There was no final status. All this garbage was done so we could present it one day in a Harvard case study. You never do this to begin with. This is a useless piece of paper, like all the pieces of paper that were signed. And we did this so we could present this on a later day. In this transaction we do need this at all.

FB – All this does is that it gives the investors some rights with respect to the overall transaction of transparency and clarity and describes... and limits the amount of fees and so on. Le Boeuf prepared this, I think, on behalf of the bank, I think.

YL – We tried to negotiate it. Tried to get people to make their comments and it was not possible to finalize.

BS – So this was not negotiated in good faith?

YL – What wasn't in good faith?

BS – You didn't negotiate this in good faith because you just saw it as a piece of paper that was irrelevant?

YL – No, this was supposed to give certain investors certain rights if VSMPO did something they were not supposed to do. Tried to protect investors from... But we could never get this thing off the ground...

FB – Well, was there anything controversial about this, I have seen two drafts of it and it looks like it was coming along all right. People made their comments and Le Boeuf incorporated them and so on. Just seemed to me like a pretty standard piece of paper?

YL – It was very controversial... There were antimonopoly issues, Rosprom out of the deal – there was a number of things, the question about spread, the purchase price officially was US\$30 per share, unofficially it was a different price. There were lots of problems.

FB – All of those problems which you have just mentioned though actually are acquisition and merger problems. This is simply relating to the subscription. I guess the status of thing is up in the air from what I can see because some people signed, I think we did sign subscription agreements which are Exhibit B to this thing.

BS – We did as well.

FB - Even though we didn't sign a clean neat one, it had been the ringer two or three times... But it seems to me is it would have been easy to finish off. Did the bank have any problems with it?

YL - Yes, the bank had enormous problems with the representations made. This wasn't written by Le Boeuf, it was written by Max Volsky and given to Le Boeuf to structure the proper document. Every single clause there was a problem with the language had to get antimonopoly approval.

FB - The lawyers on this from Le Boeuf certainly performed on this contract. What was the role of Creditanstalt's in-house lawyer?

YL - He is not a real lawyer.

FB - He is not a real lawyer. So a very limited role.

YL - Max Volsky.

FB - There was no other lawyer other than Max in-house?

YL - Max was just trying to save costs.

FB - If we get down now to where you see my letter asking for a closing memorandum. What will they have? They will have wire instructions, right?

YL - Not sure.

FB - So they can say that I paid so-in-so so many dollars...add all that stuff up and at least...

YL - If they provide any.

FB - If they provide any, yes.

BB - Why wouldn't they?

YL - Because there is a certain tax liability that the Rosprom Group and those companies incurred.

BB - Did Creditanstalt indemnify them against their own tax liability?

YL - What Creditanstalt did in this trade is fraud.

BB - Why would Creditanstalt get done for fraud?

YL - Because Creditanstalt as you know officially signed the sale and purchase agreement for US\$30 per share in the registrar.

BB - That is their own reporting requirement not Creditanstalt's.

YL - That is fraud. It was done for the benefit of the investors who entered into this transaction.

FB - Are there any there documents that you can remember that would help us unravel the thing?

YL - There was a master agreement which was written and ripped up because the master agreement documents the entire transaction...

FB - It was ripped up when it was signed and it was ripped up when it was finished?

YL - Yes.

FB - That's interesting. So, that would be of help.

YL - ... I am not sure if they have it. If they have a hard copy they may have destroyed it.

FB - Anything else?

YL - Not that I am aware of.

FB - So that was a sort of a purchase and sale of assets agreement that was ripped up?

YL - No.

FB - Ok.

YL - ...

FB - It would have been reviewed by Le Boeuf, right?

YL - ... I can imagine they did.

FB - Sound pretty complicated, pretty important thing. So, probably they have got a copy in their file. That would be my guess.

YL - What I know is that there were two copies - one that ... with Rosprom and ours was destroyed.

BB - Was anyone involved from outside of Russia in reviewing the documents?

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.

FB – Guys just for the record we studied the E&Y report. Remember I said earlier that Creditanstalt had authorized E&Y because the cut-off issues were very complicated. They have rendered a report, it is a hard report to follow. It is not an audit and it is certainly not a cost-accounting document but it is very good with respect to cut-offs...

YL – Brecht is going to be right now. VSMPO claimed that they should receive all the money out of TMC. After long negotiations, we persuaded them that it was investors' risk. Then there was an issue when that was in June ...

FB – Is it factual?

YL – Yes, it was factual. In June the share swap took place, there was a problem. In effect on October 5th ... Yesterday they confirmed to me, yes, all the money to October 5th belongs to the investors.

FB – December 6th to October 5th?

YL – Yes. It belongs to investors. After which it belongs to VSMPO...

BB – Assuming that Peter Bond pays us the money.

GL – Now there is a risk. There wasn't before.

BB – He was taking instructions from Menatep Bank.

GL – He was also taking instructions from us.

TB – Gennady, you were there right?

GL – Where?

FB – At AVISMA talking to Bond occasionally?

GL – Yes. I have never met him...

FB – Who was Bond responding to? You or Menatep or both?

GL – Right now?

FB – During this period we are talking about – December 6th to October 5th.

GL – There were some transactions that were done, such as with strategic reserve sponge, that was still Menatep's money. Basically that was the agreement, I believe. That was all shipped or in the process before December 6th. But the money was still coming in and supposed to have been distributed. I am not quite sure whether Bond knew exactly, may be he knew exactly, but didn't care where the cut-off was. At which point the money

should stop going to Menatep. He has been taking instructions from us. We have only authorized disbursement to SODA – for settlement and some salaries which was about US\$160,000. That is it, we haven't disbursed any more money. He has been receptive. Anything we called he answered. Any questions we had he answered. There was never any question about his compliance. He was clearly advised who to take instructions from. Obviously there is no legal obligation on his part as there is no legal connection between AVISMA and TMC.

FB – I think there is a legal connection.

GL – There is no way to prove it... If the US Department of Commerce didn't find it...

BB – US Department of Commerce is not necessarily the standard...

YL – You can show a relationship between AVISMA, not from US point of view. You can show a relationship between AVISMA and TMC from Russia. The cost of that is enormous, much greater than what TMC is getting.

FB – What E&Y says, roughly, is that there is US\$7 million of extra payments which actually went on to Menatep and that is a big number in this transaction. Over and above any monies that...

GL – I don't see how E&Y can tell how much more money that was supposed to be paid to Menatep that was paid to Menatep. In our estimation they were overpaid US\$2.5 million.

FB – Overpaid US\$2.5 million?

GL – There may have been various [] distributed out of that, US\$2.5 million should not have been. That is our understanding. I don't know where US\$7 million come from.

VK – Just for a moment, can we go to the very beginning because it was not clear to me what was mentioned in this verbal agreement. This different type of products were described there, let's say strategic sponge, everything belongs to Menatep. Let's say, Ingots, belong to Menatep. Sponge, since this date belongs to... How it was?

YL – All transactions, all contracts signed after December 6th are the property and would go to TMC for the new investors group. At some point the sponge reserve, which was negotiated in September 1997...

TB – There was also sponge in transit as well that belonged to...

YL – There was a difference between agreements signed and money received with 3 or 4 months delay.

VK – But the other stuff we can see there were no reason for new investors to use this already written agreement concerning the raw materials, ilmenite, because AVISMA was definitely overpaid for this stuff and after this date, there was no formal obligations of AVISMA to pay this amount of money to TMC.

GL – There is no formal obligation. You have to remember though that this was an unusual transaction which is the one we are unhappy with... prepaid 6 months ahead of time. It was prepaid before the deal was closed. The agreement was signed before the money changed hands so, in effect, it was prepaid for 6 months in advance. I don't see how you can terminate an agreement that has already been prepaid.

GL – Are you saying AVISMA shouldn't have paid to TMC?

VK – And the other stuff it is not clear to me how it was prepaid by TMC... That is mentioned in this agreement between Volnogorsk and TMC that money should be paid just on delivery.

GL – That was not connected. It was a contract that was prepaid for 6 months in advance.

FB – In order to get to the bottom of this, you have to go to a lot of detail and sweat the small stuff. Whether it is US\$3 or US\$6 million...

GL – It is money that has changed hands that shouldn't have.

FB – What Bond did was it wrote cheques off to the Bank after December 6th in large amounts, whether it is 2, 3, 4, 5, 6 – I don't know what - he wrote cheques off. He did that unilaterally, right?

GL – No, he did that on instructions from Menatep understanding that there were outstanding agreements with somebody for contracts that were before December 6th.

FB – He has taken on quite a responsibility then, hasn't he?

GL – He doesn't see that because he had full instructions from Menatep. He did not know what the nature of the deal was, what the deal was, what the cut-off date was, what transactions, qualify and not qualify.

BS – Did he understand that the cut-off date was the 6th of December? If he paid money out after that date to Menatep?

GL – He was not privy to the deal, he didn't know anything about the deal, it was none of his concern, he shouldn't know. He was told by Menatep that these are the contracts that you should pay us on, the profit on what you should pay us, these are the contracts that do not belong to us anymore.

BS - So, why did he pay out money that he should not have done then?

GL - Because, I guess, Menatep has listed things. And this 6 months ahead contract that we weren't aware of.

BS - Why didn't Creditanstalt then stop that? I guess you can't answer that. Why didn't Creditanstalt go in there and explain to Peter Bond, instead of Peter Bond just accepting it from Menatep. Historically, surely it was Creditanstalt's responsibility to go in there and say we are the new owners. Then a discussion between Peter Bond, Menatep and Creditanstalt.

YL - ... that is something you need to ask them directly.

MH - We have been in a situation here since December to October, there is no accountability and there is no control being executed over Peter Bond's operation. He is basically running an independent operation whether it is Creditanstalt or investors someone has failed to maintain some accountability, that is what we need to correct right now.

GL - If there were no changes in the management in Creditanstalt at the beginning of the year, then we all would have looked at the transactions much closer and deeper in January/February.

BB - When did you leave Creditanstalt?

GL - I left Creditanstalt 2 months ago.

BB - So you were sitting inside Creditanstalt during this period?

GL - It was not my responsibility in the transaction. My responsibility in the transaction was to make sure that AVISMA was running, that management was not stealing, that there...

BB - But there is someone stealing.

GL - But that is not the same. What was happening at TMC was not my responsibility. We have separation of responsibilities as in all good firms. I can not do everything. I was the only person at Creditanstalt that was still connected with the original transaction.

BB - I would imagine that if you were looking at the materializing of the whole thing and sitting within Creditanstalt, and looking at what's material, wouldn't that be the place you would start?

GL - Not to me.

BB - It wasn't material to you?

GL – To me, it was material that VSMPO, when transaction comes to conclude, gets the company that... that management is in agreement with the over-all goals of a joint company and so forth.

BB – You were an employee of Creditanstalt. On what basis were you taking an interest in this transaction?

GL – I joined Creditanstalt on July 1st last year, the transaction was thought out, decided and in the process basically by then. All the decisions had been made. My expertise is in management, it is not in financial matters. I was brought on to look at the management because my understanding was that we are committed to investors to bring a whole company together which will function. In Russia you don't do, this is basically an investment in a company, you don't invest in a company and then abandon it because...

BB – So you are working as sort of follow on – follow up to the transaction for the investors

GL – That's correct.

VK – Was there anyone responsible for TMC or something...

GL – TMC was ... again I am not going in to the sale and purchase agreement or anything like that because I didn't have a look at this. But as far as I was concerned, TMC is a trading company that was set up by I don't know who because legally they are not affiliated, who is not legally obligated to do anything, I was told that we are, AVISMA/VSMPO/investors are going to take control of it and the money should not leave there, it should not be disbursed without instructions or agreement from other people. Now, at which point when we disbursed the money we asked for... I don't know if other money was disbursed beforehand. Then, Peter Bond called and said: "Hey I have sent US\$7 million to Menatep."

BB – If Peter Bond wants to make a payment right now, he can do it without a call?

GL – Of course.

BB – And if you want him to make a payment, can you instruct him?

GL – Not anymore.

BB – When could you instruct him?

GL – I could instruct him...

YL – He needs two signatures: Gennady's signature and Tetyukhin...

GL - I have instituted myself that we need two signatures...

BB - When it was two signatures?

GL - When? Around June time.

BB - Around June time. OK, prior to that?

GL - Prior to that if I asked for instructions for the disbursements of money, I could do that.

BB - Because the way I understood it from him was that he was taking sole instructions from you and not taking instructions from anybody else from the moment the transaction took place until we asked for a second signature.

GL - Short of the original instructions from Menatep which contracts are part or not part of the transaction.

BB - Even if you were to look at those original instructions, if you look at the E&Y report there is still US\$1.7 million overpaid that was approved by you, according to Peter Bond.

GL - Overpaid that was approved by me... I would like to see that. There was US\$1 million disbursed to SODA as everybody here knows as a settlement and about US\$160 to 200 thousand of salaries, that's it. There was nothing else that was approved by us.

TB - They are here now, well, Brecht has not arrived but the accountants are still downstairs waiting so may be...

YL - I think we should talk about certain things before Brecht comes in, various options about TMC. I think it will be fairly easy to close TMC, wire the appropriate money out and close TMC and then pursue getting whatever money back as possible. I am not quite sure how it should be done.

GL - It should be done very carefully because, obviously, once you do the first step they will know that TMC is defunct... Bond and company.

YL - So, I think first we should get the money out to some account some place else.

BB - Do you guys know how much it is?

GL - ...

BB - Where does this number come from?

GL - From 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

have a bag of cash some place for the purposes of an investment pool for AVISMA, investments that would normally be made by the company. I would imagine that we need that for 2 reasons: cash to service payments to various organs as well as various expenses that you cannot account for in Russian accounting – salaries to management. One of the major problems that we have been having for the last 2 months, we have been having with the management of AVISMA is largely because they have not been paid for 3 months. No managers have been paid for 3 months. We need a pool cash that we can lend or at least guarantee ... that is almost impossible to borrow from foreign banks, and Russian banks do not exist.

FB – Do you guys like Bond? Is he smart?

GL – Well, he is quite smart when it comes to his own good. He is quite a good banker, he has quite good relationship with Barclays and they have negotiated a US\$5 million credit line which they have not disbursed to AVISMA because they are not sure that TMC is gonna exist. So, they are quite good in what they do.

FB – Do they do any personal sales of sponge themselves?

GL – No.

TB – He has someone who works with him who does. He is also the one who was instrumental in removing the anti-dumping legislation. He was the one who appeared in front of the whole US Department of Commerce and convinced them. This is the first time in the last 25 attempts.

FB – Do you guys believe that Tetyukhin and Company are able to deal with this situation? That is kind of a management issue which you clearly should do is to change your inter co. pricing so as to create just enough margin to operate the business if you want to continue it.

YL – I don't think it is an issue for Tetyukhin right now. ... I think first that we take control of the money/control of the structure. There is no reason why he should be charging such fees for maintenance of his structure. A trust deed or something like that should cost much much less. If you got a board on one of the companies and that controls the pricing and instructs disbursements this will be done jointly with VSMPO and the group of investors. And I think it is possible to bring down to a reasonable price if you can keep that structure for some time until a new structure.

BB – I think the difference between what he is expecting to be a reasonable price is going to be so big that it is not going to be possible.

YL – I think it is going to be possible given that he either gets zero or maybe gets some nominal fee for what he is doing.

BB – It should cost like US\$50 thousand a year to keep this thing going, not US\$800 thousand.

YL – Maybe US\$100,000.

GL – I think it is closer to US\$750 thousand a year.

BB – He told me that it was US\$800 thousand. He sent us a proposal a couple of weeks ago.

GL – \$800,000 was a product he offered to Menatep. We do not need that anymore.

YL – Now, will he take a US\$100,000 for becoming much more legitimate having much less stress. He is open to the negotiations. If not, we can always kill TMC.

BB – I think that it is probably best to just to move on and cancel it good and proper. We are an upstanding group of investors.

GL – After a legal opinion on what the anti-dumping issue is.

BB – There is no anti-dumping issue anymore.

GL – No, no there is no anti-dumping anymore in the United States...doesn't mean that we are not liable for the past 3 years...I think that we need a legal opinion.

YL – But I think that we need a TMC type structure to safeguard against Mr. Tetyukhin's developing of non-core assets and trying to reach full employment for AVISMA/VSMPO...I think we need a similar type structure to TMC either: a new TMC under Peter Bond at a lower price or ownership through trusts for the benefit of VSMPO/AVISMA or whatever. The next question is how we have a check against Tetyukhin spending the money on things he shouldn't be spending the money for.

BB – I think that we have a board or something with co-signatories where there is people represent the interests of the investors.

YL – We also need a structure which we can show results that the company does not look like there is US\$10-20 million disappearing each year.

MH – Why don't we first see about transferring money out of there and see how Bond reacts to that?

BB – He will probably react more favorably if he thinks there is a future for him.

YL – Absolutely.

BB – It is probably worthwhile entering into a substantive negotiation with him about...

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 as 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 - I think we can phase him out. I think we are coming pretty close, so that's why we should decide soon, for 1999 contracts. None of our contracts can be signed through different companies, I think it will take about two weeks to set up a similar type structure in the right jurisdiction if you hired right law firm and the right trustee for that and a bunch of new contracts for 1999 be signed through the new legal entity and phase him out in time.

FB - Tom, did you say he had a person working for him who was responsible for sponge sales?

TB - Marketing, yes.

FB - Working for him?

TB - Working with him.

YL - There are two brothers and we are debating where to move them...

TB - There are two Russian working in Moscow.

GL - Working for TMC or working in accounting? I don't think that they are doing any actual marketing.

TB - They are marketing because they are the ones who keep up the relationship with all the suppliers.

GL - No, they are not.

TB - As has been communicated to me. I can not personally verify that.

FB - We obviously have to get to the bottom of this but if there is a marketing or sales function being carried out... if he is still doing any marketing, that's something we want to look into.

YL - The point of TMC is not only the sale of sponge, ilmenite and magnesium. The importance of the new TMC company will be to encompass other non-direct sales of VSMPO. Although, our estimate of VSMPO is that it is very clean, VSMPO is not very clean. First of all, it gets slapped with intermediaries and there is money taken out, fairly sure by management and other means. But there is US\$1 to US\$5 million a year that you really can't account for and that is VSMPO. That is not necessarily VSMPO taking money themselves but it may be fees necessary or paid to get a line up and running or bribe various officials - I really don't know.

FB - We can come back, we get the general framework.

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?

YL - We have an agreement that without all the fines and they are going to allow us to repay in 2-3 years time the body of the debt.

FB - How much is necessary to do that?

YL - That is what we have to negotiate.

FB - So what you are saying is that may be a priority claim against us. You mentioned a couple of other priority claims.

GL - They are not so much priority claims. Mostly its AVISMA has not been financed by Menatep very well and there are some things that need to be taken care of immediately for it to survive another few years. So I think it is just a matter of investing into the assets which are needed to upkeep the company basically and that is more than retained profits.

YL - Given that the full year profits are frozen at Menatep. The question is do we give all the money out to all the investors pro-rata, do investors loan the money back to the company or just give the money back?

BB - I think the logical way to do this is that we took the risk we get the money paid back and if they want more money they can either talk about a new share issue and we can purchase the new shares or...

YL - A new share issue is not an option.

BB - Sure it is. What we are talking about is financing.

YL - A new share issue is not an option because they have 50.7% and if they have less than 50%, the government will take it away from them - it is a strategic asset.

BB - Who has got 51%?

YL - Management own Soyuz - that is what is keeping us afloat.

BB - We stick a new share issue into a company that is a Russian company that we own. It is all bullshit, at the end of the day...

YL - It is not all bullshit, there is a big list being prepared right now by Mr. Maslyukov and everyone is negotiating which companies are on the list or not on the list - and these are companies up for nationalization.

FB - Gentlemen, I think we have a lot to talk about and we do have the whole afternoon. Why don't we get rid of the Cooper's guy and then if Brecht is still here we can talk to

MM — So we have to get a distribution anyway if they need the money right now?

YL — What I think he is asking is that is it possible to get the money into AVISMA as soon as possible.

MH — We don't have any problem with putting it back into capital expenditure is if the company can get a good argument about that. We would like to see what they are going to spend it on but if there is some legitimate use that they need it for.

YL — It is given that there is a legitimate use for it, they are not going to come up with making plastic toys.

MM — I honestly don't see a downside to this decision...make a distribution to the shareholders, make a decision later.

YL — Then we are just prolonging the issue... we meet again three weeks from now and the distribution is made to an escrow account for a bunch of the investors and the very same questions arise again.

FB — We are going to shift over now to hearing from Coopers' about their compilation report.