

**Phone conversation between Bill Browder and Peter Bond on September 24, 1998**

PB – Hello.

BB – Peter.

PB - Hello, how are you doing?

BB – You know who I am?

PB – Yes, I do indeed. You are Dan O'Neill's ex-boss but only because he is ex and you are still there.

BB – Right, I am sorry that there is a disruption in the communications and we probably should have warned you in advance but...

PB – Not really. There is no point me knowing before Dan knew.

BB – No, we should have warned you, I mean, when Dan knew... in any case you know now and you can talk to me in his place.

PB – Right.

BB – So, there is some continuity to our conversations and I have your proposal in front of me which I haven't read yet but I just wanted to let you know that I am the guy that you can talk to.

PB – We kind of picked that up. We actually spoke to somebody else in Dan's absence. But I think he might be gone as well.

BB – Who is that?

PB – I actually can't remember his name.

BB – Everyone else is here. German Mikhailov?

PB – No, he wasn't.

BB – Vadim Kleiner.

PB – No, there was [pause] can't remember who it was.

BB – Brian Steere?

PB – No.

BB – Well anyway.

PB – Doesn't matter.

BB - Doesn't matter.

PB - I mean, basically, I am sure you are up to speed, but just to touch base. I mean obviously, several months ago we went to Moscow.

BB - Yes.

PB - And German and Dan were there at the meeting. I think, quite understandably, given what had gone on, there was a "perception" that we were some screwed little offshore company used for nothing other than asset stripping. And we sort of sat there and said, "Hang on a minute, boys, where are you coming from?" And we explained at that meeting what our role was. And hopefully and, shining my own halo at this moment in time, proved that we haven't been used purely for asset stripping. We played an important part within AVISMA's business. But, candidly we understood the basics of that business probably as well as anybody around the table and somewhat better than most I would think I apologize, I am blowing my own trumpet because nobody else will. As a result of that, Dan took us to one side, I'm sure you know this but...

BB - Yes, you'd better repeat it.

PB - So that we are on the same wave length, Dan rang me up and said can we have a private meeting which we had in the hotel we were staying at and we had a very full and frank conversation about the history as we understood it of the acquisition of AVISMA. And I think that filled a few gaps for Dan, to say the least. And hopefully, went some way to persuading him that we did not have two heads. One of the things we actually said, with all that mucking around that went on, was that we didn't believe that it was a real transaction at one point in time which may have been a quote that has come back to you somewhere through the system.

BB - As it was, we got bits and pieces of it but we didn't get rid of Dan because we didn't like him, he is a very talented guy, we got rid of him just because Russia as you know, is falling apart.

PB - Yes, I would have been surprised if you got rid of him because of cause. I was convinced it was just a question of a meltdown meant that he did not have a job anymore.

BB - Basically, but he shared with me a lot of things and a lot of things slipped through the cracks but I am happy to hear some of them again.

PB - Dan then said "Look, let's keep in touch, because you obviously have a greater understanding than we credited you with. We value what you're doing, we can't say whether it will continue or not but we value what you are doing and we would like to be able to call upon your expertise in relation to our valuation of our investment in AVISMA"...

BB - It is good that you have been involved, I mean, I will tell you what the main issue is and that is just the truth - the issue is just who controls the cash flows right now.

PB - Yes.

BB - I do not see a reason why the guy who... you come from a reputable firm and you do reputable business and you know the company, and I do not see any reason why assuming we can, sort of.....I am not speaking on behalf of the Group, I am speaking on behalf of myself or should I say on behalf of Hermitage, I cannot make the decision for the entire group but we are trying to nail down where the money is going. So, we can in the future be able to control it. And then there is no reason why we shouldn't have a guy who knows everything about it. Right? That would make sense to me.

PB - At the end of the day, to all intent and purposes we control the cash flow. But not as such if you see what I mean, because we act upon other people's instructions as to what we do with that cash flow.

BB - So, the real question is.....there is this E&Y audit and everything we have a chance to read through and a chance to analyze. Who tells you where to make payments right now?

PB - At the moment we take instructions from Gennady Lopatinsky and Tetyukhin and we get both of them to sign off.

BB - Right. And when did Tetyukhin start signing?

PB - [Um] As soon as the audit procedures were implemented, to be honest. We basically said "Look lads, with all the stuff that is flying around here, unless somebody is prepared to give me something in writing".

BB - You are absolutely right to do that I'm glad. That makes me feel a little more comfortable. Because all this money went out earlier and I do not know where it went.

PB - See, that's easy. There is not that much money went out earlier, by the way.

BB - OK.

PB - That is fully accountable for. Since there has been no distributions probably for some months now, only payments that have been made have been in the "normal course of business" which is where TMC's positive cash flow is being used to improve its payments to AVISMA to reduce AVISMA debtors, I mean, we must be AVISMA's largest debtor, they are our biggest creditors if you see what I mean. So, in order to accelerate AVISMA's cash flow as much as possible, to accommodate the problems they are facing at the moment, the only money that has been going out of TMC has been going directly to AVISMA.

BB - And then where does that money go?

PB - It is used as AVISMA's working capital.

BB - Does AVISMA have a bunch of money on deposit at Menatep or something like that?

PB - Yes, it did and it lost that.

BB - How much money was it?

- PB - I don't know. I believe it was may be three million dollars. But I don't know because I don't sign on AVISMA's bank accounts and don't know what they have got. But I would guess it was may be 3 million dollars and when Menatep failed, AVISMA has been unable to reclaim that from anybody else so far. It doesn't make it any easier to swallow but that was a direct result of the financial crisis when Menatep went down the tubes.
- BB - Of course, it is terrible. How much money is in TMC right now? What is the .....
- PB - Very little, we've just made a payment of 2.6 million dollars to AVISMA and that pretty much cleaned us out. But we have constantly got cash coming in, we are collecting on our debtors aggressively. In other words we are getting as much as we can within reason from our customers which enables us to pay on to AVISMA as quickly as possible.
- BB - So, in total, all the money has gone back directly into AVISMA.
- PB - Yes. There is still money that we owe AVISMA.
- BB - Right.
- PB - For stock and for goods in progress but that is within normal settlement terms.
- BB - Right, but was n't there a big, roughly 14 million dollars that were paid out to various entities not related directly to AVISMA?
- PB - No, I mean if you read the E&Y report. The E&Y report says is that there is a question. - Profits have arisen since the acquisition of AVISMA by VSMPO and there is an accounting as to what's happened to those profits in the post-acquisition period. There were distributions of profits, which were attributable to the trading period prior to the acquisition. And there is a debate about the attribution of what fell before and what fell after. And, yes, there have been distributions of profits which arose from the trading period prior to the acquisition by VSMPO but that is not a leakage of funds in any way, shape or form that was properly paid. The dispute has been as to whether there was more money paid than should have been paid. And, candidly, that boils down to because no one seems to be able to agree what the cut-off dates for the payments were.
- BB - For example, in the E&Y report there is some assumption made, that for example, even though we purchased AVISMA in 1997 for some reason there was the 31<sup>st</sup> of March cut-off date for when we start getting payments or start getting money in for something done...
- PB - The deal was, was that anything that had left the factory by the 31<sup>st</sup> of December. Now the dates are in dispute but the two dates in dispute are the 31<sup>st</sup> of December and the 6<sup>th</sup> of December. The deal closed on the 6<sup>th</sup> of December and there is some dispute therefore as to whether profits arising after the 6<sup>th</sup> of December are attributable to the period pre- or post-acquisition.
- BB - Why would they be post- acquisition?

PB - Because there is an argument as to whether the agreement, which I have never seen, nobody has ever shown me or even told me that the written agreement exists, provided for the cut-off date to be the 31<sup>st</sup> of December. Because, whilst the deal was "consummated" on the 6<sup>th</sup> the actual hand-over of management and so on and so forth was to be deemed, and this is not me quoting chapter and verse, only what I understand and I now understand that this understanding is in dispute, was the 31<sup>st</sup>

BB - Right.

PB - Now, that meant that as at the 31<sup>st</sup> or the 6<sup>th</sup> for the purposes of what I am saying the date is immaterial, as at 31<sup>st</sup> or 6<sup>th</sup> there was product which had left the factory gates, there was stock pile which was specifically excluded, in other words, the stock of titanium products and sponge that AVISMA owned at that date under the agreement was deemed to be the property of the previous owners wasn't bought by VSMPO.

BB - Is everything you do at TMC, sort of the property of this new group of investors?

PB - Um [pause] Well. The simple answer to that is "yes". But I have to say, I am giving you a simple answer because I want you to understand it's not as simple as that.

BB - Nothing new.

PB - TMC is not owned by the new investor group.

BB - Who is it owned by?

PB - Me.

BB - OK, and you are operating on a trust deed?

PB - No, there is no trust deed there is no nothing. I own TMC.

BB - So why do we have entitlement to anything?

PB - Because if I didn't give you entitlement to things, I wouldn't be in business. So the understanding was, I own the company but I will account to you for any profits that I derive.

BB - And there is an agreement between anyone and you?

PB - Yes, there is an agreement which was entered into between me and, well Creditanstalt, the correspondent person at Creditanstalt at the time being, Max Volsky.

BB - Can we see that agreement to get some clarity? This is not about you, this is about Creditanstalt, they haven't shown us what we are entitled to. I am here sitting, here wading through opaque water, trying to figure out what's on the other side of the pond. Can I see a copy of that agreement?

PB - Umm [pause] - I don't see any reason why not. I mean it's only a letter agreement.

- BB - That's OK. I am just trying to understand what is this all about.
- PB - It doesn't actually say we account back to you for all the profits. What it says it says it by omission rather than clear.....
- BB - Well whatever, let me just see what it is. Just because we are sitting here scratching our heads because Creditanstalt won't tell us anything.
- PB - [Pause] Right, I mean, I am not talking to Creditanstalt at the moment by the way. I don't even know those who are responsible.
- BB - Well, I don't know either. The whole thing is like falling apart over there. What is not falling apart is we have a good titanium company and we've got some guys in the Isle of Man that seem to know what is going on over there, we've got some investors that want to make it a better place and want to continue, you know, making money and doing whatever we can do to improve the situation.
- PB - I mean, in summary, if you read the proposal, there is a severe problem, prospect of you becoming too internally focused. The description I have used before, you've got troubles backstage and the management is inclined at the moment to draw the curtains run backstage and try to sort out all the managerial problems you have. If you do that without at least leaving somebody doing a tap dance in front of the curtains to keep the audience entertained, by the time you have sorted out your managerial problems, you will come back and want have an audience. Seriously.
- BB - I agree.
- PB - And it is absolutely what VSMPO, well not so much VSMPO, but what AVISMA is facing. And what's going on in terms of the managerial dispute or whatever they want to call them, uncertainty, with regards the management of AVISMA is percolating through to the market. I mean, people know, they don't know exactly what is going on and they are certainly not finding it out from me, but they know that some dispute or lack of understanding or cock-up or God knows what in the relationship between VSMPO and AVISMA. They know that people seem to be fighting, everybody is retreated behind locked doors and is not talking to the market place and the competition is laughing themselves silly at the moment. Until you can get somebody up front stage doing a song and dance routine, you may well turn around, you've got the best-managed bankrupt in the business.
- BB - Well, I agree with you and I would like to get this thing fixed because it's a big investment and we are desperately trying...
- PB - And you have got a super company with a super product, you have got market conditions which are not terribly favourable at the moment. This is self-serving, don't get me wrong, I mean, we are volunteering to help you do that song and dance act.
- BB - How much is that going to cost us?
- PB - You have to read the proposal, there are seven or five different options that you can elect for depending on how or where you want to go, it depends how much it is going

to cost you. But this is not a cost you would n't have to bear anyway, all you do is you are contracting out the cost you would have to sustain because any company of this type has to have a marketing resource.

BB - Absolutely.

PB - And, it hasn't got it now. Now what you get told is that Tetyukhin and Brekht are their marketing resource. No disrespect to them, they have forgotten more about the titanium industry than I will ever know but they are also about as user-friendly to a sophisticated western supplier as a dead fish.

BB - OK. You know, I am going to tell you what is going to happen, we are having a big meeting on the 14<sup>th</sup> of October here.

PB - I thought you were having one before then.

BB - Well, I don't know for sure that is happening yet.....

PB - Well, you didn't get it from me but I think you will find out that there is a meeting going on out at Salda tomorrow.

BB - Is that right, with whom?

PB - I think Creditanstalt is there, I think [...?...] Lopatinsky is there, Brekht is there and Tetyukhin is there, I don't know who else is there but I think they are there.

BB - Yes.

PB - I am interested... interesting that you are not. But that is not a dig.

BB - No, no, I am not worried about that. I'm not on an ego thing. It doesn't surprise me, I mean these guys...

PB - It sounds like their preparing for what ever is going on on the 14<sup>th</sup> and that by the way that proposal has gone to you because on Wednesday I got a call from Lopatinsky saying: Where is the proposal? I am leaving for the airport in half an hour to go to Salda and the meeting is on Friday.

BB - Right.

PB- It is not a speculation it is straight from the horses mouth that there is a meeting.

BB - No, no, I am sure there is a meeting going on right now.

PB - And we met Tetyukhin in London at the Farnborough Air Show and he told us that there was going to be a meeting at the end of the month.

BB - Right. So what are they meeting about?

PB - I have n't a clue. I mean, candidly, I thought they were meeting to try and resolve their managerial problems and also to come to some conclusion as to what they wanted to

do in terms of their relationship with us.

BB - And in what Creditanstalt is involved? Do you have any idea?

PB - I haven't a fool's notion, I am not dealing with anybody in Creditanstalt at all.

BB - OK, well, anyway. You and I should continue talking to try to get these things sorted out because there is supposed to be a meeting that is being organized at the initiative of the investors.

PB - That is what I thought tomorrow was but obviously isn't. May be it is a directors' meeting to prepare for the investors' meeting that you are referring to.

BB - No, I don't think that 's the case either. They might just be preparing for something. But in any case, we are trying to organize a meeting around the 12<sup>th</sup>, 13<sup>th</sup> or 14<sup>th</sup> of October. I can try to push them forward then but I would be very grateful to get a copy of this letter to Creditanstalt that somehow...

PB- And so it is a letter from me to them.

BB - OK, whatever, from you to them. Just so that I can kind of tie together what it is that we get and don't get and so on based on...

PB - It won't give you that. I mean basically, what it says is that we will run... it's a management agreement letter, letter agreement saying what we will charge for running TMC, by inference is therefore saying that anything else in TMC is available for distribution. But it doesn't say it.

BB - Who does it get distributed to?

PB - To AVISMA.

BB - To AVISMA?

PB - Doesn't get distributed to anybody else.

BB - But what happened before that?

PB - It's none of your business.

BB - No, no, I am saying what happened between the 6<sup>th</sup> of December and now?

PB - It hasn't been distributed. There have been some small distributions and I am sitting on some cash.

BB - Right.

PB - And I am waiting for somebody to tell me where that cash should be given to in order to deliver it into the right hands not to anybody else. There has been no leakage.

BB - OK, no problem, I wouldn't expect there has been..



- PB - I mean, one of the perceptions is this company gets used to send it off to XYZ that is actually I don't know, Tetyukhin's back-pocket company. But it hasn't happened. I mean, I am not going to tell you what happened before VSMPO acquired AVISMA. Suffice to say that distributions were made and where they went is none of your business. Don't take that wrong way, it sounds like a very rude statement but you know what I mean. If you sold a company to me, it's not my business what you did with your profits before I bought it.
- BB - I wouldn't say that it was.
- PB - Yes, so, but in terms of the profits arisen generally from the VSMPO, sorry, from AVISMA business, in the period since the acquisition, those profits have either been used to be paid to AVISMA in a normal course of business or, some money, has been "distributed" to me and is still held by me. It will be delivered to whomever the shareholders wish to nominate as soon as they get their act together and nominate or can be distributed directly to AVISMA.
- BB - And whom are you taking instructions from for that?
- PB - That was in the days when Creditanstalt was still Creditanstalt, I mean that was Lopatinsky, Volsky and Tetyukhin had confirmed to us that we could do that. [Pause] And when we met with Tetyukhin and Brekht and they said that it is OK for us to act upon the guidance, shall we say so, of our friends. What you got to bear in mind however, that this has been a very complicated structure, which has served a very very significant role in terms of some of the US anti-dumping legislation. So it is not a simple structure, what I am giving you is a very very short-handed view of what is, otherwise, a very complex situation.
- BB - I understand. Why don't we do this, if you could send me that letter that would be helpful to me to see just how it is all worded. I am going to try to figure out when this meeting is going to take place and I am also trying to get in touch with the other big investors to try to get some kind of cohesive view on how we want ... you to know that we are all working towards the same direction. And you know the place where the whole thing is going to fall apart is that these guys left Creditanstalt, Creditanstalt doesn't know what is going on, these guys are all suspicious of Creditanstalt and of us and of everyone, so nobody really knows at this point who is in charge and who is going to make a decision about distributing money, hiring you or re-hiring you or...
- PB - No, it just seems that nobody there, is capable of taking a managerial decision.
- BB - And so, we need to figure this all out.
- PB- It is an awful position for the company to get itself into.
- BB - I agree, and so the only way for us to figure this out is to get together and make the decision, but that is what I would like to do, to move that forward as quickly as soon as I can.
- PB - Right, I mean, if I can make a comment, the conversation we just had is like four steps back for me because there is nothing that I told you which Hermitage as a

group didn't know two months ago. That's not accusatory, it is just disturbing for me that what happened in Russia has may be set the understanding process back rather than taking it forward. There is still not a clear understanding of the issues to allow a decision to be made.

BB - All I can say is that I am not a decision-maker I am just a shareholder and I am trying to organize everybody in to a situation where we can make a decision.

PB - And who is representing Dart in all of this?

BB - Well, this guy, what is his name? [Pause] Jeff Turner. OK, anyway I am going to call him right now and try to get all this thing going but, you know, I can't...

PB - He hasn't got a copy of what I just sent to you because I have got no contact details for him. If he wants one, I will happily send him one.

BB - OK, let me speak to him because I don't know what he wants, what he doesn't want and beyond that I am sort of taking over the whole thing now so I have to get all my ducks lined up here. The way I would propose moving forward is that may be you can come and meet with us when we have this big meeting.

PB - Well, we would be delighted as you can see at the end of our proposal we've said: "If you want us to come and make a personal presentation, we will be more that happy to do so". That proposal only goes so far as it goes because I am waiting for somebody to tell us whether we are fired, in which case lets not bother spending any more money, or whether there is a job for us to do in which case we would be delighted to do it.

BB - Well. clearly, you are not fired, I mean, it will be silly to do that.

PB - Well, we could be, I mean, somebody might turn around and say we are fired.

BB - How much money do you get paid for doing what you do?

PB - Total it runs out about eight hundred thousand dollars.

BB - OK, I have no idea whether that is cheap or expensive or whatever because I need to figure out exactly what you do.

PB - I mean, what we do is what we have said in this agreement, sorry, in this proposal.

BB - Sorry, I haven't read it yet. All right, so we will try to move forward, my main reason for calling you right now is to connect with you and let you know that I am the guy who is taking over this thing and I am trying to get hold of various bits and pieces of understanding because it is still very murky to me what has happened here.

PB - I mean, to put it in prospective, we are running the company with the turnover of something in a region of a hundred million dollars a year and your "administrative costs" associated with a 100 million dollar turnover is eight hundred thousand dollars a year, less than 1 per cent.

- BB - What are the profits of this company?
- PB - Well historically, they probably run out at something like 15 million a year, dollars. So like five per cent of the profits, and one per cent of the turnover.
- BB - Alright, as I just said, I am just taking over this thing.
- PB - I mean, anything we can do to help, as well, we will but I am just getting a bit worried it is going round in circles again.
- BB - It is not going round in circles, I am starting from, as you said, four steps back because Dan was the guy, the lead guy. Unfortunately, he briefed me but you know he didn't share with me every bit of information. Unfortunately, this is how it works sometimes these things. You know, it is a set back for us to have had let him go.
- PB - Well, I mean, with what is going on it is hardly surprising.
- BB - If I could get from you that letter though that would give me something to sort of put into my files and start to be able to build up a clear understanding because I have got to talk to Creditanstalt because they don't tell me anything. I don't know whom to talk to, what is going on over there and if I have something to go on, some place to start...
- PB - Right, would you have any problem with me asking Gennady for the permission to show you that letter? I am a bit loathe having stuck my neck in to a noose on a couple of occasions, I really do not want to find myself getting my head removed when you pitch up with a letter and say "look what I've got, this is the letter", and he says "Where did you get it from?"
- BB - The problem is that if you ask him, he is going to tell you "no".
- PB - Or can you confirm to me that you are not going to spread it around on the table and tell everybody where you got it from.
- BB - No, I won't, I confirm to you that I'm not going to spread it on the table anywhere, it is going in to a file, that gives me some documentary sort of link as to what is going on here. There is some, you know, as you say, you own the company and supposedly.....
- PB - I do own the company but what I have said, the company is of no value because it is a bit like being a manufacturer for Marks & Spencer. If AVISMA turns off the tap tomorrow, there is absolutely no value in this company. So, I own it simply because it has no value as such. The value is in the cash flow and we make sure that the cash flow goes where "it is supposed to go"
- BB - I understand. I promise you, I won't spread it around if you send me a copy.
- PB - OK, all right.
- BB - All right. It was nice talking to you and let's...

PB – And if Jeff Turner wants a copy of the proposal, perhaps you could suggest he gives me a ring?

BB – Absolutely; I will do it.

PB – OK.

BB – Thank you very much.

**Transcript of a telephone conversation between Peter Bond (PB) of TMC,  
Brian Steere (BS), German Mikhailov (GM) and Vadim Kleiner, all of HCML,  
on September 9<sup>th</sup>, 1998**

PB - Hello.

BS - Peter Bond, please.

PB - Speaking...

BS - Hello. It is Brian Steere from Hermitage in Moscow.

PB - Hi.

BS - Hi, do you have a minute?

PB - Yes, indeed.

BS - Hi. Thank you very much for the audit report that we received, we also got one from Gerhard on Monday.

PB - From?

BS - From Gerhard Unterganschnigg.

PB - From Creditanstalt?

BS - Yes, that is correct.

PB - You probably haven't got the final one, have you?

BS - Yes, we have got the final audit.

PB - Does it look any different from the draft I sent you?

BS - No, just a lot of wording had been taken out, that's all.

PB - Right.

BS - And you know generally the figures are the same. I have German from our office here with me and Vadim whom I think you have met both before.

PB - Right.

BS - We have been through the audit and I just have one question for you really. We need to find out just the thing that doesn't appear here is where the monies were paid to? We need some kind of verification of where you pay the money to. And it says that in period A you have got distributions by cut-off period and there is different distributions.

PB - Yeah.

BS - We need to know where that went to and also for period C we need to know where it went to as well.

PB - When is the period C?

GM - Up to the 31<sup>st</sup> of May which is the end of that period of the audit.

BS - Which is basically, I mean, I think we haven't got paid as well, yeah? All payments were made in period A?

PB - No, not true. There has been two periods, there's profits attributable to period prior to the 31<sup>st</sup> of December.

BS - Yes.

PB - Those have been distributed.

BS - Yes.

PB - And don't say it in a wrong way, to be quite frank, it is none of your business where they were distributed to.

BS - OK, then I will show you something else from that basis then. We have uncovered a lot of additional information that you are not privy to which shows that various different parties may be including yourself know at the 6<sup>th</sup> of December was the cut-off point. And if that is the case, then it raises a lot of serious questions in our mind about the whole... Everything that is going on at TMC and don't take that the wrong way. I mean that's just what we have uncovered.

PB - Yes.

BS - That's very disturbing to us as a major investor.

PB - We certainly knew nothing about the 6<sup>th</sup> of December being the cut-off date.

BS - That seems strange from the discussions I had this week.

PB - Right.

BS - It is just very inconsistent, that's all.

PB - To be quite honest, I have not even heard anybody from your side to be able ... not your side, I don't want to take any side, there is no side in this at the moment. I have not heard anybody to say definitely that they were certain that the date was in fact the 6<sup>th</sup>. It seems to me it is something upon which confusion among all parties... shed some light upon proving one way or another, I think that would be highly beneficial.

BS - What I understand was one of things that I understand which can't be proven of course is that there was a meeting where you were involved, Yuri was involved and representatives of this office were involved where Yuri quite clearly said that it was the 6<sup>th</sup> of December. We were aware of that date before Yuri said that.

PB - Right.

BS - Now the reason why...

PB - That was a meeting with Tetyukhin and Brecht.

BS - Yes, that's correct. Where the 6<sup>th</sup> of December comes about, and it is very very logical, is that, just a second...

BS - It wasn't that meeting that you are referring to, it was just a meeting with FMC guys: Yuri Lopatinsky, Gennady Lopatinsky, Dan O'Neill, and German, and Vadim where you met all of these guys from the first time, I think. Hello?

PB - Yes, I am still here.

BS - Where the 6<sup>th</sup> of December comes about is quite easy. There is a delivery period of 37 days, the shipment of goods from one point to the next, And if you take the date November the 1<sup>st</sup>, 37 days is quite clearly December the 6<sup>th</sup>. Now where anybody ever came up with the date of the 31<sup>st</sup> of December, no one could really ever argue that it has been a valid date. I mean the other one is very consistent with, shipping and what was represented to us.

PB - Right.

BS - And that is black and white to me. And that has called into question the whole audit.

GM - Which is not really an audit as such.

BS - This is not really an audit, this is an observation by E&Y. OK, I guess one of the questions is, may be it is none of our business but how do I know, we think that money or some of it is attributable, you know, to the investors subsequent to the transaction, i.e. ourselves, and the Darts or whoever.

PB - Yes.

BS - And you are telling me it is none of our business? Well...

PB - No, no, no...

BS - Ultimately, it probably is.

PB - Sorry, you are talking in a very confrontational stance with me here. When you want to take a confrontational stance, then I can't continue this conversation.

BS - Right.

PB - We have dealt like grown-ups and we have been as open and honest with you as we possibly could be to the extent of welcoming in an audit team to investigate everything that we have done. We are not trying to hide anything from anybody, we are not playing games with anybody.

BS - OK, that's fine, but I guess the question is why can't we have the information on the banking details?

PB - Because if I have responsibilities to you...

BS - Yes.

PB - In relation to the distributions that I am making after the period in question and the old parties came to me and said: Can you please disclose to me where you make the Hermitage payments to? You would not expect me to release that information to them.

BS - OK, then I guess the question is should the auditors be given that information so that they can determine that the payments were made correctly. That this is just not something that comes out from some accounts that have been produced by whomever. Do you understand? It is just like I could say to you: Peter, you know, just put in the accounts that you pay US\$500,000 to AVISMA or VSMPO and you may say: Yes, fine. I mean, there is no record, apart from your own personal record. You know, everything should be substantiated by agreements, by swift messages, you know, etc.

PB - I don't know what you are talking about there.

BS - OK, we have payments being made out of TMC. How would you prove that those payments were made to the correct parties?

PB - Who are the correct parties? The correct parties are shareholders of TMC.

BS - Exactly. And who are the shareholders of TMC?

PB - There were distributions that there are not paid under any agreements.

BS - Yes.

PB - They are not reconciled to any agreements.

BS - Right.

PB - They are based upon computations of profits.

BS - Yes.

PB - And therefore paid as distributions.

BS - Right.

PB - So, therefore it is evident what they are paid because the reconciliation of the bank statement shows you what has been paid. You can identify what has been paid from TMC's banking records which have been audited three times over.

BS - Right.

PB - And they are paid to "the shareholders". Now if there is a dispute between the old shareholders and the new shareholders, there is no question of proving whether payments were made properly, the distribution payments were made, they therefore have been made, there is no question whether they were properly made, they have been paid, whether they have been overpaid is an issue which we are discussing.

BS - Yes.

PB - But the recipient of the overpayment is not relevant in computing whether there has been an overpayment or not.

BS - No, I agree with you in that sense, it is not relevant.

GM - However, based on the results of this report, which is not an audit, just a report, which is basically your representation to the auditors. We are facing an overpayment and the overpayment is at least, if we are taking the 6<sup>th</sup> of December, US\$1.8 million. So, I guess we have...



PB - Say that again, sorry.

GM - The overpayment according to E&Y is at least US\$1.8 million, right?

PB - Potentially.

GM - Well, at this stage we are taking it as the right number, not potentially. It has taken place.

PB - OK.

GM - I guess, we have the right to know where US\$1.8 million was distributed, to see the details of the beneficiary of these payments. We need to know who should we get this money back from?

PB - You know who you should get this money back from. You don't need me to tell you that.

GM - We don't know, we don't know that.

BS - Is that Menatep, is that what you are saying?

PB - Well, you bought AVISMA from Rosprom Group.

BS - Right.

PB - Therefore, if an overpayment has been made, surely your recourse is to the Rosprom Group.

BS - That's something we are looking into, I mean... You know the situation as well as I, some of this stuff is really vague, you know, and it is difficult to...

PB - You are starting to take a somewhat threatening stance to me.

BS - No, no, no, I apologize, I don't mean to, it's a very frustrating process where, you know, we have got this audit report through, it is not that much an audit, it is a report...

PB - It is a more thorough audit that will ever see anywhere else. I mean, they went through every single invoice, they went through every single receipt and payment, every purchase invoice, they divided the profitability between different product sectors, it is far more comprehensive than a normal audit. Far more, it is a complete review and reconstruction of the company's profitability.

GM - Peter, however for some reason E&Y are not admitting it is an audit.

PB - Sorry?

BS - They are refusing to say this is an audit.

GM - They are refusing to take any responsibility whatsoever with the respect to this report.

PB - Because the auditors of TMC are not E&Y. What they have done is TMC has voluntarily submitted to a review of its accounts by E&Y at the request of AVISMA, so its a review of TMC's accounts undertaken at the request of AVISMA, in order to allow AVISMA to complete its due diligence files upon the "reliability" of TMC as a trading partner. That is what it is, it is not an audit formally, and this is why TMC is not calling it an audit. And also they have been told in words of one syllable by me that they should not call it an audit.

BS - Yes.

PB - They should call it a review of TMC's accounts.

BS - Yes.

PB - But it is far more comprehensive than an audit. Now if you want to send your own people to the Isle of Man to do the same review, to go through TMC's files, you are welcome to do so. You can do this as many God damn times as you want.

BS - We are not that interested in doing that.

PB - But for God's sake you have got E&Y who came in and reconstructed the accounts in a different manner to basically prove that the management accounts that have been previously supplied. Now, you can't get a better document that you have got and the only thing you are saying it doesn't say is to where the distributions were paid, but frankly, it is irrelevant. It is prove that profits were accrued and distributions were paid.

GM - Can we take your word as a representation that the party that we should claim the US\$1.3 million back from is the Rosprom Group?

PB - I mean, if you are asking me to swear an affidavit to that effect, I have to think twice, but I mean, with whom did AVISMA negotiate, sorry, did VSMPO negotiate the acquisition of AVISMA?

GM - With Creditanstalt.

PB - Then who did Creditanstalt negotiate with in relation to the acquisition of AVISMA?

BS - Rosprom?

PB - So it's surely the party with whom that negotiation was conducted that you should go back to in relation to this matter.

BS - I think, Peter, where a lot of this stuff comes from is very unclear as to who was giving you instructions at different times and you are very unaware of what is going on. I guess that is...

PB - And we told Dan O'Neill, and I will repeat this for your benefit that we didn't believe that this was a real deal.

BS - You did not believe?

PB - No, I didn't believe it was a real deal. Because nobody from the new investors side ever came to talk to us, ever did any due diligence on us, ever reviewed our accounts in any way, shape or form, discussed with us the mechanisms or relationships between TMC and AVISMA. And I didn't believe frankly because of that, it was a real deal. And I have said that to Dan, you can talk to Dan, you can quote me on that.

BS - No, no, I believe you 100%.

PB - So, when real people started crawling out with the wood work which wasn't until about March.

BS - Alright.

GM - Peter, can you tell me when I have got this information that someone from Creditanstalt, I think it was Rafael Turkot, came down to the Isle of Man at some point may be in January or February.

PB - Yes, we met with Rafael and we met with Max Volsky in Dublin in actual fact.

GM - When was it, can you tell us?

PB - I can't remember off the top of my head. It was in Dublin, I couldn't remember, I can't off the top of my head recall the date.

BS - So, from your point of view, you had no contact with the new owners until that time?

PB - At that meeting Creditanstalt couldn't and wouldn't tell me who they were representing.

BS - Right.

PB - And quite frankly I thought it was something coming out of one pocket and going around somebody's back, coming out from the right hand pocket and going into the left hand pocket of the same pair of trousers.

BS - Yes, I understand. So, you mean you just kept on making payments as normal I guess from TMC to the beneficiary?

PB - Well, no, I mean we knew there was a new accountability.

BS - Yes.

PB - And the accountability for the distributions going forward was to those people we met in Dublin.

BS - Yes.

PB - And we accounted to them.

BS - Yes.

PB - For profitability since that date.

BS - Yes.

PB - There was then a question of a cut-off period, we were told, I mean, I wouldn't say Rafael didn't say to me the 6<sup>th</sup>, I am sure he did. I can't remember him saying to me the 6<sup>th</sup>, there was no clear unequivocal statement that you should, you know... that before the 6<sup>th</sup> belonged to the old people and profits after the 6<sup>th</sup> belong to the new people. It is the deal evolving... they didn't bloody know at that time... "The deal is evolving, we are not sure, there are still discussions about piled sponge, we don't know whether stock pile of old sponge belongs to the old people or whether they belong to the new people. But the cut-off date may be the 6<sup>th</sup> or can it be 31<sup>st</sup>, we don't know". I mean it was sort of a general discussions along those lines.

BS - Yes.

PB - If he said the 6<sup>th</sup>, I am absolutely sure he wasn't a liar, he is a nice guy. If he said the 6<sup>th</sup>, he said the 6<sup>th</sup> but it didn't go home to me as a clear unequivocal instruction by which I should be bound that the date was the 6<sup>th</sup>.

BS - No, no, I appreciate that. And that's a reflection on the investors as much as on anyone else, it is not a reflection on you because you had no involvement whatsoever in that and I accept that 100%. Our

claim is not against you, Peter. I believe that you conducted your business as best as you can and on the directions of what you understand was the owner at that time. And I have no questions about your involvement in every transaction.

PB - Every penny that has gone through TMC is fully disclosable and fully accountable.

BS - And we accept that. What I guess we are trying to do here is somehow... we have got the 6<sup>th</sup> of December date which was represented to us and, you know, there is logic behind that as I said with the 37 days delivery from the 1<sup>st</sup> of November and it's just that, it seems very odd to us that no one would have contacted you from Creditanstalt to kind of make it very clear to you that from this date on you should be making payment to here as opposed to Rosprom. That's all I am saying. We are just trying to, you know.

PB - There was clarity that we had come up with the route by which future distributions could go the right way and some distributions have been made which are all attributable to the new investor group.

BS - Yes.

PB - And they have been dealt with the way they should have been. The only vaguery is like 8 months - 9 months after the event people still can't come up with any form of clarity as to whether the cut-off date was one date or another. It turns out that one side is now arguing that it is one date, the other side may or may not be arguing that there is another date. Allegations are being thrown at me that I have acted in accordance with the wrong date and yet nobody can actually give me a piece of paper or give any clear and critical statement as to what date it would be and I would go along with any date anyone says.

BS - Yes, I accept that. When we look through accounts, what is interesting to us ... in relation to this slag in is this report basically says: all invoices raised on or before 31<sup>st</sup> of March were allocated into cut-off period A and all the invoices raised on or after April 1<sup>st</sup> 1998 were allocated into cut-off period C. There is no real reason why it would be, why wouldn't it be either the 6<sup>th</sup> of December or the 31<sup>st</sup> of December.

PB - I don't know that, I haven't got the report...

BS - OK, I am sorry, I know it is difficult for you, you haven't got the report in front of you. I mean, there are several questions like that that are...

PB - Well, put them to us and let us have a chance to research them and answer them for you.

BS - Yes, no problem at all.

PB - The day people start coming to me saying: you did this, you did that, you did next thing, at that time I say "Right, it's closed, next time you are going to see me in court". We want co-operate with people to resolve it.

BS - Yes, no question. How is the Farnborough Airshow anyway? How was it? How is it?

PB - It was fine. It was good, we saw a few people, we met up with Tetyukhin. Tetyukhin wants us to perhaps meet with him in London on Friday.

BS - Excellent. Yes, we saw a bit news here on the Airshow. It seems like it is a lot of consolidation in the industry.

PB - Yes, undoubtedly is. But at the moment everybody is running around, looking at this problem and I recognize that it is regarded as an issue and there is nobody paying attention to the future of your business.

BS - And that is what you made very clear to me last week when we spoke. You know, you've got, I understand that you have people, you know, wanting to buy stuff and...

PB - And told... out of their ass and say "Well, OK, we will resolve that but let's not ... the wheel from turning". You don't want to wake up one day and find that AVISMA does not have a business.

BS - No, no, agreed... There seems to be some kind of issue as to who is the investment advisor to VSMPO going forward which is something that we are not a party to.

PB - Well, somebody has got to make up their mind whether you regard us as crooks, and if you do regard us as crooks, fire us.

BS - Yes.

PB - And go and get somebody else to do the job. Or, if they don't regard us as crooks and people who can, therefore, provide a valuable ongoing service, give us a mandate to do this.

BS - I mean, that's something we need to sit down... because parties are kind of fragmented at this stage. I don't know whether you are appreciating the shareholding at the moment, it is kind of fragmented...

PB - Well, I don't, to be honest. I appreciate that this is you, the Darts, I don't know where their shares are held and I had not been in contact with any representative of them. There is Creditanstalt that seems to be holding some shares for somebody I am not quite sure whom, then FMC who seems to be holding some shares for I don't know whom, and then there is representatives of VSMPO whoever they may be and however many shares they may or may not be holding. I haven't actually got a clue who calls the shots, I have got Lopatinsky who is the chief executive of AVISMA and therefore somebody who I have to really deal with.

BS - Yes.

PB - I have Dr. Tetyukhin who is the chief executive of the VSMPO who conduct themselves as if they are the parent company of AVISMA to the extent that at the Farnborough Airshow yesterday they both actually said that VSMPO stroke AVISMA, with AVISMA sitting underneath of VSMPO in a lettering. But in the same ... I have people telling me that "Well, yes, Tetyukhin is an important player but he is not an executive of AVISMA. So, you shouldn't listen to what he says".

BS - Yes.

PB - I have got you guys who is saying that "We are a significant shareholder, we play no managerial role".

BS - Peter, so that you know our role, we are not pro or anti anyone in particular, what we want and what, I think, you must realize from us, is we represent a fund that represents a lot of international investors and we don't have fingers in any pies, we don't do any dirty dealing, we just basically a blue chip company. And our involvement here is to try to get to the bottom of this mess that we find ourselves in whether it's partly our fault or whatever, that is we have to deal with it now, we hope to deal with it now.

PB - You seem to have a bottom line. Basically you have an operational company... down in Russia. You have got the distributor agreement with TMC, you either decide to keep that or leave it behind. If you decide to keep it, you say "Right, let's go forward, let's control it", which you can do, it's an entirely accountable entity as we have shown and let it go on with preserving the business.

BS - Yes.

PB - Now there is a separate issue: somebody owes us US\$1.8 million, let's go and find it... whether they do or not.

BS - Yes, agreed. We are as much interested as you are to find out who is, not so much who is calling in the shorts, we know who is calling in the short and we know that VSMPO is the holding company of AVISMA as a matter of fact. On the shareholder record of AVISMA it is quite clear to see that VSMPO holds the most of the shares.

PB - I don't know if you appreciate how much damage this pissing competition is doing to both AVISMA and VSMPO in the terms of its marketing perception in the West.

BS - Yes, who do you perceive the pissing match is between, if you can tell me that.

PB - What you have got, you have got AVISMA which on one breath is now a part of VSMPO and on the next breath, there is a dispute on the shareholder registrar, you have got people saying "Well, no they are not, yes, they are, no, they are not". There is no certainty, to be honest, the market doesn't know, everything it sees suggests that VSMPO now owns AVISMA and the two are one.

BS - Yes.

PB - And yet periodically statements are issued saying "No they are not" and it is not helping the market.

BS - Yes, to be honest, Peter, as much as we can try and move this forward, we are kind of housekeeping by other investors. There is kind of ongoing whether, you know, who is going to be the investment advisor to VSMPO, I mean, so difficult to kind of move it forward.

PB - But whatever the dispute is, it is not going to be resolved by taking pot shot at your best friends.

BS - No, no, agreed.

PB - You put whatever questions you want to put with us, we will answer them.

BS - Great, that would be much appreciated. And what we will try to do as much as we can, is try to get the likes of VSMPO management focused on what is happening. You know, your guys role is in promoting and selling this stuff because that is the light blood of this business and trying to get this, you know, who is going to be the investment advisor worked out, try to get a comprehensive statement to the market that whether VSMPO and AVISMA are one.

PB - Yes.

BS - And so, you are clear on who you get instructions from, you know, who you represent because I can see where you are coming from, it is just a nightmare and we don't help you in that respect, I guess...

PB - If our conversation carried on the way we were discussing earlier, I was rapidly approaching the point that I was going to say to you "Look, I am just going have to freeze the accounts here, we can't carry on like this".

BS - Yes.

PB - We are trading with the company where there is a dispute in relation to the assets, so basically what we are going to have to do is shut the doors to preserve the assets until you guys sort yourselves out. When the curtains are open again and the audience is gone, well, that is your ... Now I don't want to do that and I am not going to do that, so, don't take it that way, but the company is going to disintegrate until this is resolved or at least it is agreed that "OK, there is an issue, somebody owes us US\$ 1.8 million, well,

fine, we have to go and see where we get it from". But for God sake, let's turn our attention in the meantime to the preservation of the business and taking it forward.

BS - Yes. Well, obviously you have this meeting on Friday, I mean, you will be able to speak to VSMPO and we will try to speak to them as well.

PB - Well, we suppose to hear from Tetyukhin tomorrow where we are going to meet with him on Friday.

BS - Excellent. We are trying to preserve the value of the company and that's VSMPO/AVISMA. We held VSMPO shares directly and we also held AVISMA shares directly, so we are acting in the best interest of the company which is in your best interest as well because we want the company to trade, to sell this product to the West and make money for the company and for the investors.

PB - I am sitting on top of the line of credit we have negotiated with Barclays and we just recently reaffirmed with Barclays that it is still available despite the meltdown in Moscow. I could not call upon that line of credit at the moment because I don't know whether we are still going to be in business.

BS - Yes.

PB - The last thing I want to do is call upon Barclays for US\$2.5 of US\$5 million and turn around and say "Oh, by the way, lads, they canceled all contracts".

BS - Yes, agreed.

PB - If we call upon that line of credit the only reason it is there is to enable us to improve upon our ability to not prepay but ... improve upon settlement terms to AVISMA. So that we owe AVISMA X number of quid however much it is, we have borrowed against our receivable which are of course foreign receivables to enable us to pay AVISMA earlier than we get paid.

BS - Yes, understood.

PB - If we end get some resolution, I would like to stick my facility in place and I would think AVISMA, especially with what has happened with money having gone... and what has gone on since the financial crisis is going on, I would guess AVISMA would desperately need US\$2.5 million... of quick inputs against its receivables from us.

BS - OK, if you are meeting with Tetyukhin then we will try and contact him or other people from the Management Committee of VSMPO next week and try to press this issue alone.

PB - I mean, what would you like to see me discussing with Tetyukhin?

BS - I guess what you have discussed with him so far. I mean you need to state very clearly where position of TMC is right now.

PB - Yes.

BS - Where you see its role in the future and what your problems are right now. You know like saying you are not clear who is actually in control of the process.

PB - Yes, do I do what Lopatinsky tells me or Volsky tells me, do I even talk to you, guys or I only talk to him and act upon his instructions?

BS - Yes, that is something I think you need to have a discussion with him and we will talk to him as well because we are basically trying to add value here, we are not trying to distract value, we are not trying to

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strip the company of its profits which other parties might have done historically, we want to reinvest profits back to AVISMA/VSMPO.

PB - Yes, it is potentially a great business.

BS - Exactly, and that is what we believe in and we don't want the money for ourselves, we want the money for the company and ultimately the investors will win out in the long term.

PB - Yes, absolutely. We have just got to find a mechanism to get it to the company to enable it to be expanded... for the company and its shareholders benefit.

BS - Yes, absolutely. Basically, we have agreed, it is just that we have to get some resolutions in place.

PB - I am being absolutely brutally candid with you, I am terribly distressed, US\$1.8 million has gone walk about and if I am in any way, shape or form, in any way responsible for that to a greater or lesser extent, I will be very upset.

BS - I don't think you are, I am sure you are not.

PB - But, at the end of the day, it happened because the new investors just behaved like idiots.

BS - Absolutely, I mean our problem was, we were an investor, we looked at the deal, we weren't organizing and Creditanstalt were and they were meant to take control of the whole process, OK, do the whole due diligence and get everything under their control. Clearly, that didn't happen, I don't know what happened on their side and that is for us to kind of talk to Creditanstalt about getting it resolved.

PB - I know that you have got a copy of that report yourselves, so I don't know if I should even have sent you the report but I did.

BS - Yes, and that was much appreciated and shows to me and to us here that you are acting in good faith and that you have nothing to hide from us and I am sure you haven't. And the fact that you have transferred this US\$1.8 million out, it is not your fault, it is the fault, like you said, of the new investors or someone representing the new investors.

PB - Yes.

BS - That has happened, and there is no fraud on the part of the TMC management, that is clear from the accounts. I apologize for being confrontational at the start, it is very-very frustrating.

PB - I can imagine, I have been tearing my hair out.

BS - We have gone nowhere from December till now and we are destroying the business.

PB - Yes.

BS - We can't do anything about it because we are a substantial shareholder not the majority shareholder.

PB - Well, then you have to get together a party of shareholders who have some vision and a common aim and get the shareholders pass some resolutions and impose some managerial discipline on the company to take it forward. And that is, if it is Lopatinsky that needs to have a... nobody seems to be capable of taking a decision.

BS - Yes, agreed, absolutely agreed.



PB - And it is an easy decision: whether you fire TMC or not.

BS - And basically who you should take instructions from, that is one of the most important things and TMC's role going forward.

PB - Yes.

BS - Let's try to focus on that what is TMC's role.

PB - Use us as a way of bringing a little bit of management coherence to this bloody thing, that is what you need to do. Even if we end up being a casualty out of it at least it will have some beneficial effect on somebody.

BS - Yes, the problem is, as you know, we are dealing with a lot of kind of Russian organizations and it is very difficult to know who is being honest and dishonest, that is our problem.

PB - One of the things, look at this from the positive point of view, if have dropped US\$1.8 million, you have got absolute accountability as to how it was accrued and when it was paid away. Now Russian companies, I mean, people make money out paying electricity bills, you harramage ...center. TMC at least gives you a western style accountability and control whereby you can deliverer to AVISMA what AVISMA needs to keep the lights burning in Moscow while at the same time preserving the Western revenue stream to be properly invested

BS - Yes, I agree with you.

PB - And the value, frankly, of TMC, apart from its marketing value to actually take the business forward. One of the values of TMC is that it should be able to do this. I mean, can you imagine what you would have been without TMC in identifying where the funds have gone.

BS - I can't imagine actually. That is a... back to other companies we are looking into as well. You can appreciate what has happened down here is a complete meltdown now and nothing is functioning.

PB - By the way, of the US\$1.8 million, I am pretty sure at least US\$500,000 or US\$550,000 is an absolute genuine mistake and E&Y were happy it was an absolute genuine mistake, the rest is a timing difference. So, I actually have no doubt that somebody owes you some money.

BS - Yes, I agree with you and it is basically not your problem.

PB - Yes...

BS - Yes.

PB - We will meet with Tetyukhin on Friday and we will talk again next week.

BS - Let's try to focus on, and we will be focusing on the same thing that you, guys, talk about, you know, which is promoting this business, selling the product and getting some kind of management structure.

PB - You have to make up your mind as to whether you say to Tetyukhin that TMC is an important part of that management structure and an important part of that sales force or not.

BS - We may make your a call before Friday with some more ideas.

PB - OK.

BS - OK.

PB - Splendid.

BS - Much appreciated you are talking to us, we are on the same side here.

PB - OK.

BS - That is clear to me.

PB - Speak to you before Friday then.

BS - Speak to you, Peter.

PB - Bye-bye.

BS - Bye.