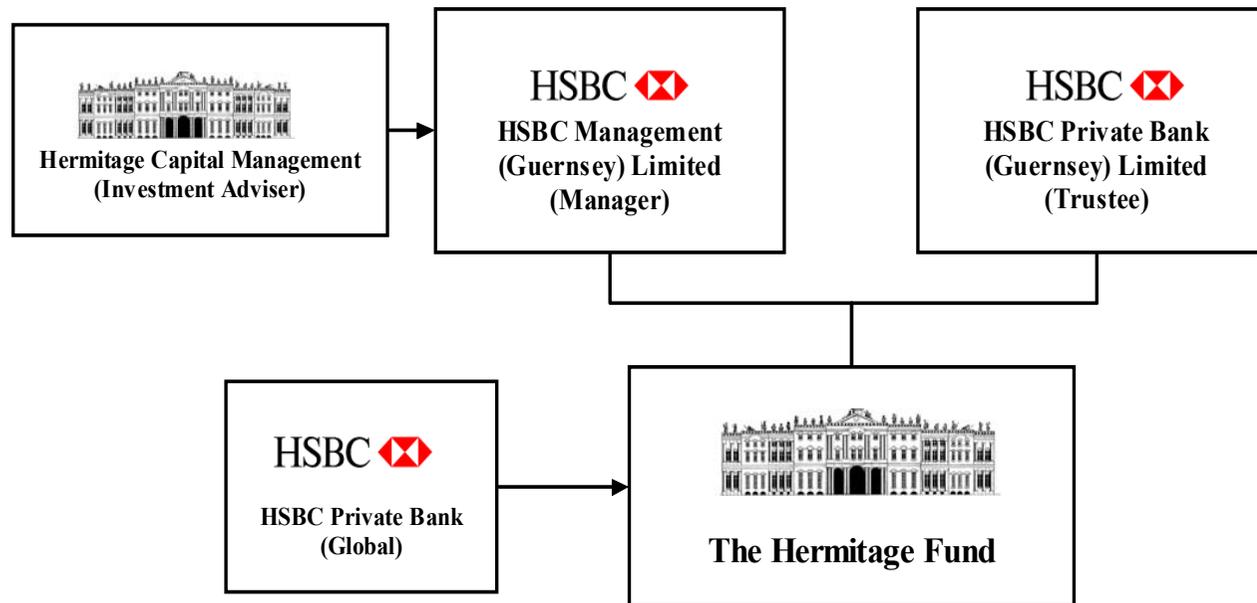


The Hermitage Case:
Organized Crime and Legal Nihilism Inside
the Russian Government

March 2009

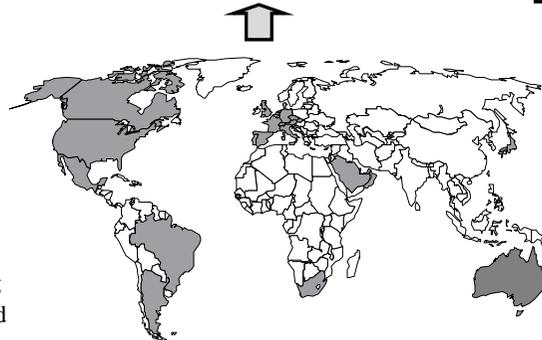
What is Hermitage?

It is a joint venture between HSBC and Hermitage Capital Management that invested in Russia on behalf of institutional and individual investors from around the world



Investors from...

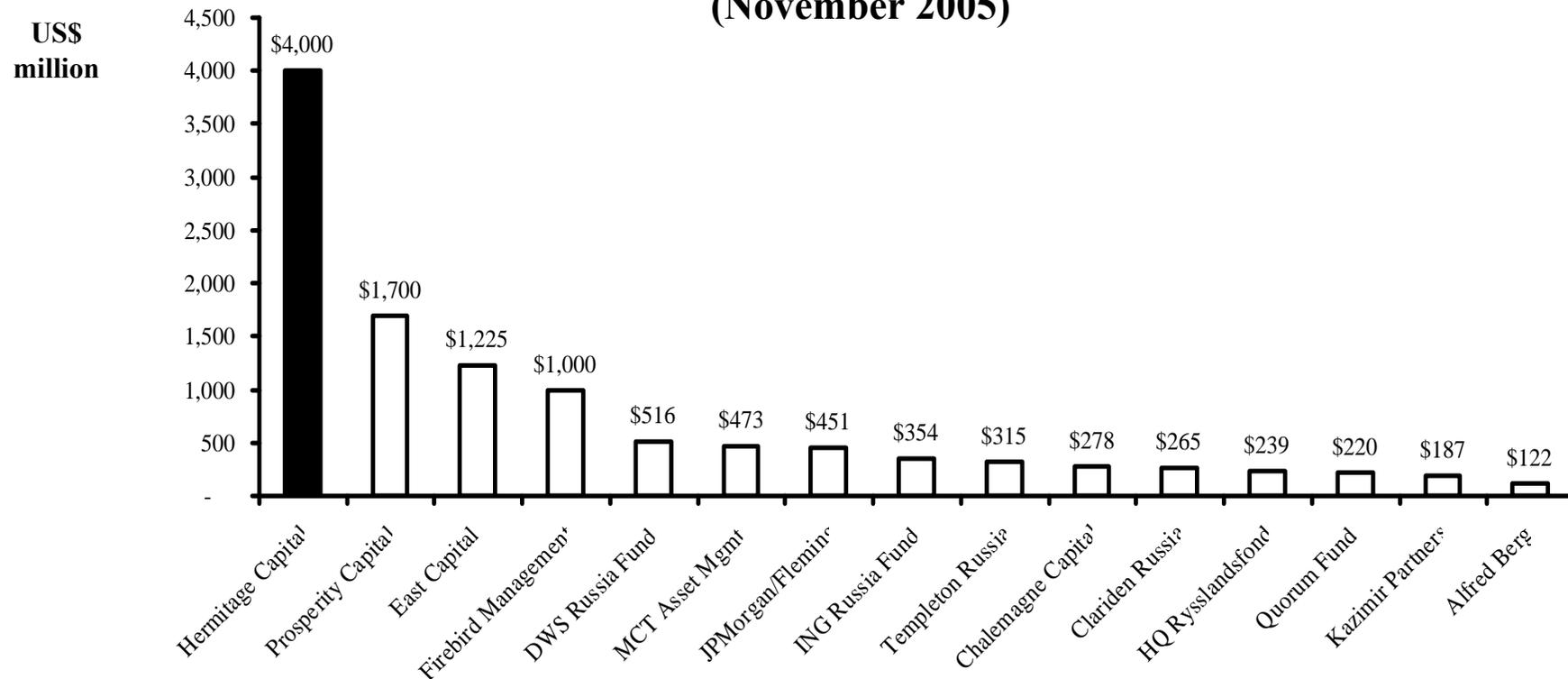
- | | | |
|----------------|--------------|-------------|
| USA | Saudi Arabia | Belgium |
| United Kingdom | Canada | Netherlands |
| Switzerland | Germany | Portugal |
| Canada | Hongkong | Spain |
| Argentina | Lebanon | Austria |
| Brazil | Israel | Hungary |
| South Africa | France | Italy |
| Oman | Mexico | Luxembourg |
| UAE | Australia | New Zealand |



What is Hermitage?

Hermitage was the largest portfolio investor in Russia from 1996 until 2005, with over \$4 billion under management

**Foreign Portfolio Management Companies
Assets Under Management Invested in Russia
(November 2005)**

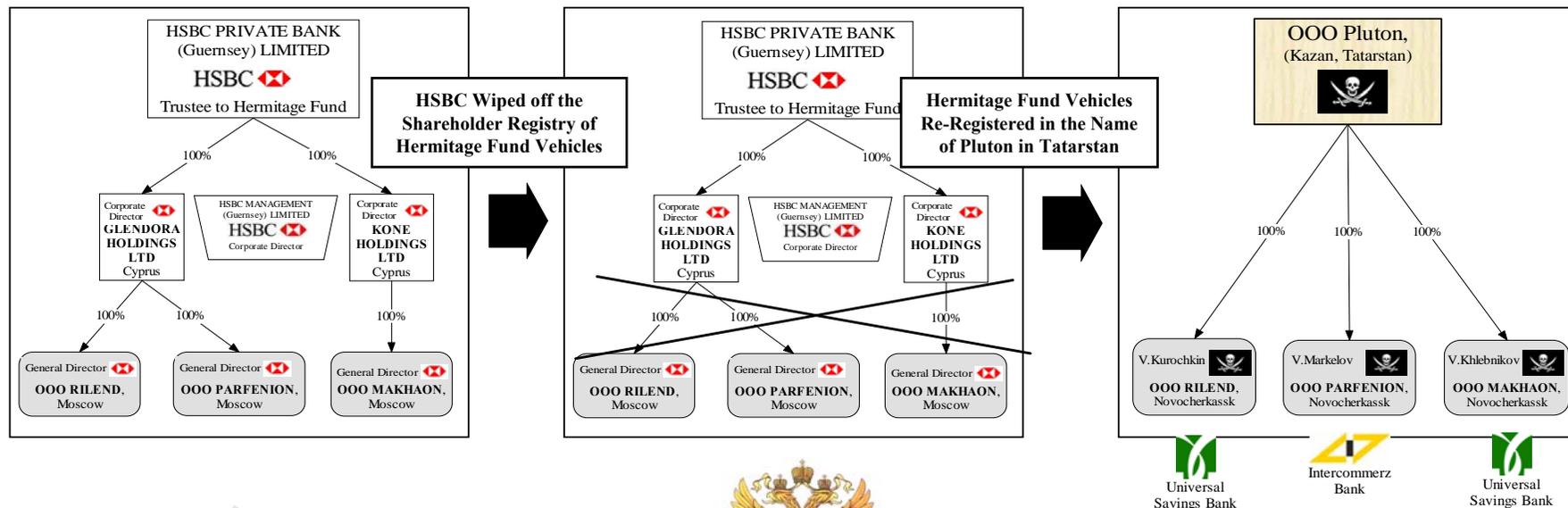


Source: Bloomberg, Company websites, Hermitage estimates

Background to the Large-Scale Fraud

In 2007, HSBC and Hermitage became the victims of serious fraud by an organized criminal group that stole three Hermitage Fund entities and \$230 million of taxes paid by Hermitage to the Russian Government

The Fraud against HSBC and Hermitage



February 2006

Hermitage companies paid **\$230 m** in capital gain taxes to the Russian budget

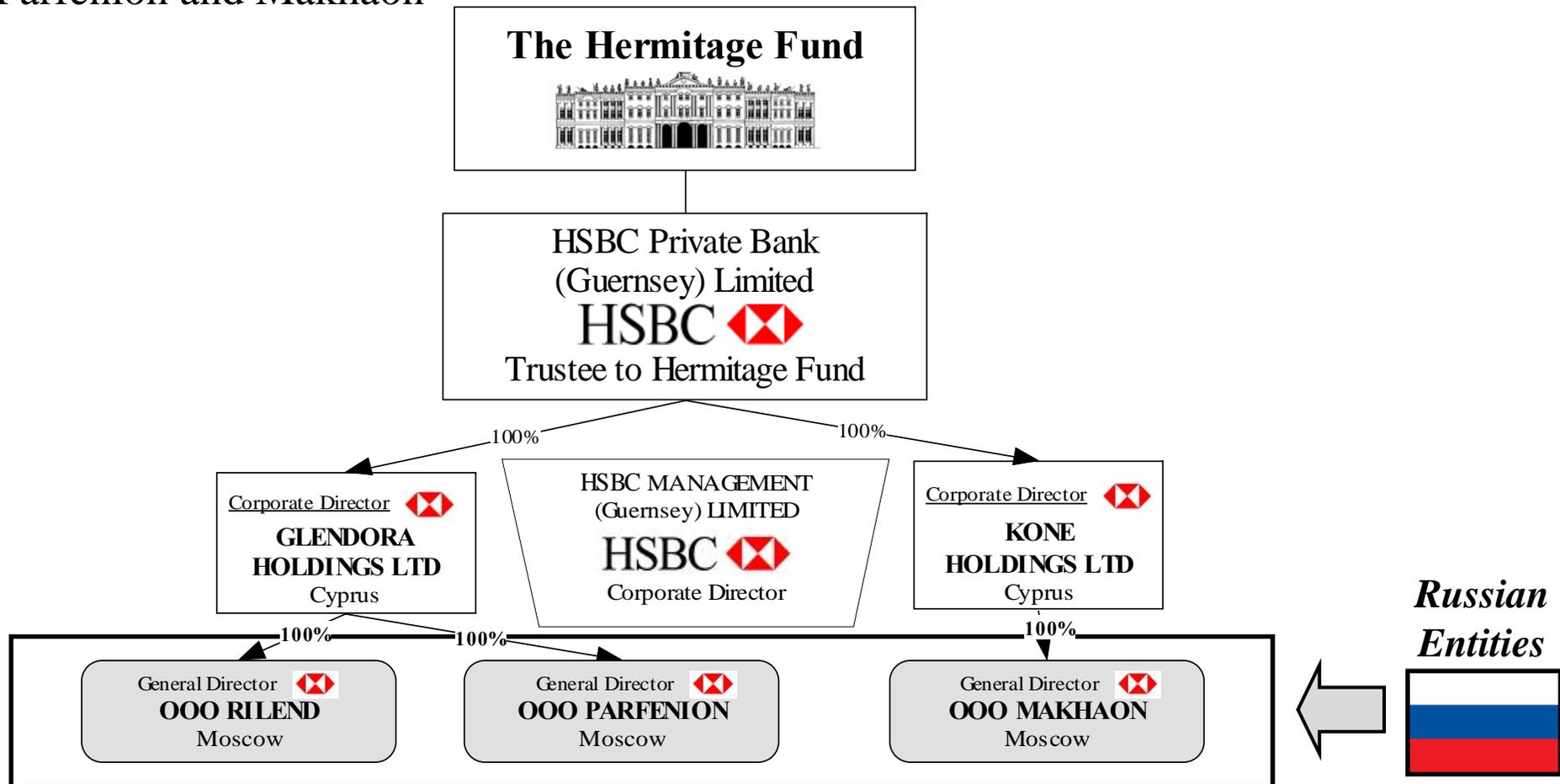


Perpetrators stole **\$230 m** in capital gain taxes from the Russian budget

December 2007

Who were the targets of the fraud?

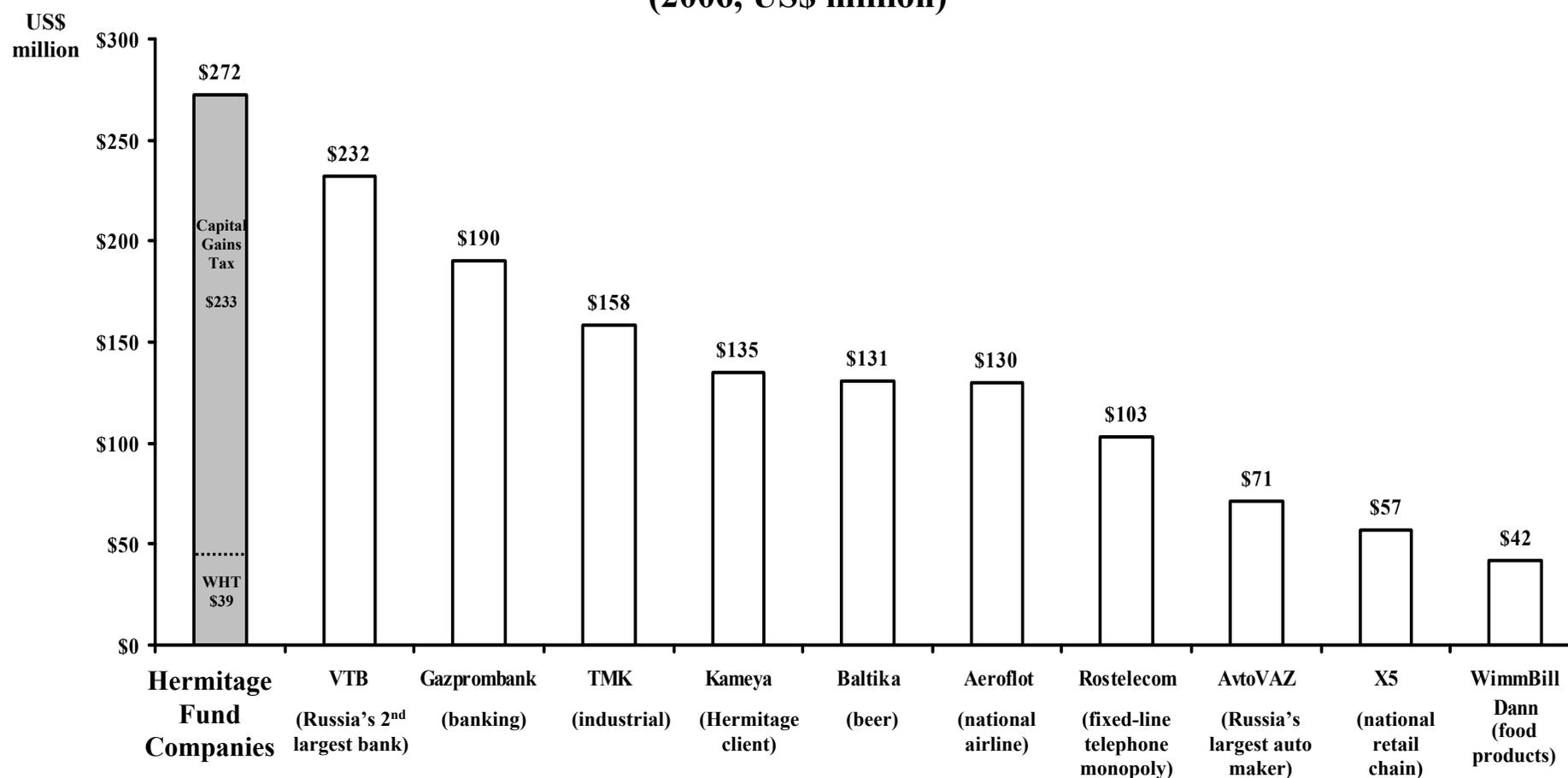
The organized criminal group behind the serious fraud targeted the three Russian investment companies owned by HSBC as trustee for the Hermitage Fund: Rilend, Parfenion and Makhaon



Why were Hermitage Fund companies targeted?

Because they paid more taxes in 2006 than nearly anyone else in Russia

**Taxes Paid by Some of the Leading Russian Companies
(2006, US\$ million)**



Source: Corporate Financial Statements

Prelude to the Fraud

On 13 November 2005, Hermitage's founder and CEO, William Browder was refused entry into Russia. His visa denial was based on Mr. Browder being declared a threat to "national security, public order or public health"

Persona non grata



"The decision to deny entry into the Russian Federation for Mr. William Felix Browder has been made by the competent authorities in accordance with Article 27, Item 1 of the Federal Law No 114FZ"

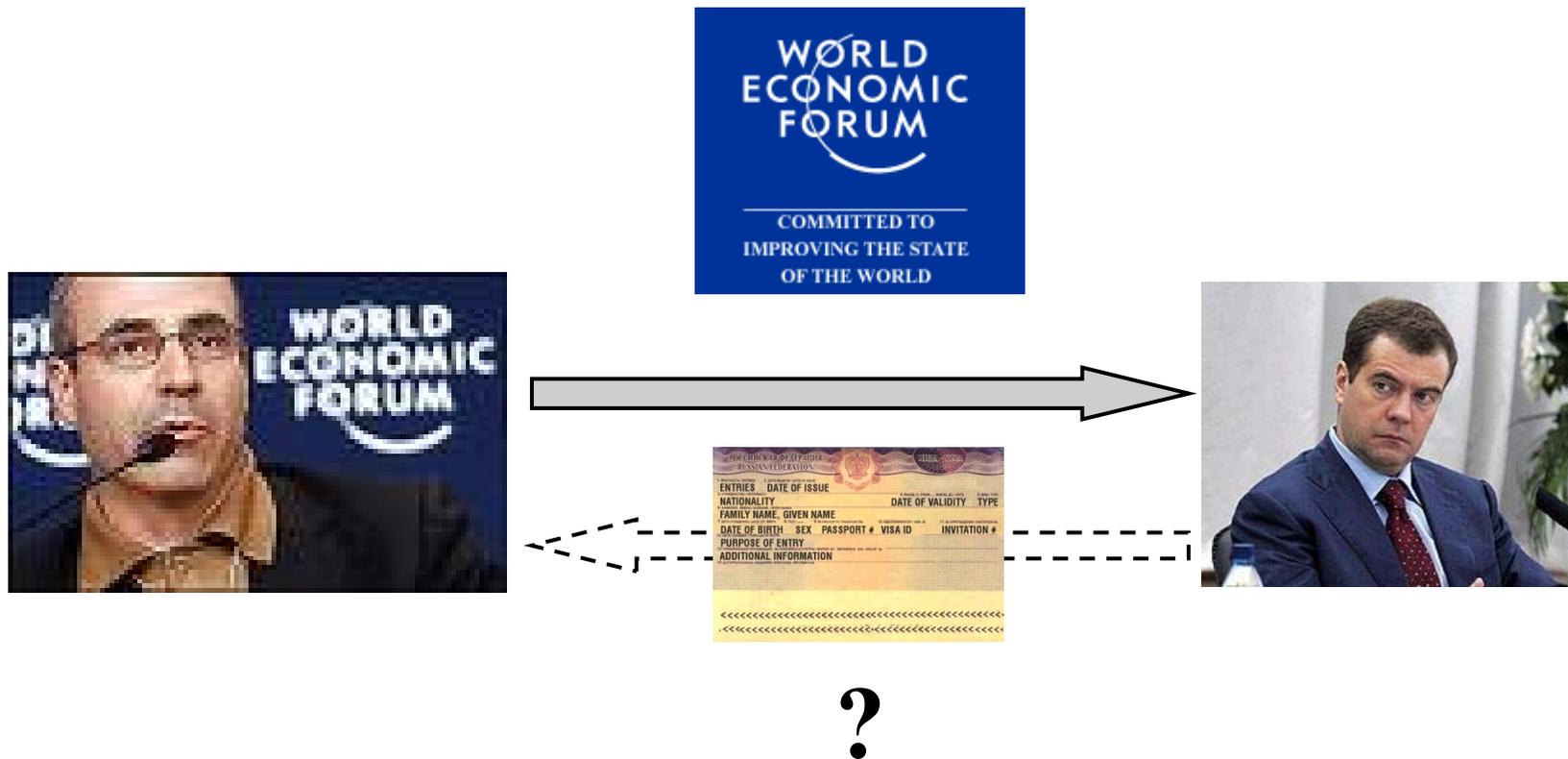
- Letter from the Ministry of Foreign Affairs to the UK Embassy in Moscow, 25 November 2005

Article 27, Item 1 says:

"Entry into the Russian Federation can be denied to a foreign national or stateless person if it is in the interest of ensuring the security of the state, public order or public health."

Prelude to the Fraud

At the World Economic Forum in Davos on 28 January 2007, Mr. Browder appealed directly to Dmitry Medvedev (the current President of Russia) to issue him a new visa



Call from the Interior Ministry

On 17 February 2007, Artem Kuznetsov, a Lieutenant Colonel of the Moscow Interior Ministry, called Hermitage about a pending application for a Russian visa



Lieutenant Colonel Artem Kuznetsov
Moscow Interior Ministry
Department of Tax Crime

Transcript of telephone conversation between Vadim Kleiner and Artem Kuznetsov February 17, 2007

“We were notified by the Immigration Service that the CEO of your company wishes to visit our country and asked if we had any response. Before I reply, I wanted to come by your office and talk, show you some papers, ask a few questions. I can’t tell you my questions over the phone – unfortunately it’s not so simple as that. **My answer will depend upon how you behave, what you provide, et cetera.** If you are interested in meeting, that’s fine. If not, no problem. It’s up to you. **The sooner we meet and you provide what is necessary, the sooner your problems will disappear.**”

Office Raids

On 4 June 2007, 25 officers of the Moscow Interior Ministry, led by Lieutenant Colonel Kuznetsov, raided the Moscow office of Hermitage and office of its Moscow-based lawyers, Firestone & Duncan



Led by
Lieutenant Colonel
Artem Kuznetsov



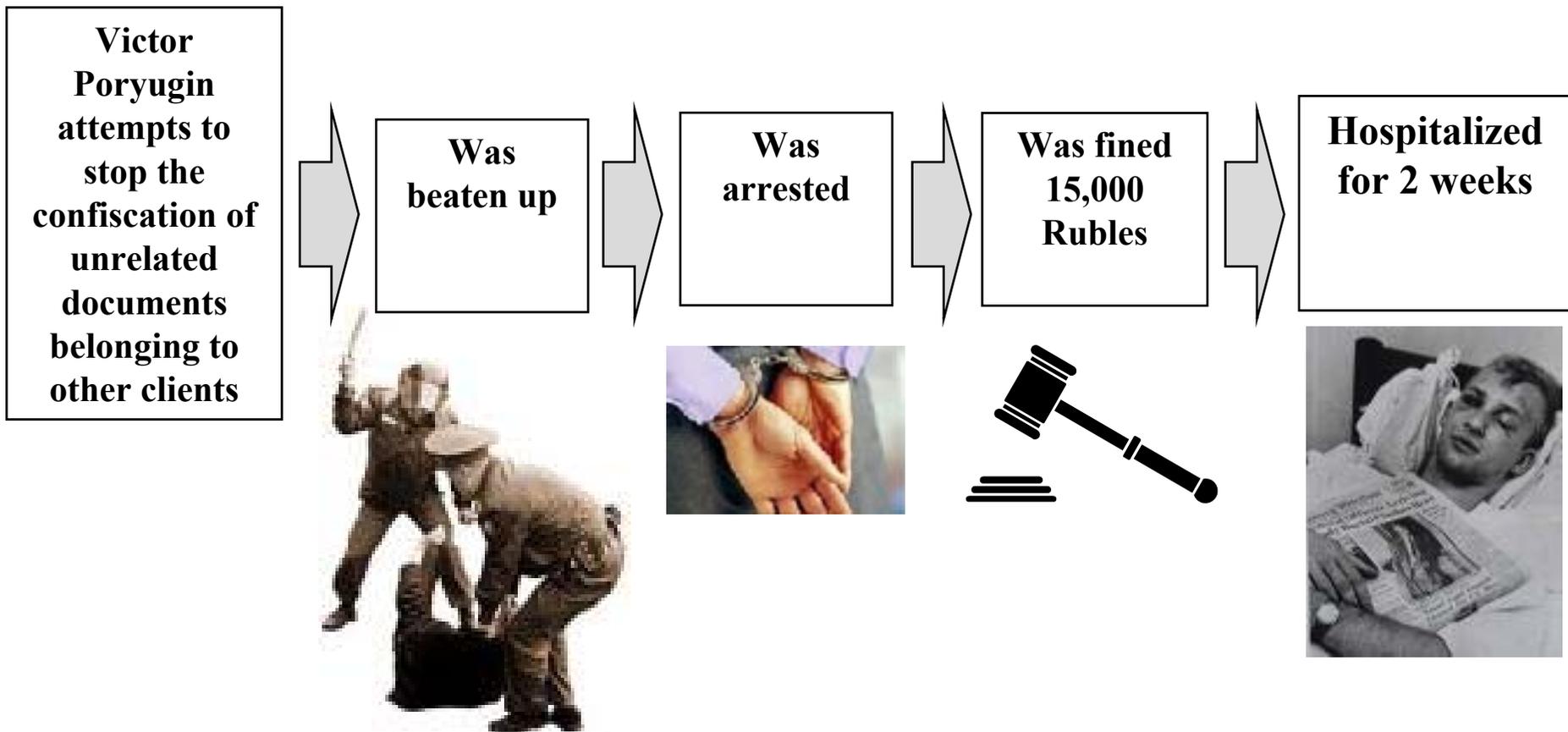
Hermitage Moscow Office



Firestone Duncan, Hermitage's Lawyers

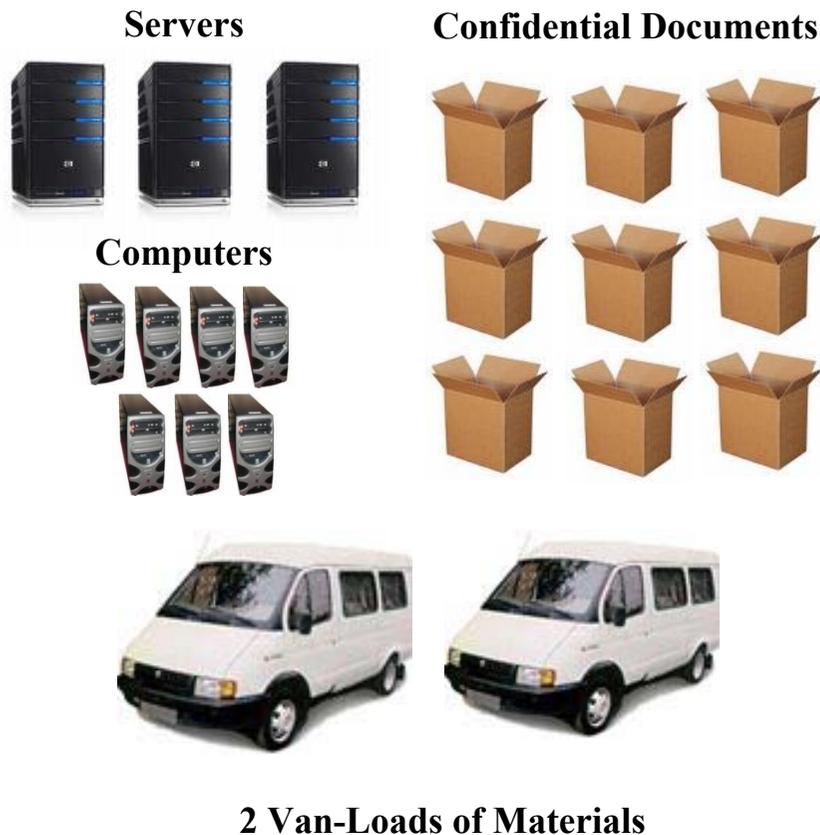
Raid on Firestone Duncan Office

During the search of Firestone Duncan, Victor Poryugin, a lawyer with the firm, tried to stop the seizure of unrelated documents. He was taken into a conference room, punched repeatedly in the throat and face, then arrested and fined 15,000 rubles



What was taken in the raids?

The Moscow Interior Ministry seized servers, computers and numerous confidential files, in addition to four key corporate items for the three Hermitage Fund entities



Key Corporate Items Seized

(for the Hermitage companies Rilend, Parfenion, Makhaon)

1. Corporate Seals



2. Original Charters

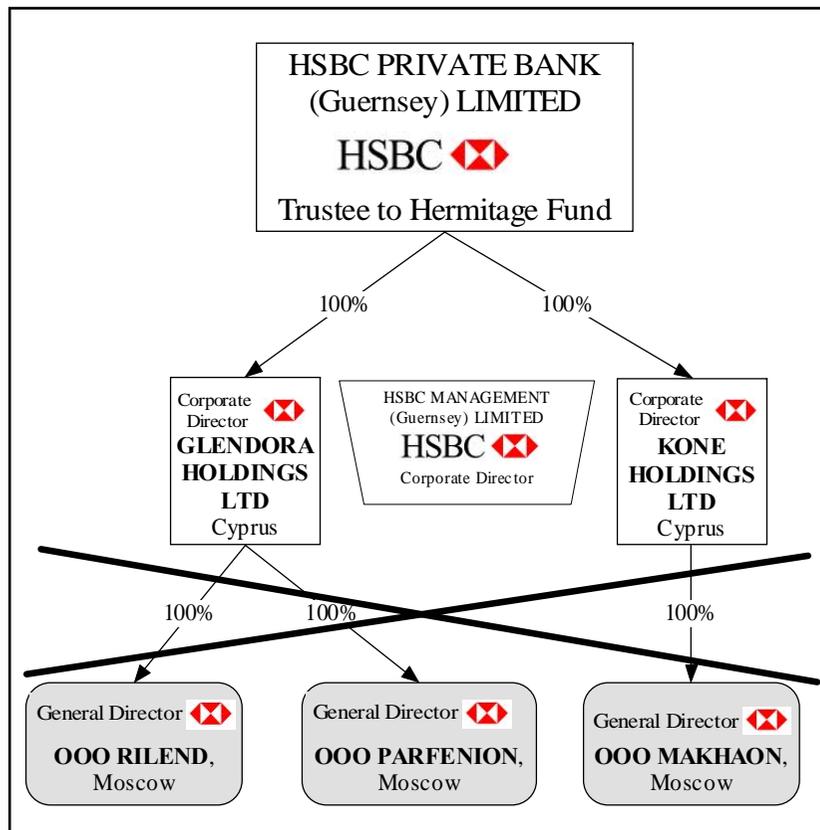
3. Original Certificates of
Registration with State
Registrar

4. Original Certificates of
Registration with Tax
Authorities

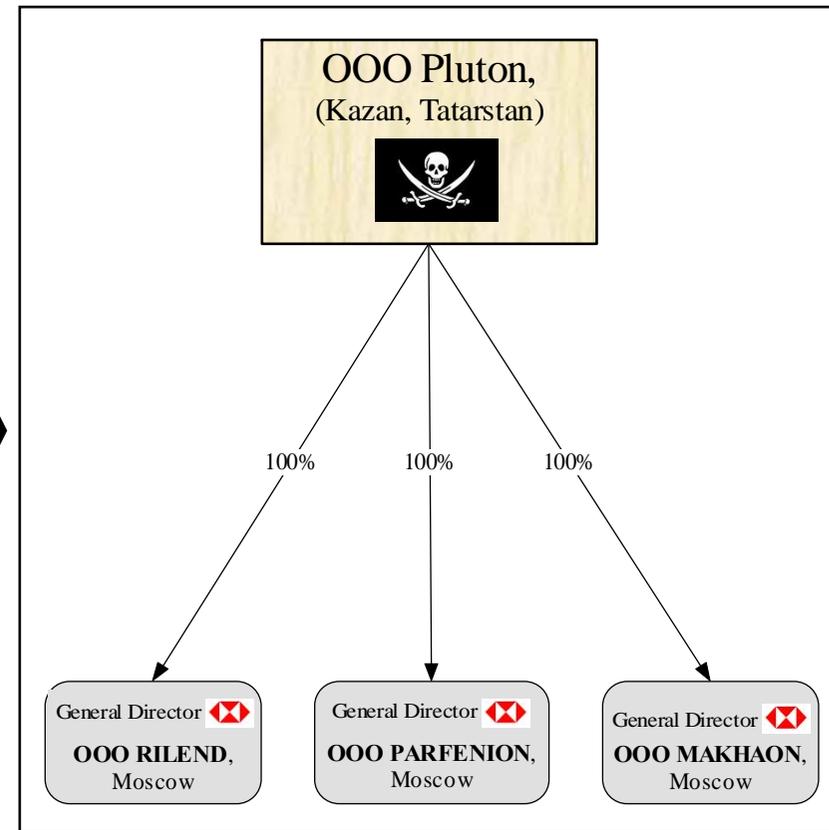
What happened next?

On 20 September 2007, the registry records of the stolen Hermitage Fund companies were fraudulently changed to show an unknown company from Kazan named “Pluton” as the new owner. The lawful owner, HSBC, was wiped off the registry

Corporate Registry
May 2007



Corporate Registry
September 2007



How could they transfer ownership?

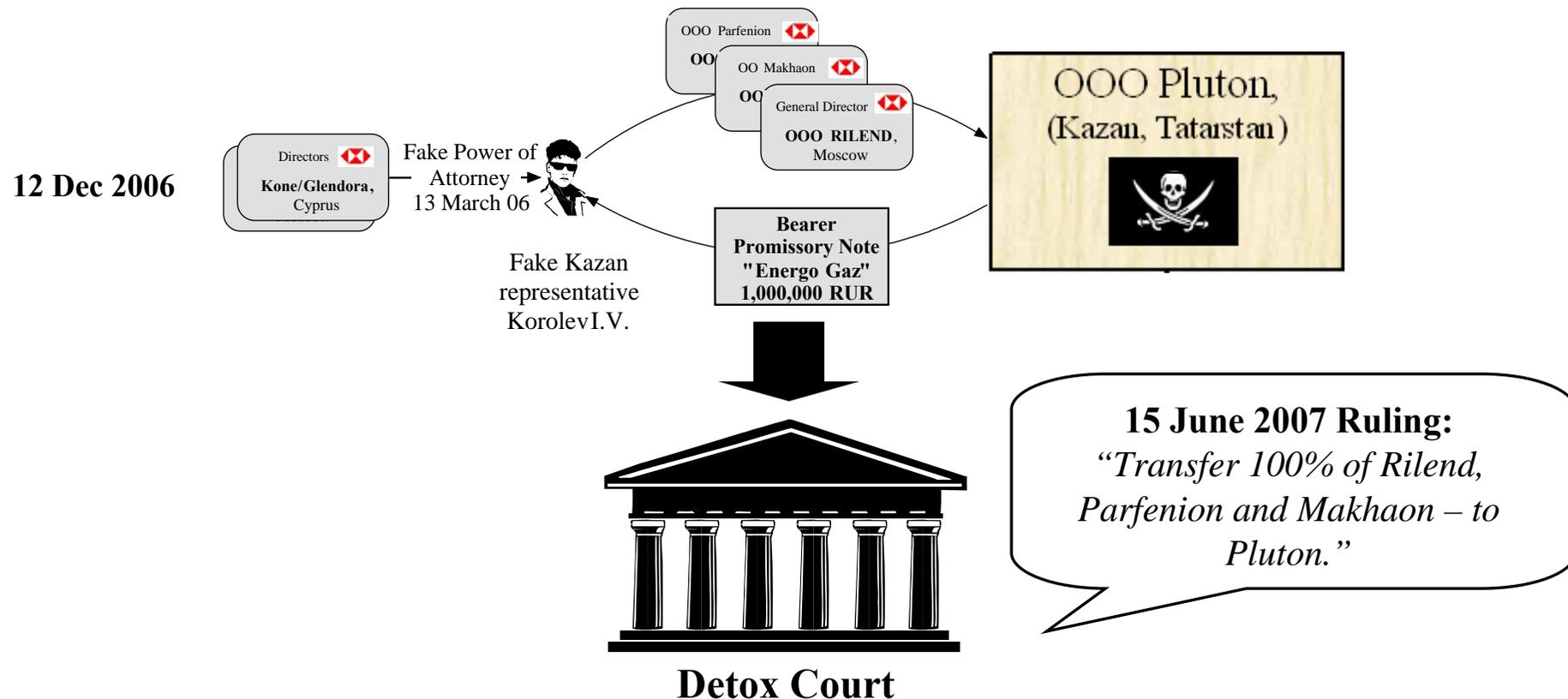
In order to change the ownership records in the corporate registry of a Russian company, one needs a legal confirmation of a change of ownership and originals of four key corporate documents



How did the perpetrators fabricate a legal confirmation of the change of ownership?

On 15 June 2007, a commercial arbitration court called “Detox” in the city of Kazan purportedly authorized the transfer of Rilend, Parfenion and Makhaon from HSBC to Pluton based on a fake promissory note agreement

Fake Promissory Note Agreement



The “Detox Court”

It turns out that the Detox Court does not exist

Landlord’s Response to Inquiry from HSBC Lawyers



“For the period from July 2007 until now ООО Detox was never a tenant at these premises, nor was it a tenant during any earlier period. There is no record of the operations of a “Detox” commercial arbitration court on these premises.”



Detox’s Registered Address

Source: Letter dated 9 April 2008 from the landlord of the building listed as the official court address in the Detox judgments.

Where did the perpetrators get the key corporate documents?

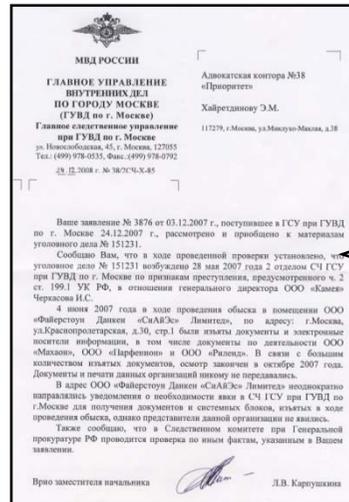
These 4 key corporate items were taken by the Moscow Interior Ministry during their raid on the Firestone Duncan law offices and have remained in their exclusive custody through today



Major Pavel Karpov

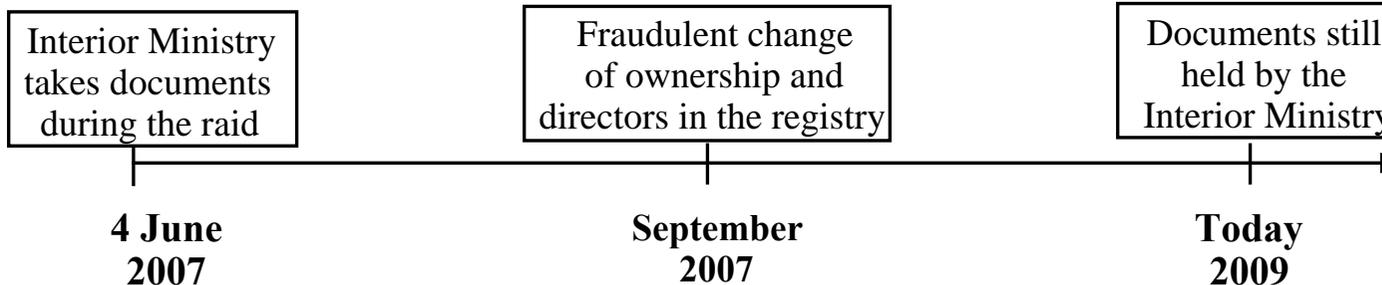


Colonel lieutenant
Artem Kuznetsov



Russian Interior Ministry Letter

On 4 June 2007 during the raid in Firestone Duncan office in Moscow were seized the documents and electronic copies of documents of Makhaon, Parfenion and Rilend ... These documents and seals of these companies were not given to anybody.

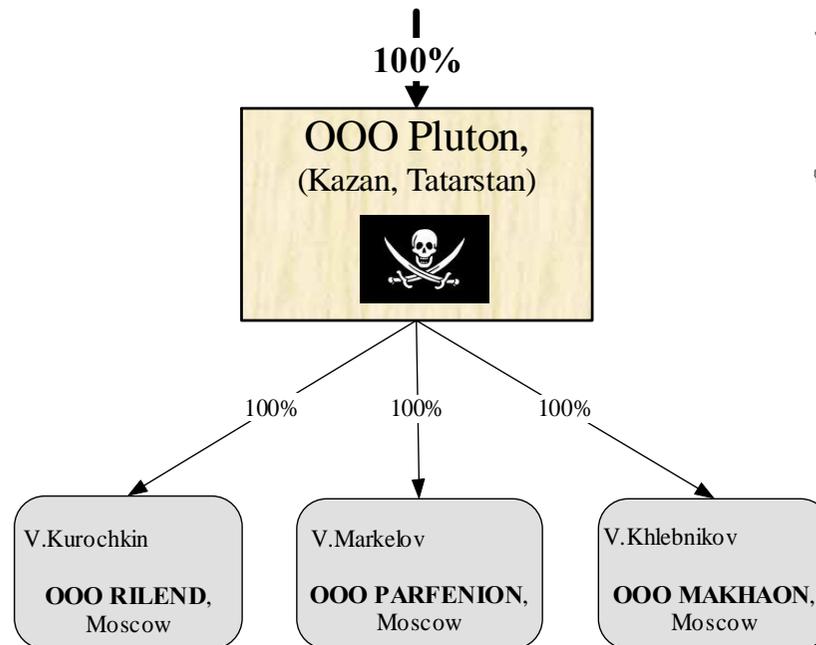


Who was registered as the new owner?

Pluton, a Russian company registered in Kazan (in the Russian republic of Tatarstan) and owned by a man named Viktor Markelov



V. Markelov



Tatarstan, Russia

Who is Victor Markelov?

Victor Markelov is a 41-year old Saratov resident convicted of murder in 2002

– Curriculum Vitae –

VICTOR ALEXANDROVICH MARKELOV

ADDRESS:

2 Zarechnaya Street, Kochetkovka Village, Atkarsky Rayon,
Saratov Region 412420, Russia

DATE & PLACE OF BIRTH:

15 December 1967, Leninskoe, Oshsky Region, Kirgizsskaya SSR

PASSPORT:

63 05 769119, issued by UVD (Zavodskogo), Saratov, 30.12.2005

PROFESSIONAL EXPERIENCE:

01.12.2001 MURDER– manslaughter Mr.Prohorov in Akhtarsk

29.04.2002 **CONVICTED & SENTENCED FOR TWO AND A HALF YEARS** – *p.1 Article 109 of Criminal Code of Russian Federation*

16.03.2004 **WARRANT for ARREST PP. a), Paragraph 2 Article 158 "Theft" of Criminal Code of Russian Federation:** *"Theft conducted by a group of people with entering a preliminary collusion"*

2006 **ARRESTED** – *for "unlawful activity resulting in damage" (under Article 330 of the Russian Criminal Code)*

03.07.2007 - **Shareholder and General Director of OOO Pluton, Kazan, Tatarstan Charter Capital US\$400**
Address: 22 Dementieva Street, Kazan, Tatarstan, 420127

EDUCATION:

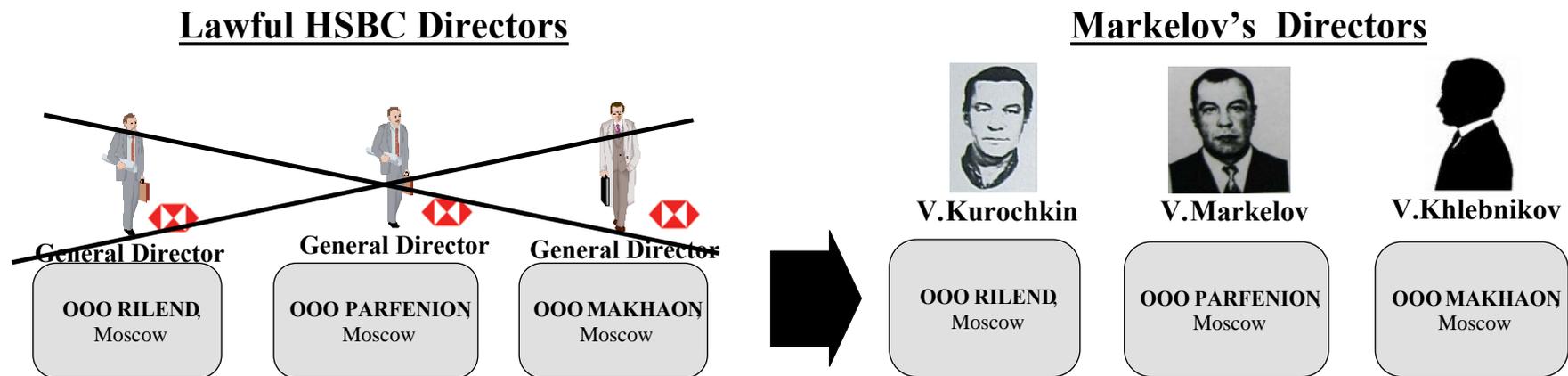
• N/A



Who were listed as the new directors in the corporate registry?

Markelov fraudulently appointed himself as the director of Parfenion, and he appointed Messrs Khlebnikov and Kurochkin as directors of Makhaon and Rilend, respectively

Fraudulent Changes to the Corporate Registry



What were their backgrounds?

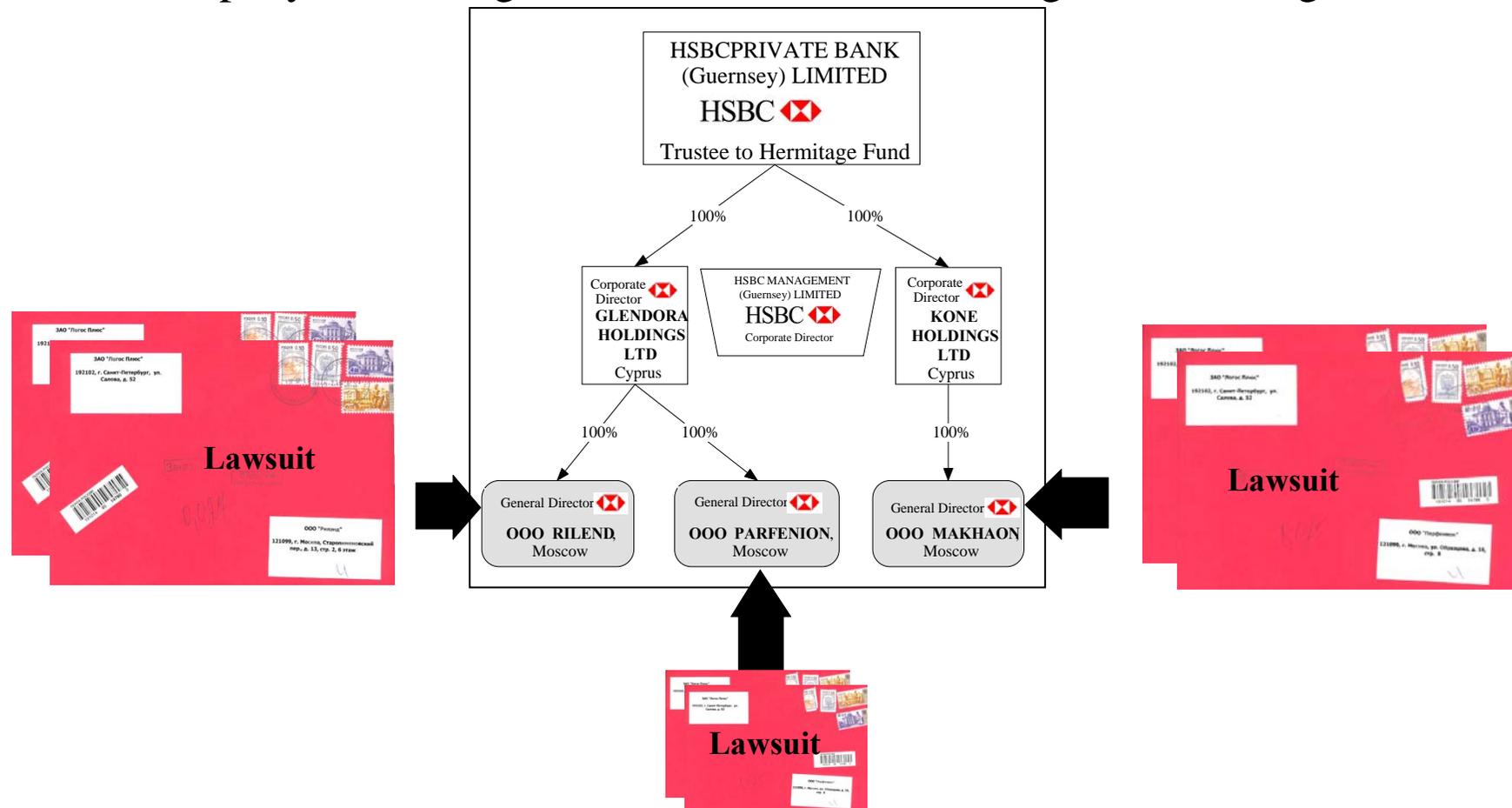
Like Markelov, Messrs Kurochkin and Khlebnikov also had criminal records

VALERY NIKOLAEVICH KUROCHKIN	
ADDRESS:	
Flat 55, 12 Tallalihina Street, Atkarsk, Saratov Region, Russia	
DATE OF BIRTH:	
20 June 1964, Belyaev Village, Rostov Region, Russia	
PASSPORT:	
# 63 03 872416, issued by Atkarsky GOVD of Saratov Region on 07.05.2003	
PROFESSIONAL EXPERIENCE:	
<i>February 1994</i> Burglary and VCR theft	
<i>January 1995</i> Sentenced for three years	
01.03.1995- 05.08.1998 Spent in prison	
EDUCATION:	
• N/A	
ADDITIONAL:	
• Languages: N/A	

VYACHESLAV GEORGIEVICH KHLBNIKOV	
ADDRESS:	
Flat 46, 2/168, Tambov-6, Tambov 412420, Russia	
DATE OF BIRTH:	
9 July 1967, Tambov, Russia	
PASSPORT:	
# 68 04 069040, issued by OVD Sovetskogo Rayona of Tambov on 30.10.2003	
PROFESSIONAL EXPERIENCE:	
<i>10.12.1997</i> Arrested for BURGLARY <i>Klebnikov and Kazak burglarized loganson</i>	
<i>25.12.1998</i> Four years in prison sentenced by Kuibishev Civil Court of St.Petersburg <i>p.3 of Article 30 and p.2 a,v,g of Article 158 of Criminal Code of Russian Federation</i>	
30.06.2000 Released from the prison under amnesty <i>Article 4 of State Duma Decree of 26 May</i>	
EDUCATION:	
• N/A	
ADDITIONAL:	
• Languages: N/A	

What happened after the companies were stolen?

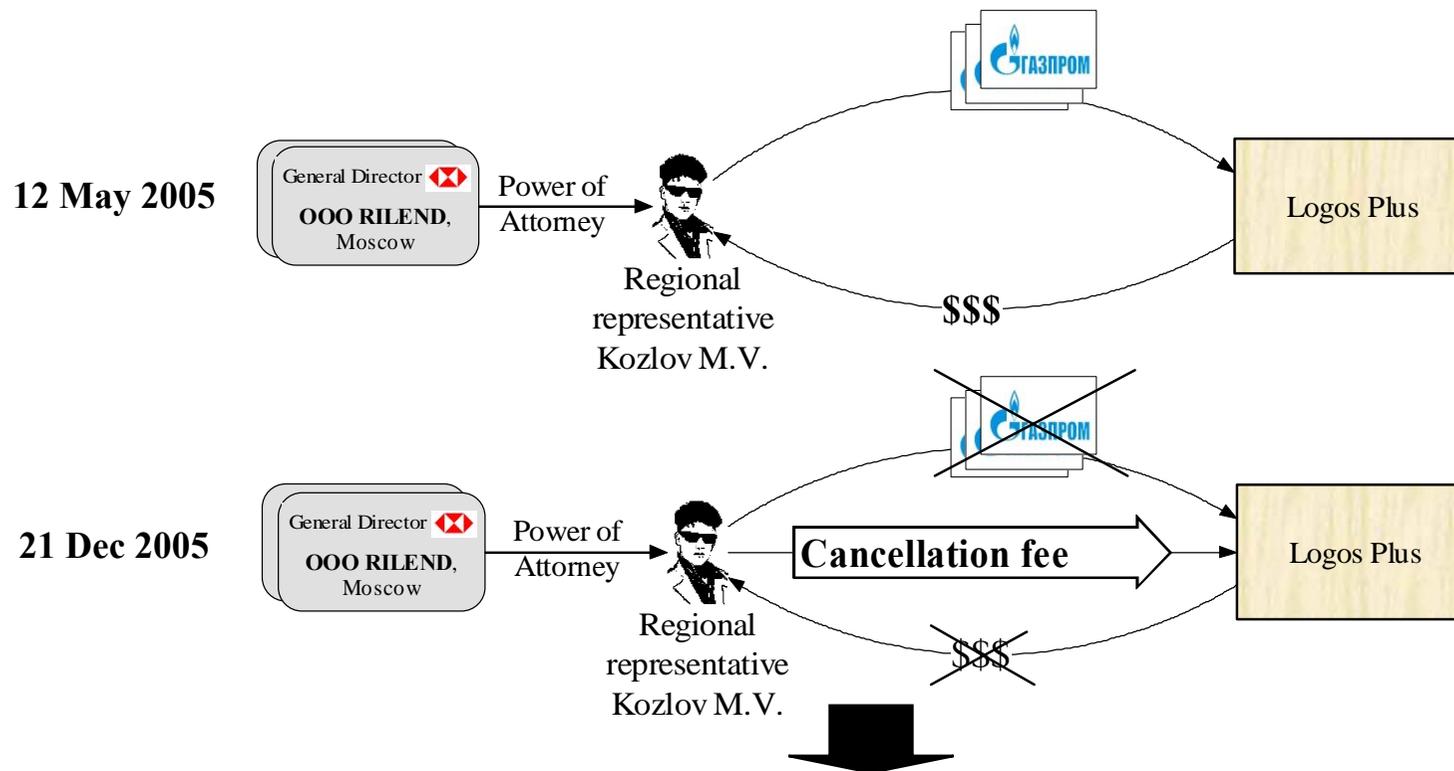
Even before the fraudulent changes to the corporate registry were made, the companies were sued in St. Petersburg Arbitration Court on 27 July 2007 for \$376 million by an unknown company called Logos Plus without the knowledge of Hermitage and HSBC



On what basis did they sue?

The sham lawsuits alleged that in 2005 the three Hermitage Fund companies agreed to sell Gazprom shares to a company called Logos Plus, and then later cancelled the agreements but didn't pay the foregone profits of \$376 million

Fake Agreements



Fake Liabilities of \$376 Million

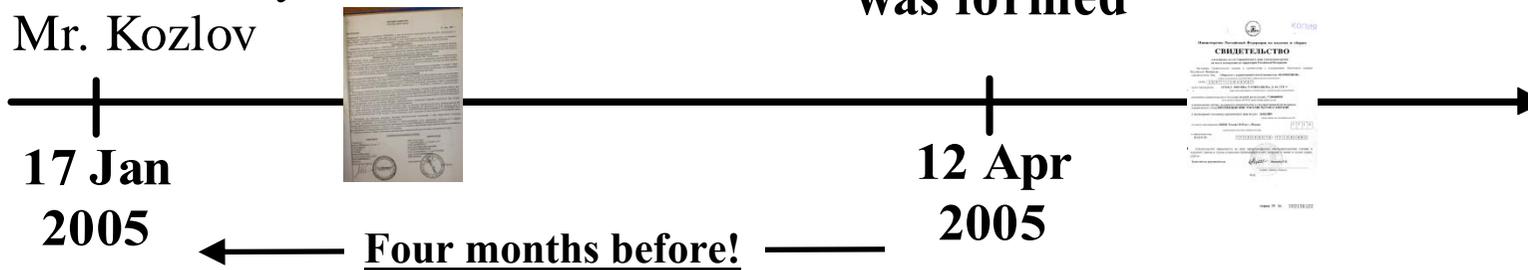
Were their forgeries accurate?

The documents given to the court had numerous mistakes making the forgeries obvious, including the following:

1. The Power of Attorney “authorizing” unknown Mr. Kozlov was issued four months before the actual formation of the company issuing the alleged Power of Attorney

Parfenion **“issued”**
Power of Attorney
to Mr. Kozlov

Parfenion
was formed



2. The corporate seal used to validate one of the agreements was only produced for the first time 6 days after the alleged agreement “was stamped” with the same corporate seal

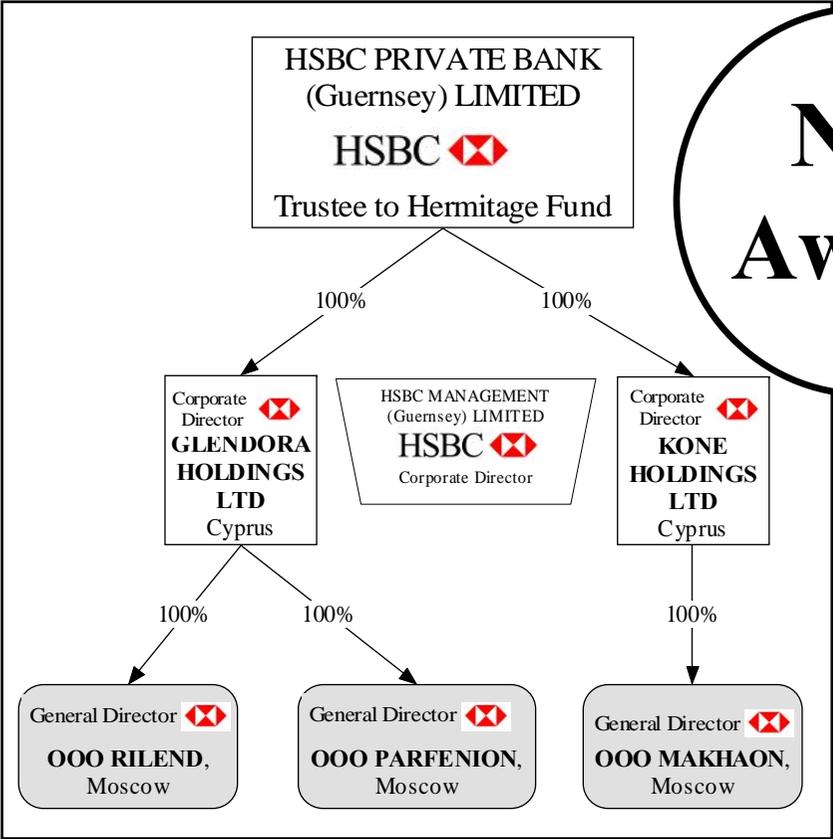
Agreement signed
and **“stamped”** by
Rilend's corporate
seal

Rilend's
Corporate seal
was produced



Who defended the three stolen companies?

Even though Hermitage and HSBC were not aware of these lawsuits, the three stolen companies were represented before the St. Petersburg court by unknown lawyers not appointed by Hermitage or HSBC and using fake powers of attorney



**Not
Aware**



Andrei Pavlov
Lawyer for Rilend



Санкт-Петербургский
городской суд



E.A. Maltzeva
Lawyer for Parfenion

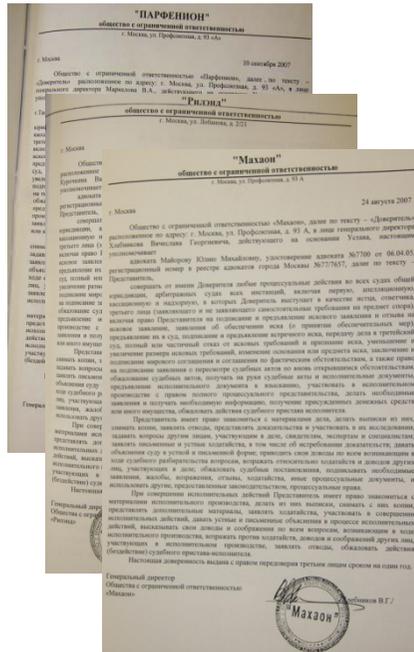


Y.M. Mayorova
Lawyer for Makhaon

What happened in court?

These lawyers fully acknowledged and accepted all the claims

Fake POAs to lawyers from Rilend, Parfenion and Makhaon



**Andrei Pavlov
Lawyer for Rilend**

“Hereby, the defendant confirms that he understands the charges, doesn’t have any objections and fully accepts the claims”

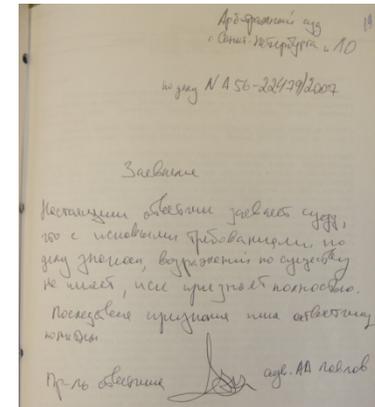
Andrei Pavlov, attorney for the defendants



Judge Orlova

“According to p.3 art. 70 of APC the acceptance of the claim by the defendant releases the plaintiff from the requirement to prove the case”

Judge Orlova



Арбитражный суд города Санкт-Петербурга и Ленинградской области
191015, Санкт-Петербург, Суворовский пр., 50/52

Именем Российской Федерации
РЕШЕНИЕ

г. Санкт-Петербург
21 сентября 2007 года Дело № А56-22484/2007

Разрешительная часть решения объявлена 17 сентября 2007г. Полный текст решения изготовлен 21 сентября 2007 года.

Арбитражный суд города Санкт-Петербурга и Ленинградской области в составе:

судьи Орлова Е.А.,

В судебном заседании ответчик заявил о признании исковых требований в полном объеме.

В соответствии с п. 3 ст. 70 АПК РФ принятие стороной обстоятельств, на которых другая сторона основывает свои требования или возражения, освобождает другую сторону от необходимости доказывания таких обстоятельств.

В соответствии со ст. 309; 310 ГК РФ обязательства должны исполняться надлежащим образом. Не допускается односторонний отказ от исполнения обязательств.

Арбитражный суд считает требования истца обоснованными по праву и по размеру и подлежащими удовлетворению.

На основании изложенного и

Руководствуясь статьями 48; 102; 110; 167-170 Арбитражного процессуального кодекса Российской Федерации, арбитражный суд

решил:

Занять истца в порядке процессуального правопреемства на ООО «Гранд-Астив».

Взыскать с Общества с ограниченной ответственностью «Парфенион» в пользу Общества с ограниченной ответственностью «Гранд-Астив» 2.800.000 руб. убытков и 25.500 руб. в порядке возмещения расходов по госпошлине.

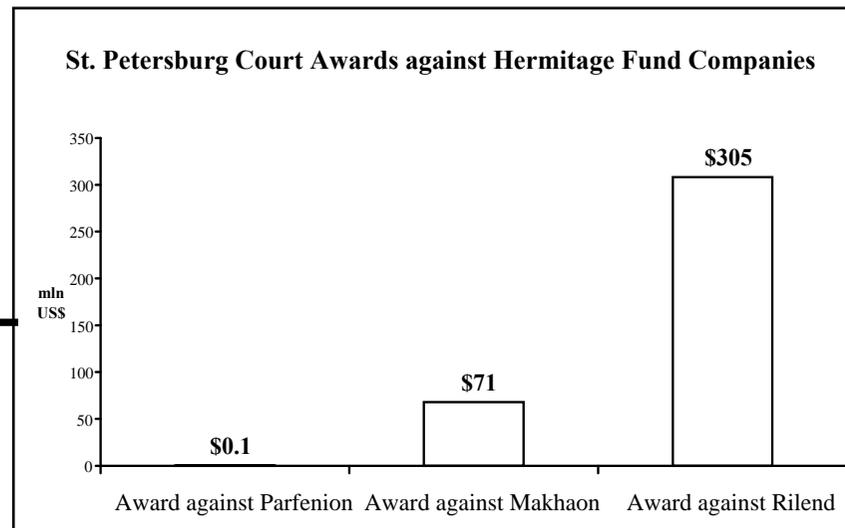
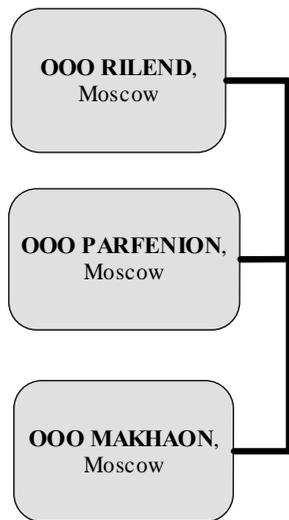
Выдать исполнительный лист.

На решение может быть подана апелляция в Тринадцатый арбитражный апелляционный суд, в течение месяца со дня принятия решения или кассационная жалоба в Федеральный арбитражный суд Северо-Западного округа в срок, не превышающий двух месяцев со дня вступления решения в силу.

Судья Орлова Е.А.

What was the verdict?

The St. Petersburg Court awarded Logos Plus with \$376 million



Logos Plus

\$376 million

\$973 Million in Sham Judgments

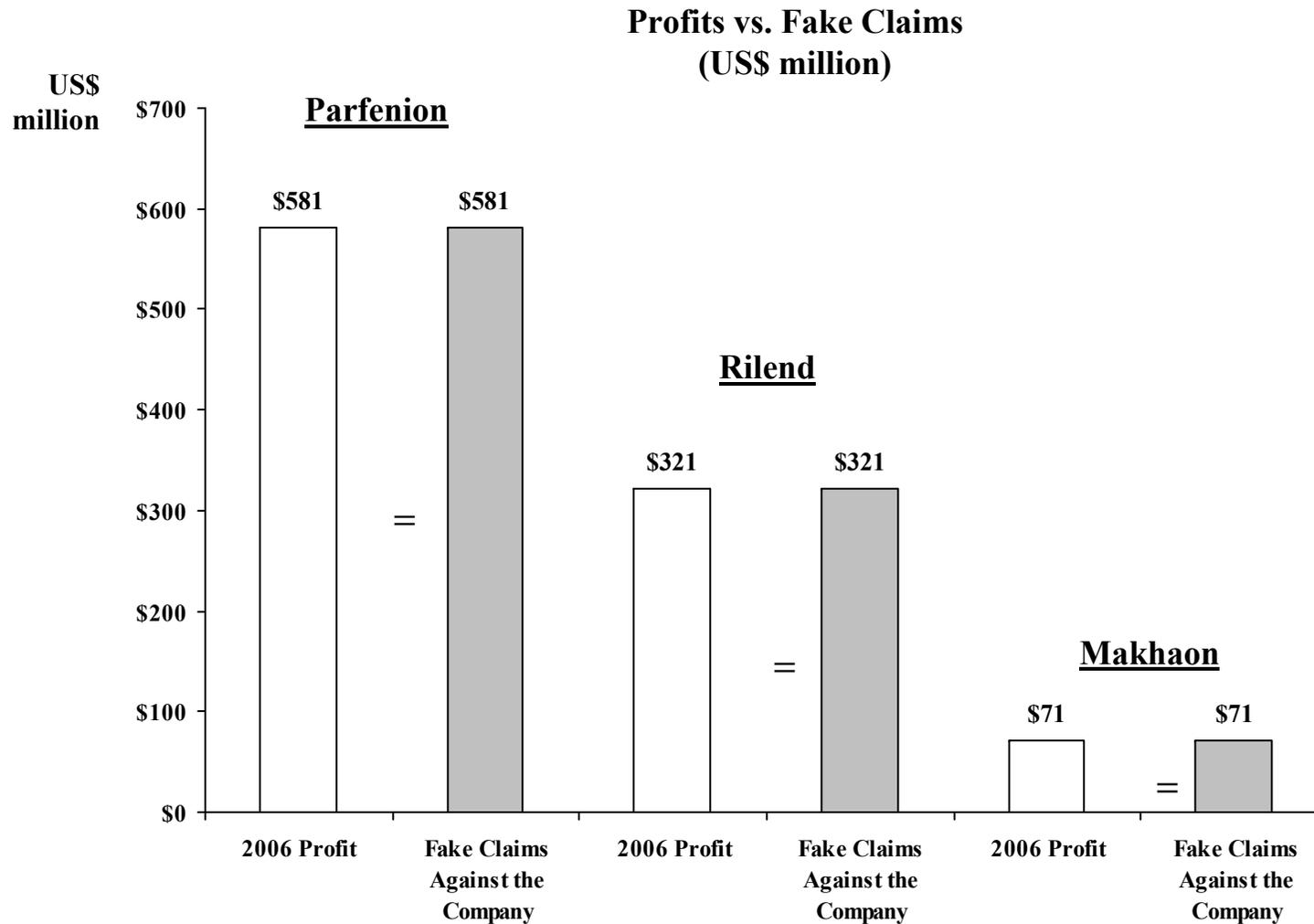
Identical sham claims against the Hermitage Fund companies were filed without Hermitage or HSBC’s knowledge in October 2007 with the Moscow and Kazan arbitration courts on behalf of two unknown companies, Instar and Grand Aktive – and the claims were based on the same fake agreements and “foregone profits”



	Plaintiff	Defendant (Primary)	Total Award
Kazan	Grand Aktive	Parfenion	\$581 Million
Moscow	Instar	Rilend	\$321 Million
St. Petersburg	Logos Plus	Makhaon	\$71 Million
TOTAL:			\$973 Million

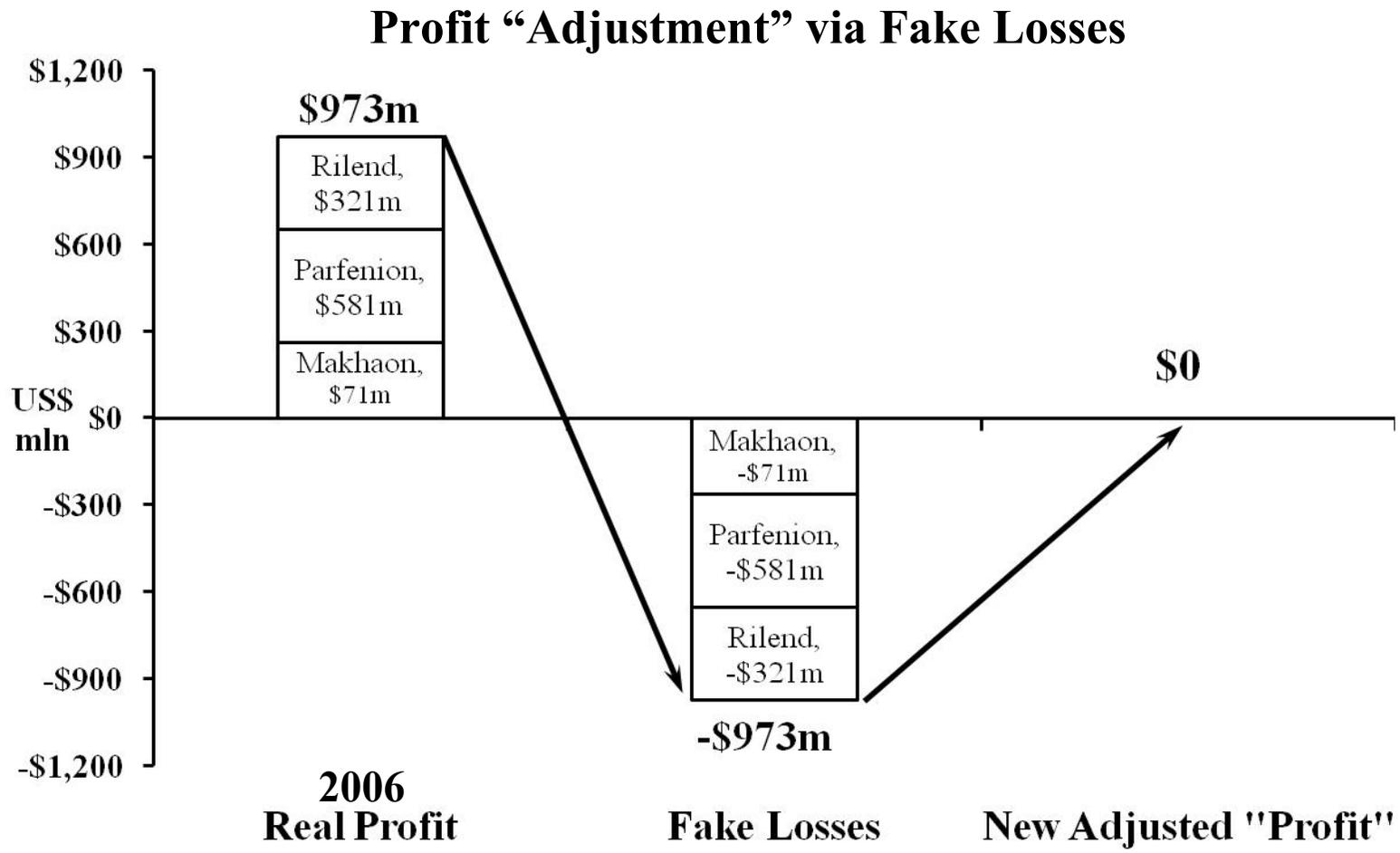
What was the reason to seek these sham judgments?

It turns out that the awards were exactly equal to the profits of the Hermitage Fund companies in 2006



Why have judgments match profits?

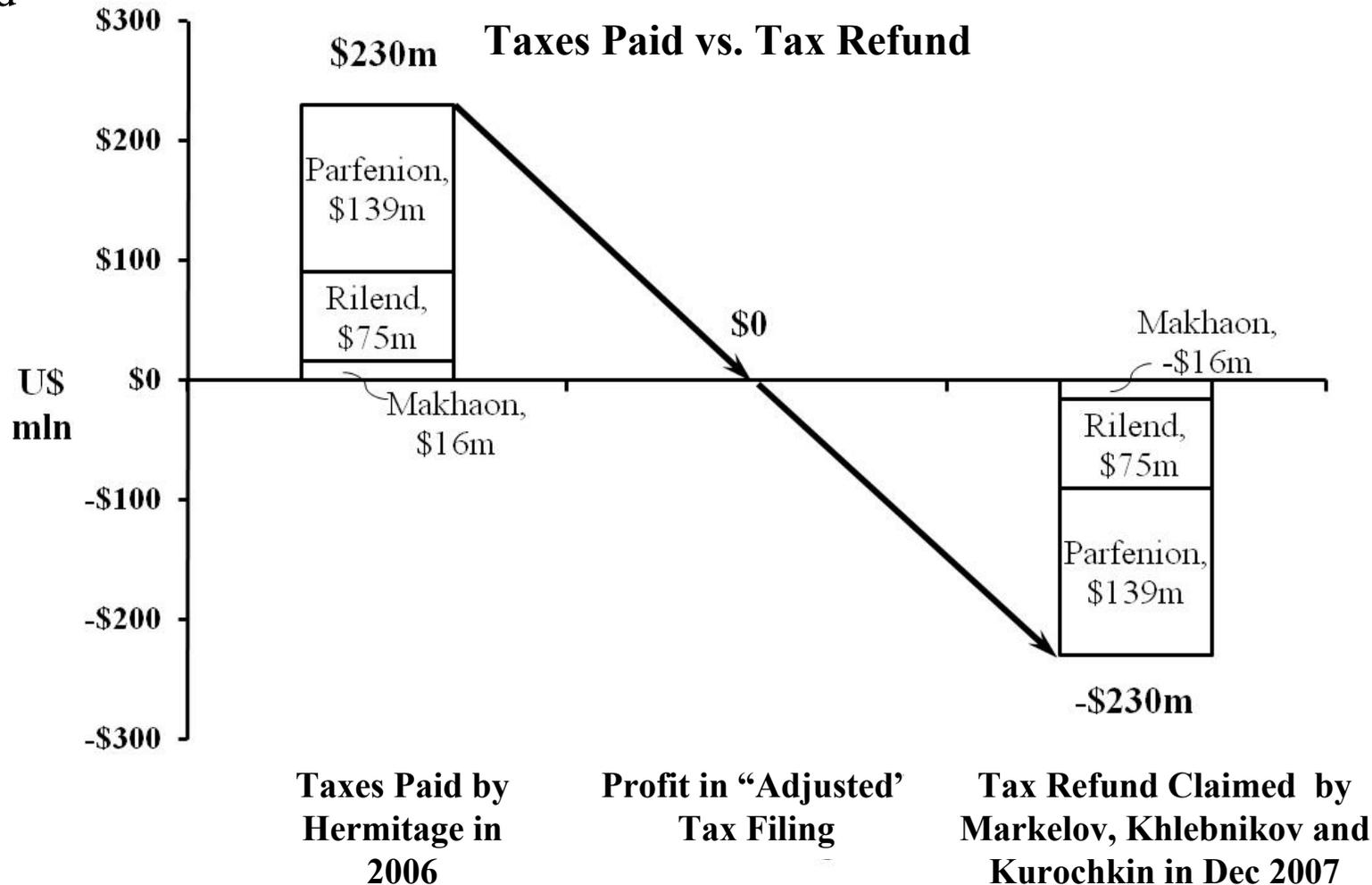
The perpetrators seemed to be intent on eliminating the historic profits from the Hermitage Fund companies retroactively...



Source: Court records; Hermitage Fund companies financials (2006)

Why eliminate profits retroactively?

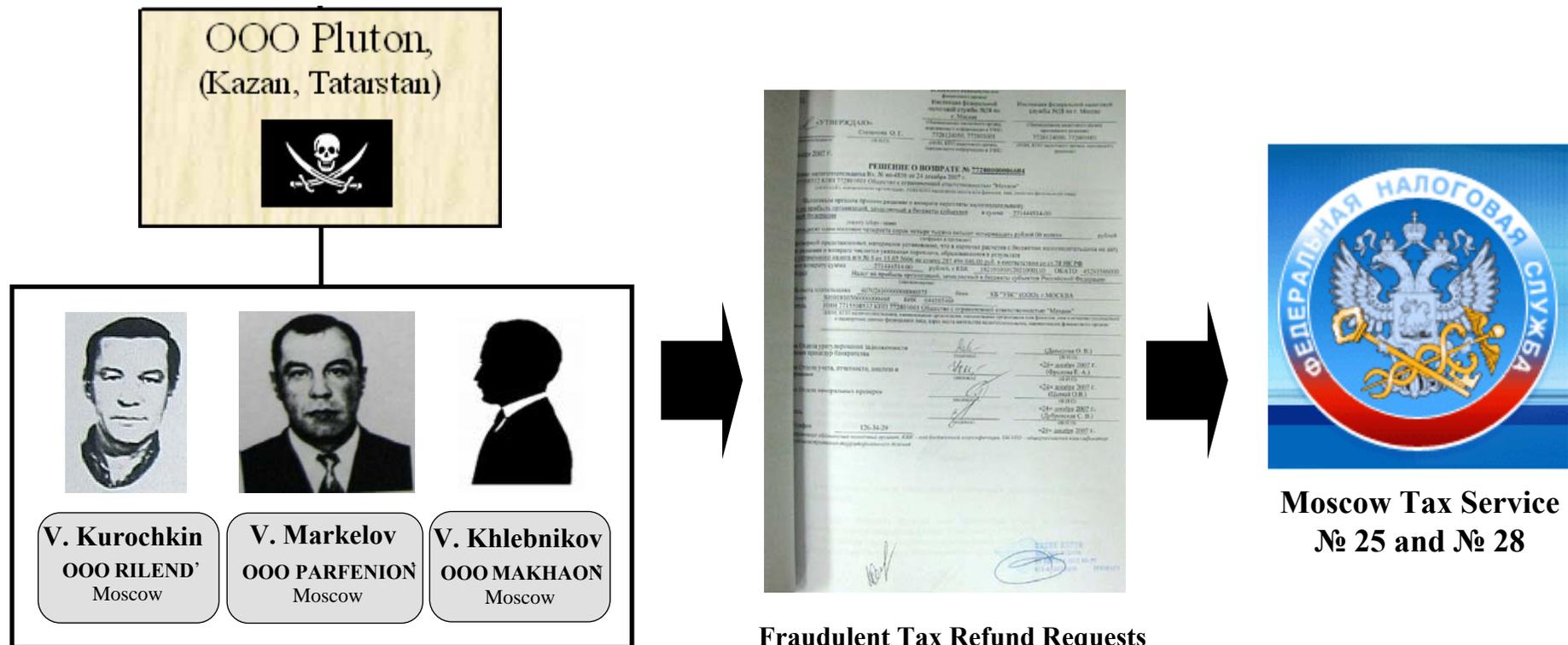
... in order to steal the tax money paid by Hermitage by applying for a \$230 million tax refund



Fraudulent Amended Tax Return

On 21 and 24 December 2007, Markelov, Khlebnikov and Kurochkin filed for a collective tax refund of \$230 million on behalf of Rilend, Parfenion and Makhaon

Filing Amended Tax Declarations



Fraudulent Tax Refund Requests

Was the refund approved and paid in a normal timeframe?

No. The Moscow Tax Authorities (#25 and 28) approved the refund for two Hermitage Fund companies on a same-day basis – and spent two working days approving the third

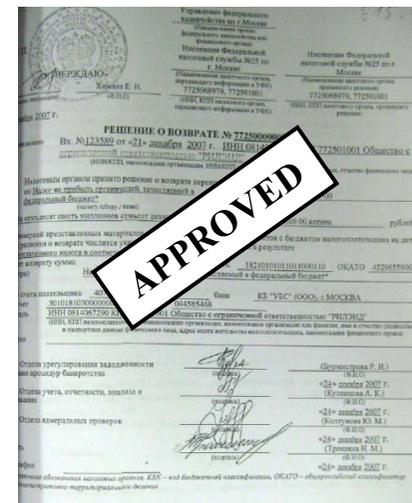
“Fast-Track” Refund of \$230 Million from the Russian Budget



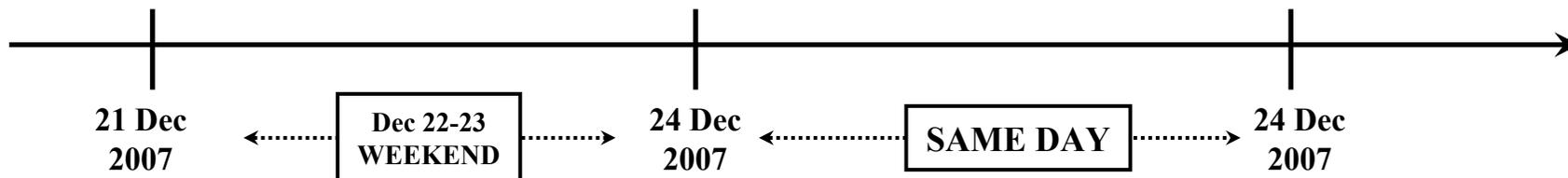
Markelov, acting for Khlebnikov, files tax refund for Makhaon



Markelov and Kurochkin file tax refund for Rilend, Parfenion

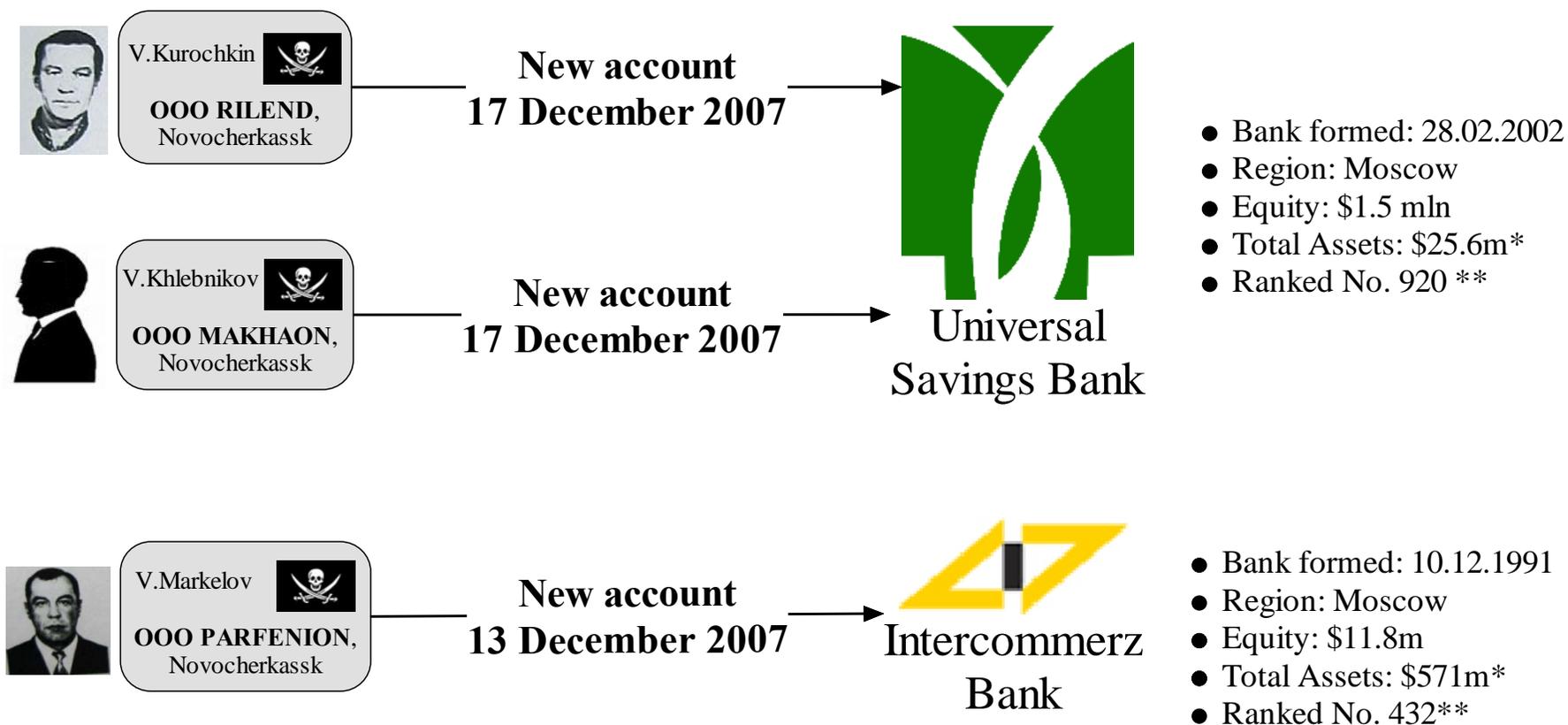


Approval of \$230 Million Tax Refund



Where was the \$230 million paid?

Just before the tax refunds had been paid, Markelov, Khlebnikov and Kurochkin opened three new bank accounts in mid-December 2007 with two small Russian banks



Source: EGRUL statements

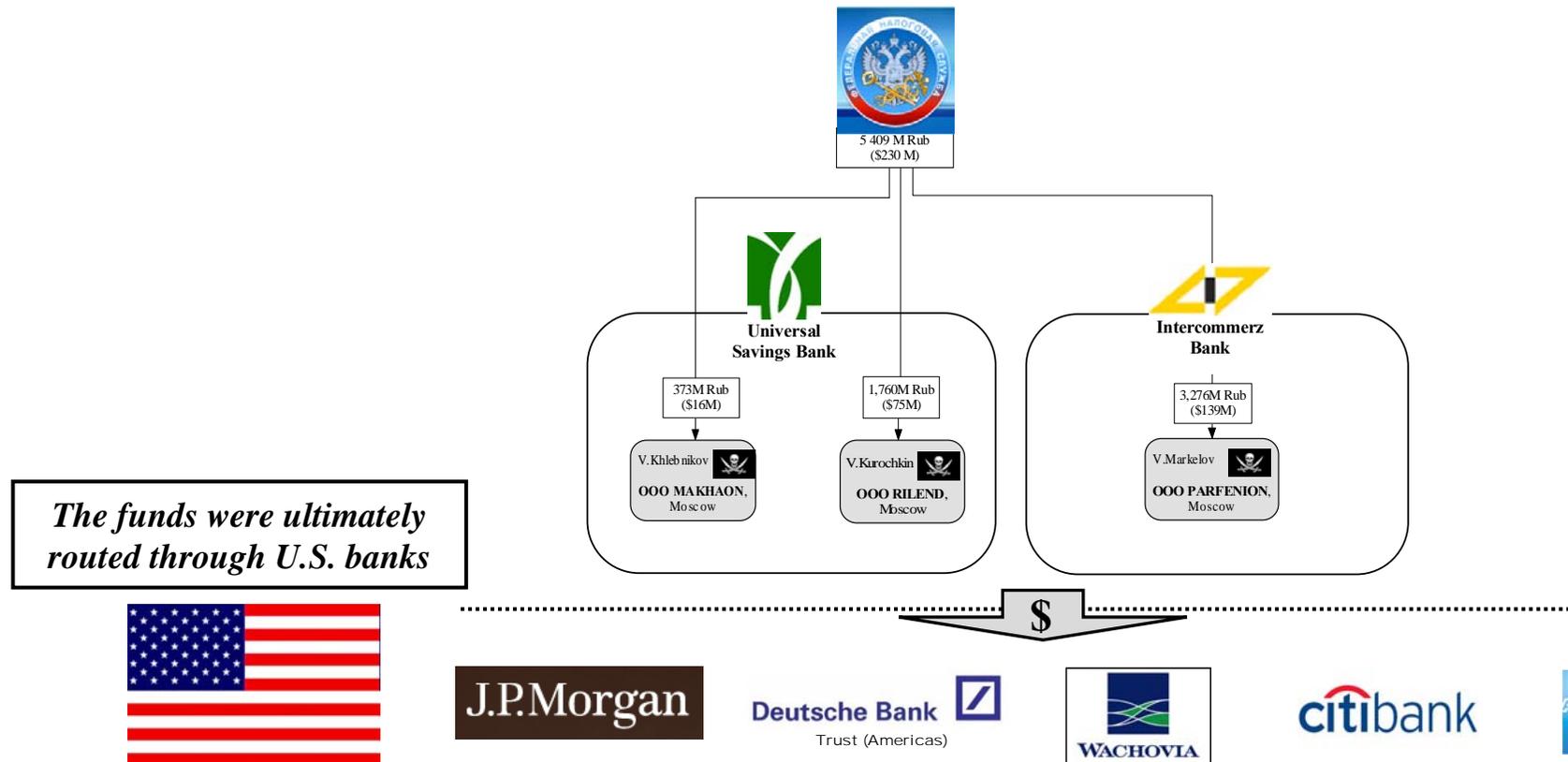
* Central Bank of Russia (www.cbr.ru)

** 2006 Total Assets Ranking, RBC Rating (http://rating.rbc.ru/articles/2007/03/01/31383191_tbl.shtml?2007/02/28/31382412)

\$230 Million Tax Refund

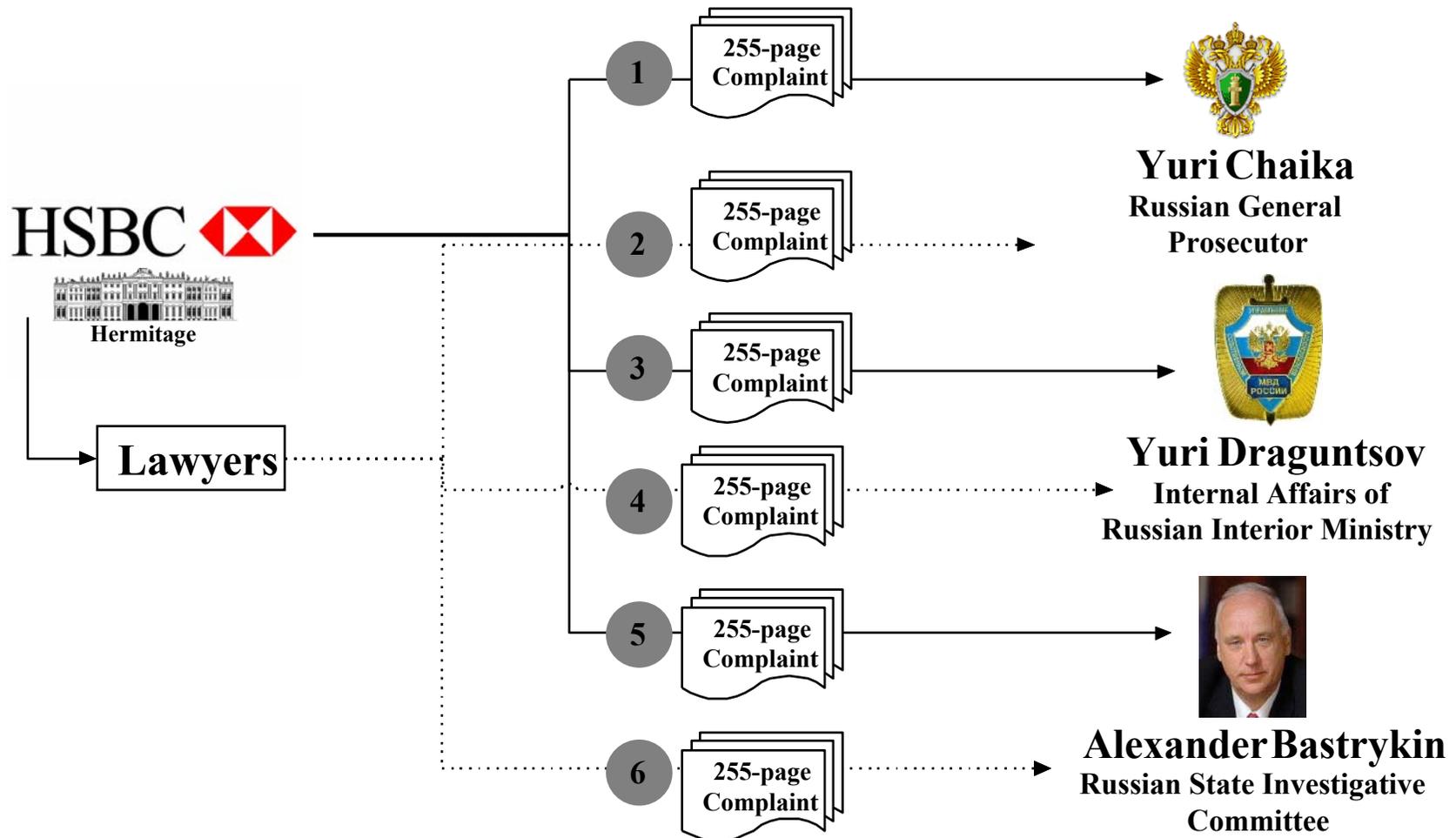
On 26 December 2007, the Moscow Tax Authorities transferred \$230 million in tax refunds to the newly opened accounts at USB and Intercommerz Bank, after which the funds were converted to US dollars and ultimately routed through U.S. banks

Distribution of the \$230 Million Tax Refund



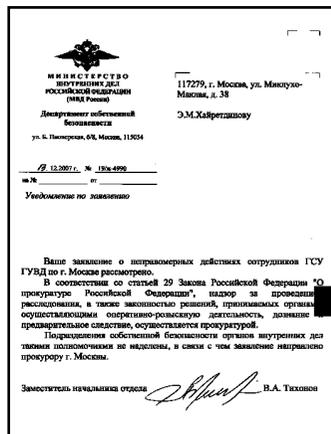
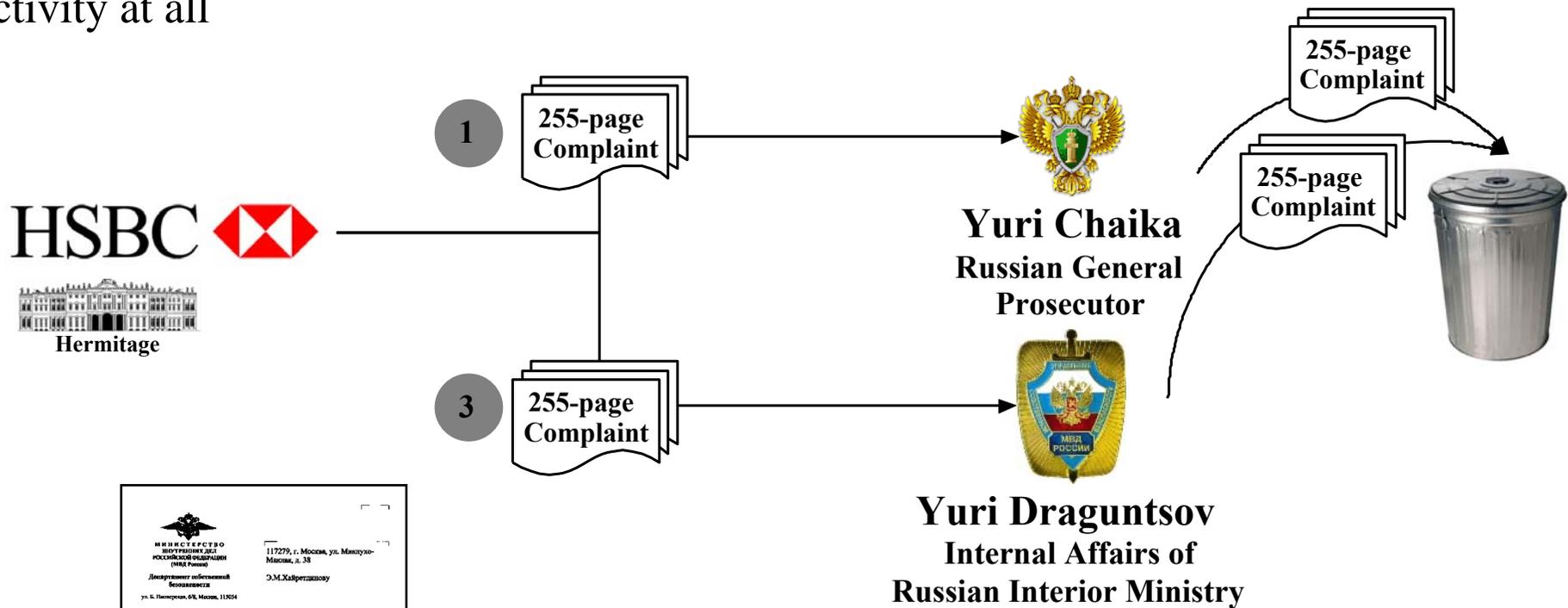
Hermitage Criminal Complaints: Theft of Companies

From December 3 to 11, 2007, HSBC, as trustee of the Hermitage Fund, filed six criminal complaints with major Russian law enforcement authorities complaining about the theft of the Hermitage investment companies



Hermitage Criminal Complaints

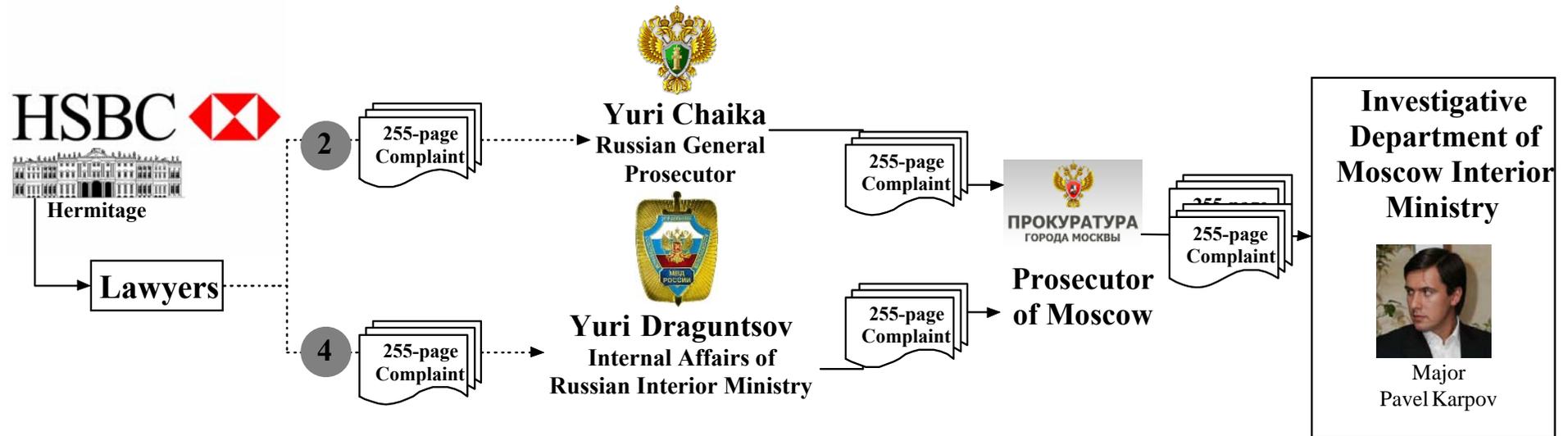
Of the criminal complaints filed in December 2007, the two filed with the Internal Affairs Department of Interior Ministry and General Prosecutor did not result in any activity at all



Russian Interior Ministry Letter (Office of Draguntsov):
*"The Russian Interior Ministry does not have the authority
to investigate the alleged illegal activities of Interior
Ministry Officers."*

Hermitage Criminal Complaints

The General Prosecutor's Office and Internal Affairs Department of the Interior Ministry transferred two other complaints to the Moscow Prosecutor's Office, who then passed the complaints to the individual in the Moscow Interior Ministry who was the target of the complaints



Hermitage Criminal Complaints

It turned out that authorities thought the best person to investigate the fraud was the person accused of it

**Investigative
Department of
Moscow Interior
Ministry**



Major
Pavel Karpov



**Investigative
Department of
Moscow Interior
Ministry**



Major
Pavel Karpov

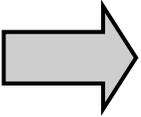
**Person who confiscated the
documents needed for the
fraud**

**Person investigating the
fraud**

Hermitage Criminal Complaints

The St. Petersburg branch of the Russian State Investigative Committee was unable to find any crime at all in their review of the complaint

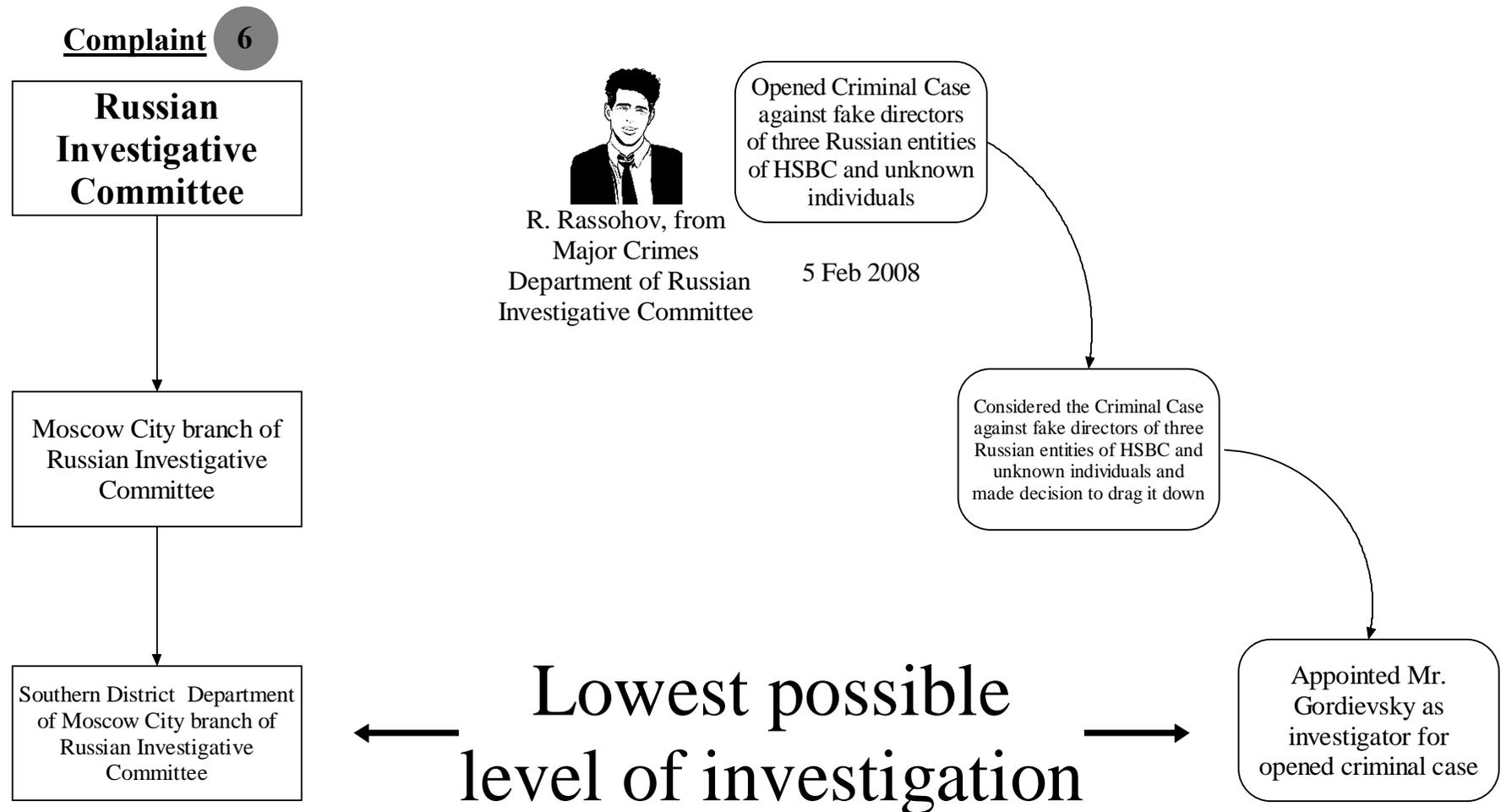
Response to Complaint 5



- Nothing wrong happened in St. Petersburg court
- Defendant fully accepted the claim
- The lawyer of HSBC will not be prosecuted for filing a false accusation according to Para. 1, Article 306 of the Russian Criminal Code due to an honest misunderstanding
- The request to open a criminal case is declined due to the lack of a crime

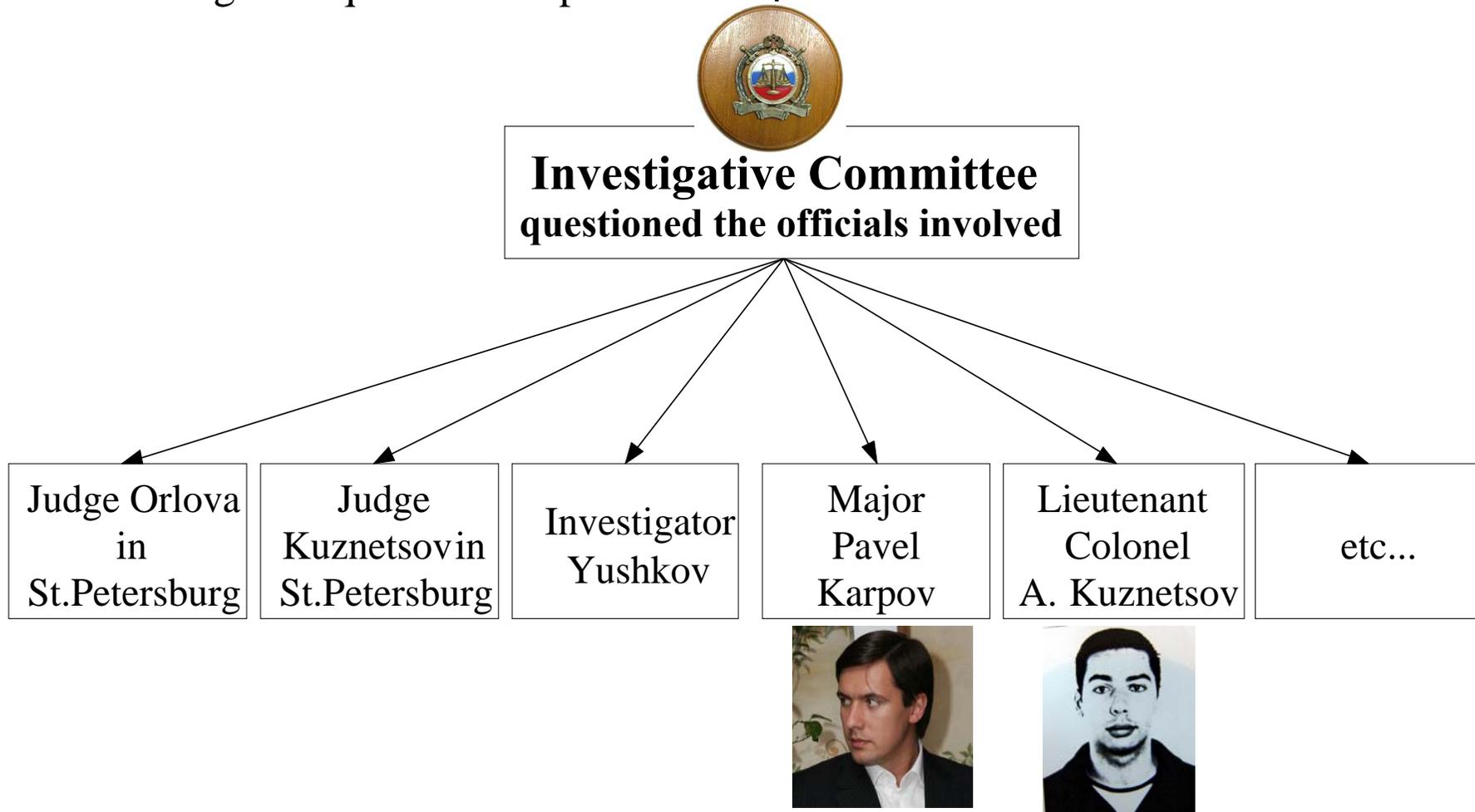
Hermitage Criminal Complaints

One case was ultimately opened by the Russian State Investigative Committee, but it was soon dragged down to the lowest level of the organization



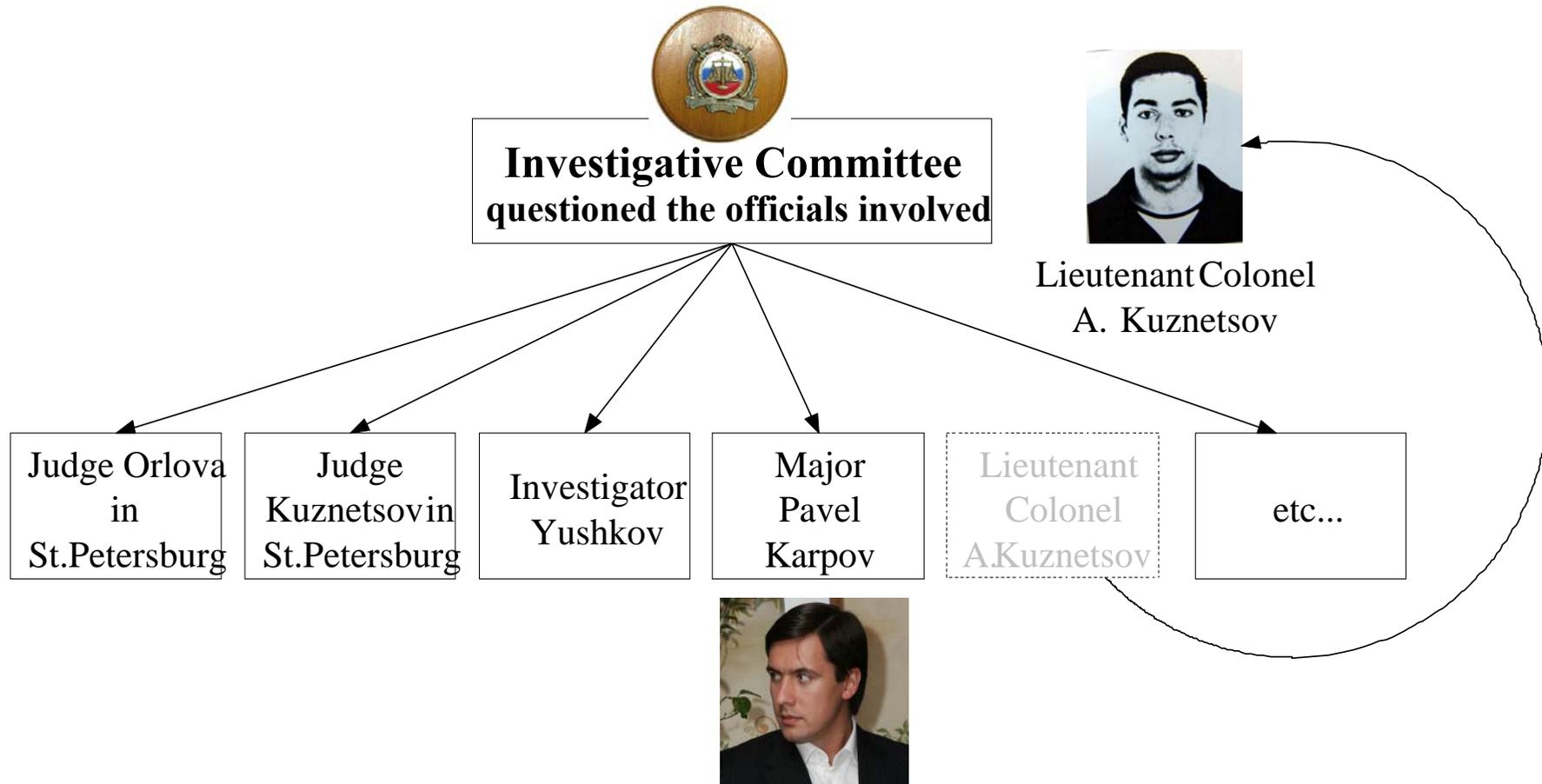
Hermitage Criminal Complaints

In February 2008, as part of this newly opened case, the Russian State Investigative Committee began to question the possible suspects



Hermitage Criminal Complaints

In June 2008, Hermitage learned that the prime suspect, Lieutenant Colonel Artem Kuznetsov, had joined the group managing the investigation



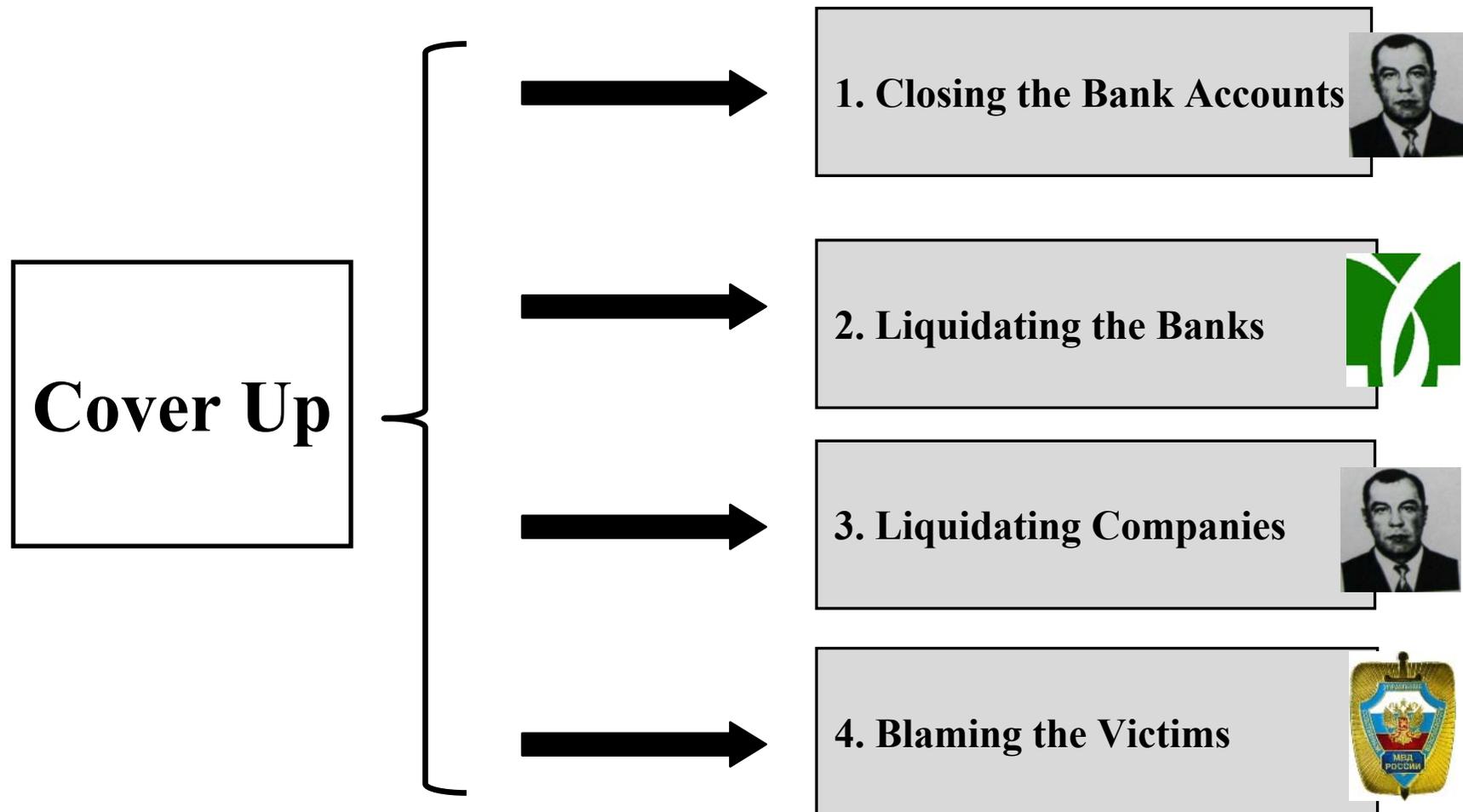
Hermitage Criminal Complaints: \$230 Million Tax Fraud

After the discovery of the tax fraud, Hermitage filed eight more complaints with the Russian authorities



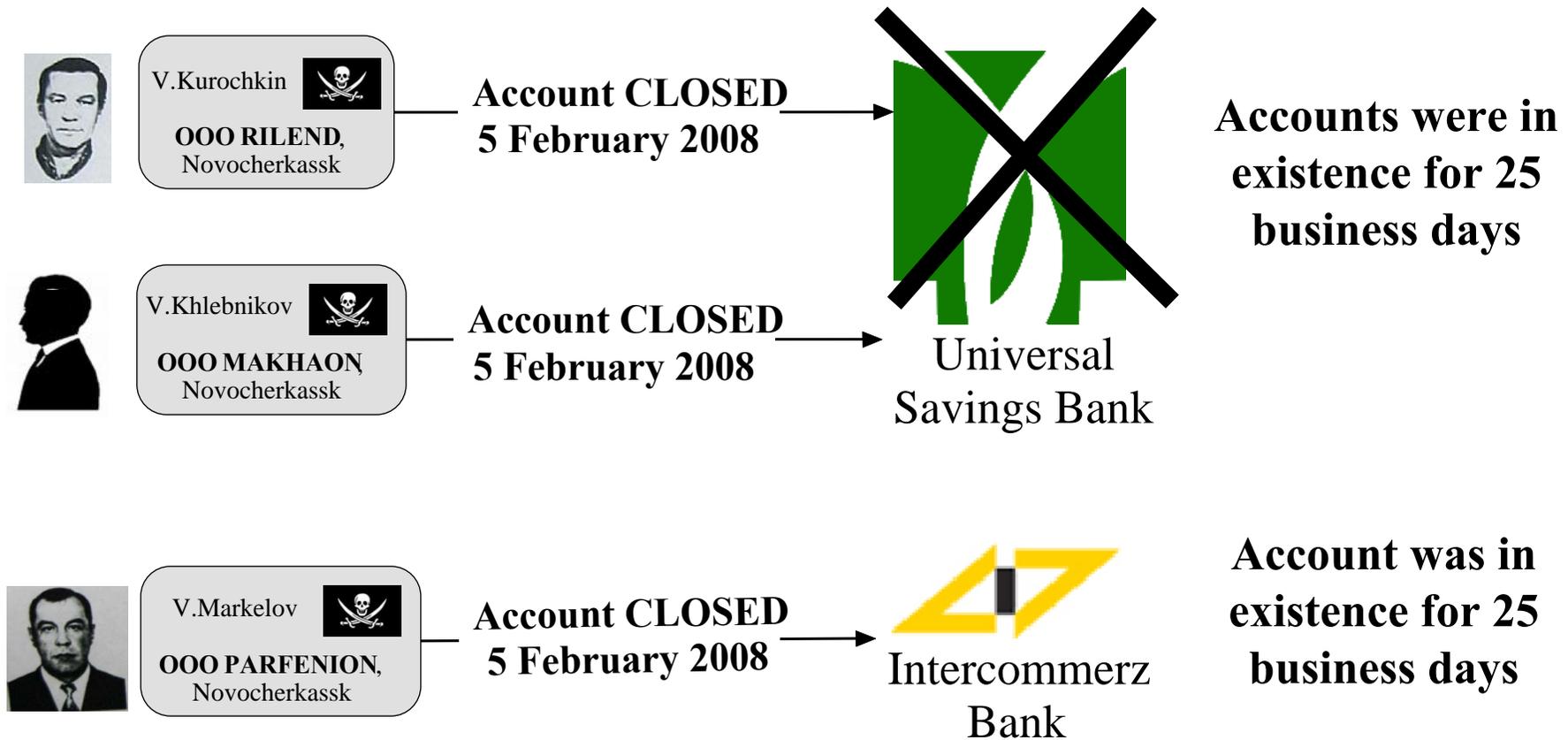
The Cover-Up

The perpetrators then spent a great amount of effort covering their tracks



1. Closing the Bank Accounts

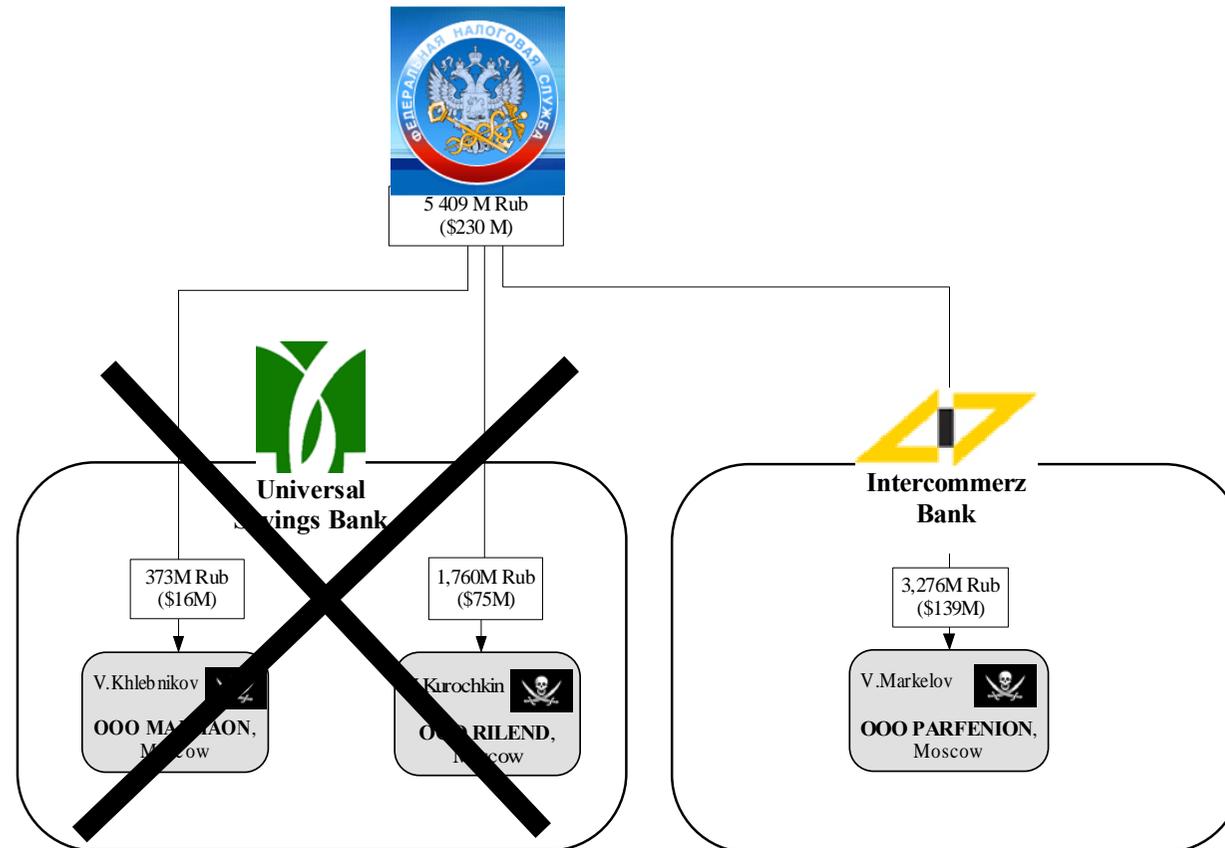
Immediately after illegally obtaining the tax refund and laundering it through the Russian banks, the perpetrators promptly shut down the accounts less than 30 business days after opening them



2. Liquidating the Banks

On 25 June 2008, the Central Bank of Russia cancelled USB's banking license following its application for voluntary liquidation

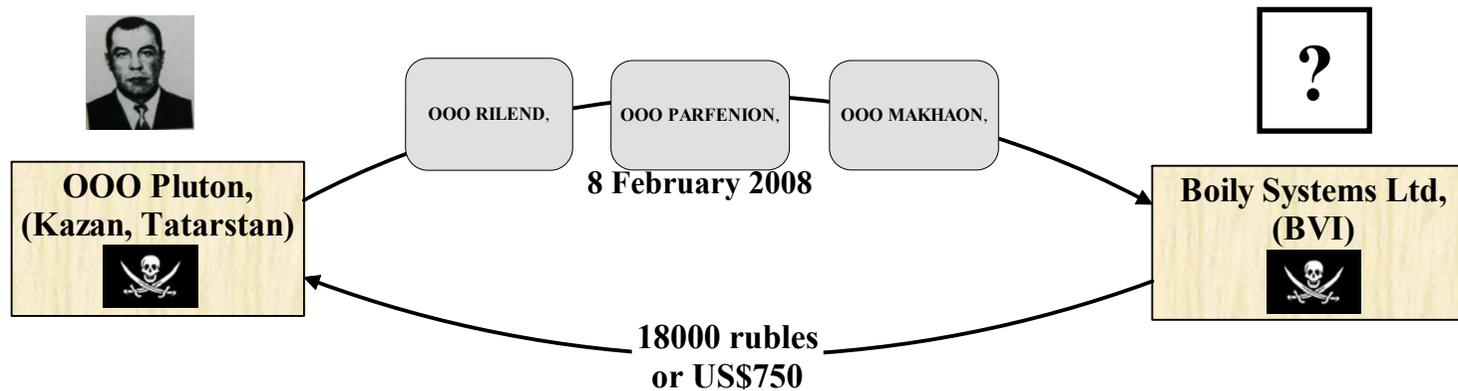
Liquidating USB Bank



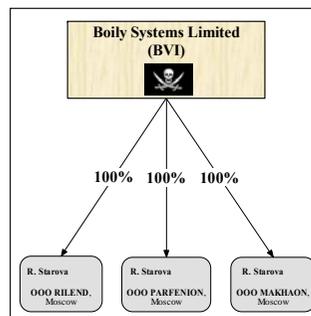
3. Liquidating the Stolen Companies

Almost immediately after acquiring the stolen companies, the criminals initiated the process to liquidate them

The Sale and Liquidation of the Stolen Hermitage Fund Companies

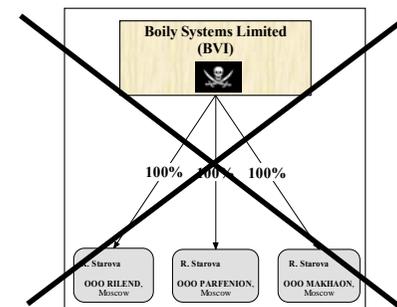


8 February 2008



Boily buys the three stolen Hermitage Fund companies for \$750

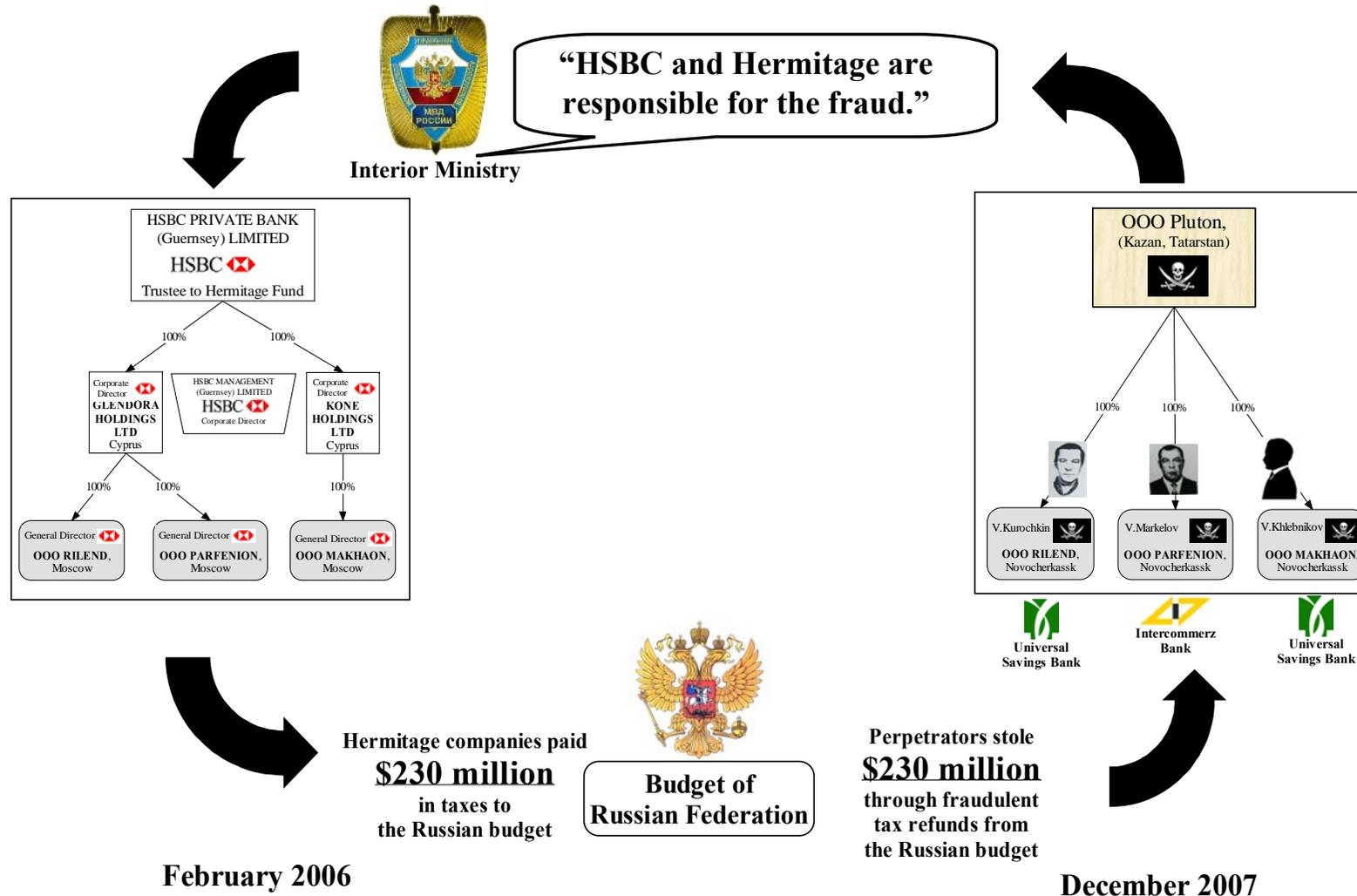
24 March 2008



Boily files for the liquidation of the stolen companies

4. Blaming the Victims

The final step in the cover-up was to frame the victims of the fraud



Blaming the Victims

There were two ways the perpetrators tried to blame the victims

2 Ways to Blame the Victims:

1. Planting Evidence
2. Opening Criminal Cases against Hermitage Lawyers

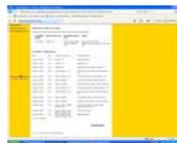
1. Planting Evidence

At 16:56 on August 20, 2008, a suspicious DHL package arrived at the office of HSBC and Hermitage's lawyer, Eduard Khairetdinov. Less than 90 minutes later, officers from the Interior Ministry staged a raid on the office and seized the package unopened

Framing HSBC's Lawyer



DHL Delivered the package to Khairetdinov's Moscow office



DHL Website

**20 August 2008
(16:56 Moscow time)**



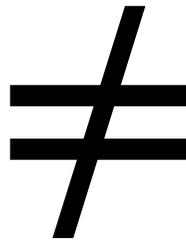
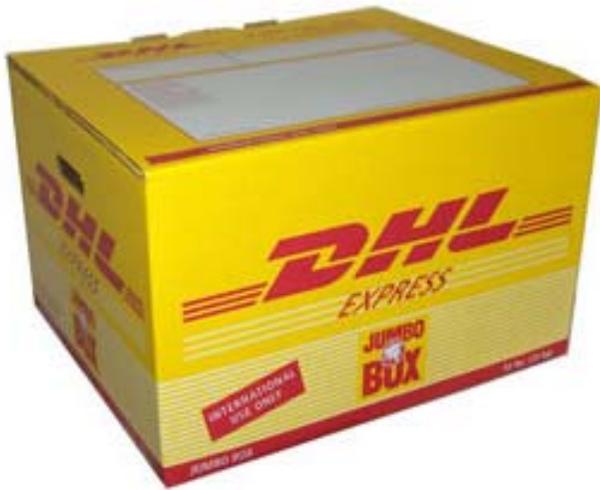
Interior Ministry (Moscow and Kazan) arrived at Kharetdinov's Moscow office with a search and seized the DHL package only



**20 August 2008
(17:30 Moscow time -
about 90 minutes after the
package was delivered)**

1. Planting Evidence

The attempt to plant evidence was very crude, because the documents never came from Hermitage and they were not the documents necessary to carry out the fraud



Contents:

- Registration documents held on file only with the Russian Tax Ministry
- Forged agreements with the stolen Hermitage companies
- Forged powers of attorney issued by HSBC / Hermitage

Key Documents Needed to Re-Register Companies

1. Corporate Seals



2. Original Charters

3. Original Certificates of Registration with State Registrar

4. Original Certificates of Registration with Tax Authorities

1. Planting Evidence

Where were the key documents at this time?

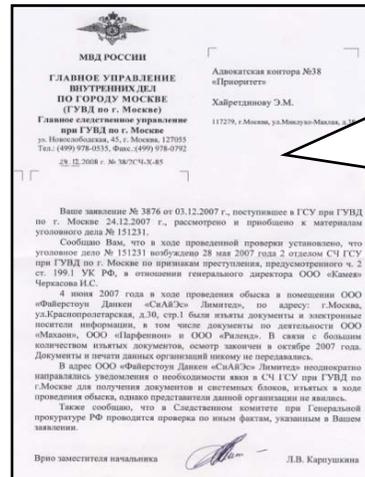
All four of the key documents related to the fraud remain in the exclusive custody of the Interior Ministry, where they have been since the June 2007 office raids



Major Pavel Karpov



Lieutenant Colonel
Artem Kuznetsov



Russian Interior Ministry Letter

On 4 June 2007 during the raid in Firestone Duncan office in Moscow were seized the documents and electronic copies of documents of Makhaon, Parfenion and Rilend ... These documents and seals of these companies were not given to anybody.



**Interior Ministry
takes documents
during the raid**

Key Documents Needed to Re-Register Companies

1. Corporate Seals 
2. Original Charters
3. Original Certificates of Registration with State Registrar
4. Original Certificates of Registration with Tax Authorities

4 June 2007

**Documents still
held by the
Interior Ministry**

Key Documents Needed to Re-Register Companies

1. Corporate Seals 
2. Original Charters
3. Original Certificates of Registration with State Registrar
4. Original Certificates of Registration with Tax Authorities

Today

2. Criminal Cases against Hermitage Lawyers

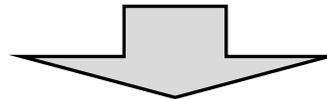
To further blame the victims and attempt to cover their tracks, the perpetrators arranged for criminal cases to be opened against the lawyers representing Hermitage



Eduard Khairetdinov

Eduard Khairetdinov, former judge and current Hermitage lawyer. Forced to flee Russia. Attorney for:

- HSBC (as trustee of Hermitage Fund)
- Stanislav Terekhov – Head of Union of Officers accused in attack of Head office of Military Forces;
- Tamara Rokhlina – wife of General Rokhlin opposition leader who was accused in his death; and
- Igor Alexandrov – Chairman of Moscow Registration Chamber accused of embezzlement



In January 2009 a criminal case was opened against Mr. Khairetdinov for using an “illegal” power of attorney issued to him by HSBC to challenge the fraudulent removal of the Hermitage directors. Apparently, to be “legal”, the power of attorney would have had to come from the fraudulent directors themselves.

2. Criminal Cases against Hermitage Lawyers

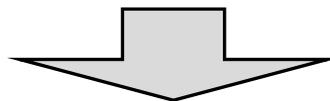
Vladimir Pastukhov, Hermitage lawyer. Ongoing attempt to open a criminal case against him. Fled Russia



Vladimir Pastukhov

Attorney for:

- Andrey Konchalovsky – famous Russian Director;
- Vadim Kleiner – Independent Director of Sberbank, largest saving bank in Russia sued for defamation for criticizing bank’s management inefficiency;
- Association for Protection Investment Rights and minority shareholders of Surgutneftegas;
- HSBC – trustee of Hermitage Fund who pursued the criminal group arranged the fraud against the Fund



A criminal case is in the process of being opened against Pastukhov for using an “illegal” power of attorney issued by HSBC to challenge the fraudulent removal of its directors. As in the Khairtdinov case, apparently to be “legal”, the power of attorney must be issued by the fraudulent directors themselves.

2. Criminal Cases against Hermitage Lawyers

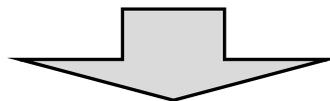
Sergei Magnitsky. ARRESTED. Held in prison without bail pending trial



Sergei Magnitsky

Auditor & Tax Partner of Firestone Duncan:

- US law firm Firestone Duncan;
- Tax and tax law advisor to hundreds of US and foreign companies active in the Russian market;
- Adviser to the Hermitage Fund
- Key analyst who discovered the \$230 million tax fraud committed using the stolen Hermitage Companies



Magnitsky was arrested in November 2008 following a raid on his home in Moscow. The charges issued by the Investigative Committee of the Interior Ministry relate to a non-existent conspiracy to commit tax fraud with Hermitage.

2. Criminal Cases against Hermitage Lawyers

Jamison Firestone, U.S. citizen and Managing Partner, Firestone & Duncan. Office raided and criminal cases opened against all his colleagues. The Interior Ministry has threatened his arrest. Fled Russia



Jamison Firestone

Attorney for:

- HSBC as trustee of Hermitage Fund
- Numerous other western portfolio investors in Russia
- Several Fortune 500 companies active in the Russian market

One of the first western-trained lawyers working in the post-Soviet market. Firestone founded the firm in 1993 to service the specialized legal, tax, accounting and audit needs of foreign ventures doing business in Russia or with Russian parties.



It is not safe for Mr. Firestone to return to Russia. He remains working in exile outside of Russia.

Pervasive Corruption

Corruption is such a pervasive problem in Russia involving all public officials (judges, police officers, ministers, bureaucrats) that “price lists” for services are commonly known and circulated

2008 CORRUPTION PERCEPTIONS INDEX				
country rank	country	2008 CPI score	surveys used	confidence range
1	Denmark	9,3	6	9.1 - 9.4
1	New Zealand	9,3	6	9.2 - 9.5

Russia is tied for 147th in the world in the ranking of *least corrupt* countries

147	Bangladesh	2,1	7	1.7 - 2.4
147	Kenya	2,1	7	1.9 - 2.4
147	Russia	2,1	8	1.9 - 2.5
147	Syria	2,1	5	1.6 - 2.4
151	Belarus	2,0	5	1.6 - 2.5
151	Central African Republic	2,0	5	1.9 - 2.2



“Price List” for Corruption in Russia

Request to the Company Registrar	\$1,000 to \$5,000
Initiation of a Request by a Member of Parliament	\$10,000
Initiation of a Criminal Case	\$25,000
Court Verdict	\$50,000 to \$100,000
Police Raid	\$100,000
“Appropriation” (through bribery) of a Senior Official in the Federal Security Services or the Interior Ministry	\$100,000 to \$1,000,000
Complete “Raider Package” (taking over a company)	\$500,000 to several million

Appeals to the President

Hermitage has written to each of the nineteen members of the newly created Presidential Anti-Corruption Committee, outlining this fraud and asking that it begin an immediate investigation



President Medvedev

“Russia is a country of legal nihilism at a level ... that no European country can boast of ... corruption in the official structures has a huge scale and the fight against it should become a national program.”



Presidential Anti-Corruption Committee

- D. Medvedev (President)
- M. Varshchevsky (Member of Cabinet)
- Y. Chaika (General Prosecutor)
- A. Bastrykin (First Deputy General Prosecutor)
- A. Bortnikov (Director of the FSB)
- L. Bruichovy (Presidential Aide)
- A. Dvorkovich (Presidential Aide)
- V. Zorkin (Head of the Russian Constitutional Court)
- A. Kononov (Minister of Justice)
- A. Ivanov (Head of the Supreme Arbitration Court)
- A. Kycheren (Member of the Social Chamber)
- V. Lebedev (Head of the Supreme Court)
- O. Markov (Presidential Aide)
- S. Stepashin (Head of the Audit Chamber)
- K. Chuichenko (Presidential Aide)
- E. Nabiulina (Minister of Economic Development)
- S. Naryshkin (Head of the Presidential Administration)
- R. Nurgaliev (Minster of the Interior)
- S. Sobyenin (Deputy Prime Minister)

sent to each member



Hermitage Letter

No Substantive Response

Disclaimer

The information is based on data obtained from publicly available sources, which have not been verified by Hermitage Capital Management Limited, or any of its respective associates or affiliates (“Hermitage”). As a result of the difficulty in obtaining reliable data in Russia, Hermitage does not represent this information to be accurate and complete, and Hermitage does not accept any responsibility for the reasonableness of any conclusions based upon such information.