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## 'I don't need to defend myself' An old dispute returns to haunt Rusal's Deripaska

**BYLINE:** By CATHERINE BELTON

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It is 9am in Krasnoyarsk, western Siberia. Oleg Deripaska, Russia's second richest man, has headed from his Gulfstream private jet to the boardroom at Kraz, the world's second largest aluminium smelter and the heart of his UC Rusal

The two men are standing in front of a flow-chart and speaking about Kraz's gemba, the Japanese word for factory floor. Mr Deripaska has become an enthusiastic convert to the Toyota "way", as taught by Mr Youmans. "Don't call me a guru, I'm a coach," the latter says.

Two Russian plant directors watch their bosses circumspectly and await instructions, their heads bowed, as Mr Youmans expands on his theory: "We aim to have an impact like the expanding ripple of a pebble dropped in the water," he says.

The touchy-feely scene is a world away from a decade ago when Kraz, a symbol of Soviet industrial might, was the grim frontline in a bloody turf war for control of nearly 5 per cent of world aluminium supplies. Management frequently changed hands in armed struggles and three executives linked to the plant were slain. Mr Deripaska is, metaphorically at least, the last man standing from this conflict - and has much to show for his efforts.

Rusal is the world's biggest aluminium producer - though it will be overtaken by Rio Tinto and Alcan once the merger announced yesterday between the two rivals is concluded. At 39, Mr Deripaska is worth more than Dollars 23bn (Pounds 11bn, Euros 17bn), along the way becoming the grandson-in-law of Boris Yeltsin, Russia's late president. He says he has been fortunate in many respects - some of his biggest competitors exited on their own.

There was, for example, Anatoly Bykov, the Krasnoyarsk aluminium kingpin who sold out to him after being jailed on what he said were trumped-up charges. Then there was Anton Malevsky, a reputed head of an organised crime group that haunted the industry: he perished on holiday in South Africa when his parachute failed to open. "He liked living on the edge," Mr Deripaska says.

For years, being associated with the Russian aluminium industry was a public relations nightmare. But now Mr Deripaska is repositioning himself, expanding his holdings out of aluminium to plough billions of dollars in investments into timber, construction, aircraft and cars. He is also preparing to take Rusal, which this year

took over the rival Sual and the alumina assets of the Swiss-based Glencore, to a full London Stock Exchange listing as soon as November, in an initial public offer expected to raise as much as Dollars 9bn.

But despite Mr Deripaska's success at putting the past behind him, one former associate refuses to be quiet. As the IPO nears, Michael Cherney, a controversial founding father of Russia's post-Soviet aluminium industry, says he is preparing to refile a claim for 20 per cent of Rusal, the holding he says he is owed from what he describes as a 50-50 partnership with Mr Deripaska for most of the 1990s.

A document filed as part of the case in the London High Court is in circulation that sets out Mr Cherney's claim to the stake. Mr Cherney says his lawyers are preparing to submit thousands more documents proving their partnership. As the legal battle brews, the case is throwing the spotlight on Mr Deripaska's rise to the top of an industry once wracked with crime. The outcome and whether it has an impact on the IPO will do much to determine investor attitudes toward Russia's progress and whether a company with such a controversial past can win a London listing. It could also determine the future of Mr Deripaska's holdings as the Kremlin continues its drive to take back control of strategic sectors of the economy, from oil to aerospace to automobiles, with many observers predicting the metals industry could be next.

Making matters worse, the US State department recently confirmed it was denying entry to Mr Deripaska, after granting him a visa in 2005-06. It will not disclose the reason for its decision.

Mr Deripaska denies he ever worked in partnership with Mr Cherney. Mr Cherney says he is merely seeking to enforce his rights. While the two disagree over their roles, their tale tells much of how Russian business has evolved from the early 1990s when, according to one insider, businessmen queued in hotel lobbies to win Mr Cherney's blessing for their business deals.

As Mr Deripaska made his way up, "protection" rackets run by organised crime groups were gradually taken over by law enforcement agencies. Mr Deripaska sided with them as he strengthened his ties with the country's ruling elite, marrying Yeltsin's granddaughter Polina in 2001 and creating a powerful security service of his own.

By the time Mr Deripaska moved to consolidate control over 70 per cent of the nation's aluminium output in 2000, former bosses of two big smelters, Kraz and Novokuznetsk, facing criminal sentences, opted to sell their stakes to him and his then partner, Roman Abramovich. Soon after the sales, the criminal charges were either lifted or the sentences suspended. The bosses later filed suits in international courts against Mr Deripaska for allegedly coercing them into selling their stakes but eventually settled out of court.

According to one banker, Mr Deripaska's marriage into the Yeltsin family cemented his leap. "By the time Oleg got married, he really was representing the family," says one banker with knowledge of the matter. "It's a family partnership. You don't mess with ex-presidents or their families."

Mr Deripaska maintains that what happened in the 1990s in the Russian aluminium business cannot be compared with any other country. "We had different conditions.

It was anarchy." But he insists Mr Cherney had nothing to do with his business: "The role of (Michael) was very specific," he says. "This person had no relation to my business."

Mr Cherney left Russia in 1994, to live first in France and now Israel, but maintained business ties with Russia. He claims he has been bilked by Mr Deripaska, a former protege seeking to block out his past. "Before we met he was no one," says Mr Cherney, who via his friendship with Oleg Soskovets, the Soviet Union's last metals minister and later deputy prime minister under Yeltsin, won early entry into the lucrative metals trade.

"Without my support, I don't think he would be in this big business," Mr Cherney goes on. "I introduced him to people in the west and in Russia. I defended him from attack . . . I proved he was a person who could do business and develop the company."

Mr Deripaska, according to Mr Cherney, had been determined to come out on top: so much so that soon after Vladimir Putin succeeded Yeltsin as president, the tycoon asked Mr Cherney to leave the business.

By that time, Mr Cherney's name had become tarnished after Anatoly Kulikov, interior minister in the late 1990s, named him in connection with organised crime, as had numerous media reports. Mr Cherney says this was nothing more than a tactic by his enemies to blacken his name and push him out of business. Nothing, he stresses, has ever been proved. But, he adds, it was enough for Mr Deripaska to seek to buy him out.

Mr Deripaska grew up in a traditional Cossack village in the southern region of Krasnodar, where he lived with his grandparents after his mother handed him over to them at an early age. His father died when he was young. When his grandparents died, the state seized their home as part of a programme for breaking up Cossack settlements.

He moved from relative to relative for seven years, he says, until his mother returned and they went to live in a nearby town. But his time in the Cossack village without a real home left a lasting imprint.

"We are Cossacks of the Russian Federation. We are always prepared for war," he says. "This is a question of being able to deal with problems and with any situation. It is the case that difficulties are not a catastrophe. If there was a flood, you would just go out and deal with it. You solve the problem."

Mr Deripaska appeared to hone his problem-solving skills so well that he landed a place to study quantum physics at Moscow State University. But before he could start the course, he was sent to serve in the missile forces of the Soviet army, stationed on a barren steppe on the border with China.

By the time he returned to university, the Soviet Union was on the brink of collapse and other opportunities outside academic work were suddenly opening up. He joined a Moscow raw materials exchange, discovering that the sums to be made on arbitrage as prices were liberalised and inflation soared were astronomic. It soon

became clear that aluminium trading had the biggest future. Back then a tonne of aluminium cost about Dollars 70 in Russia and could be sold on international exchanges for Dollars 1,600.

In contrast to the western groups that had worked with the Soviet trade ministries previously, Trans-Commodities, Mr Cherney's company, brought officials real cash, Mr Cherney recalls of the early barter schemes in which they exchanged coal for cars and then moved on to aluminium too. Instead of rolling up with a bottle of whisky and a carton of Marlboros as the western companies did, Mr Cherney said: "We came with money."

In those days, he says, "nothing was forbidden . . . There were so many loopholes . . . I was outside the system but I always stayed on the edge of the law."

By 1994, when shares in the nation's aluminium industry were up for sale, Mr Deripaska - then 25 - sought out Transworld, the aluminium trader co-owned by Mr Cherney's younger brother Lev along with David and Simon Reuben, two London-based traders. He wanted to become general director of the Siberia-based Sayansk aluminium plant, in which the group was a shareholder.

That succeeded and Mr Deripaska worked with Transworld until 1997. Co-operating with the group was the "only way to trade" and gain access to cheap credits. "They controlled all the raw materials supplies at the time." In a period when the industry was wracked by conflict, Mr Deripaska stayed on the sidelines. But in the one big assault on the Sayansk facility, when his commercial director was seriously wounded, Mr Deripaska says he hit back both by "destroying" the group behind the attack and by strengthening ties with local law enforcement.

But he and other plant managers tired of Transworld's dominance and wanted to invest more in developing the business. "These people pretended they were connected, that they helped build the business. But they were in Israel, London. What can you do from there? . . . We felt that we can't just suck all the resources out of the country."

For his part, Mr Cherney says he made an investment in the domestic industry jointly with Mr Deripaska and backed him in splitting from Transworld and establishing control over key raw materials suppliers, notably for alumina. But Mr Deripaska says he did so alone, as he expanded his holdings to create Sibirsky Aluminium, known as Sibal.

In 2000, Transworld sold out to Mr Abramovich, owner of the oil company Sibneft. Gradually, other shareholders of smelters sold out either to Mr Abramovich or Mr Deripaska. Mr Abramovich agreed to merge his holdings with Mr Deripaska's Sibal to form Rusal, then progressively reduced his stake. That provided additional holdings for Mr Deripaska, who by then controlled more than 70 per cent of Russia's aluminium output.

At this point Mr Deripaska and Mr Cherney parted ways, according to disclosures made by Rusal to the European Bank for Reconstruction and Development and the World Bank's International Finance Corporation and by Mr Cherney himself to the Russian press.

The deal involved a 17.5 per cent stake Mr Cherney held in Sibal changing hands for Dollars 250m. But now Mr Cherney claims this was just the first stage in an arrangement under which Mr Deripaska would buy out what he says was his 50 per cent holding in Sibal.

After diversifying into other industries, Mr Deripaska's holding company, called Basic Element, spans timber, insurance, banking, mining, airports, construction and carmaking: it generated Dollars 18.5bn in revenues last year.

"We are trying to move from the principle of just buy and sell," a principle which he says has plagued Russia's short-termist business elite since the 1990s. "Now it is time to rebuild production," he says, adding that he wants to invest up to Dollars 3bn a year in rebuilding the country. More than that, he says, is not possible - because of a lack of managers to run the operations.

The new mantras of organisation on the production line - listed on a chart in the factory entrance as including "people are the most valuable asset" - have raised productivity, notably at GAZ, Russia's second biggest carmaker.

Mr Deripaska is steering clear of politics and says he does not care about public image - even as discontent over the vast fortunes of the oligarchs disgruntles most of the population and much of Mr Putin's hardline administration too.

Mr Putin's Kremlin has jailed or sent into exile some of the most prominent oligarchs of the 1990s, most notably in its case against Mikhail Khodorkovsky, the Yukos owner spending at least eight years in a Siberian prison camp for fraud and tax evasion while his company has been taken over by the state. As the Kremlin sought to right the wrongs of the 1990s, it has increased its control over other companies such as AvtoVAZ, another carmaker, and Avisma, the titanium producer.

So is, as some suggest, the London IPO for Rusal a defensive move to head off any Kremlin takeover threat? Mr Deripaska says that, first, he is not interested in the IPO, indicating that Rusal's other shareholders are the driving force. "Sell Rusal to buy what?" he asks. "There are only about 250 good companies in the world that you can buy that will exist in 75 years' time."

Moreover, unlike at Yukos, he would be ready to transfer Rusal back to the state at any moment, he declares. "If the state says we need to give it up, we'll give it up," he says. "I don't separate myself from the state. I have no other interests."

"I don't need to defend myself. I am not ashamed and I don't need to hide. For me it's just interesting to develop a company in the long term." As for his tumultuous career, Mr Deripaska says: "History will judge."

"I was lucky," he adds. "Just consider that everything fell from the sky."

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# Capitalism In A Cold Climate;

The story of Trans World's aluminum empire is filled with bribes, shell companies, profiteers, and more than a few corpses. Then again, in today's Russia, that's pretty much par for the course.

**BYLINE:** Richard Behar

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If the Russian aluminum industry had a face, it would look like Lev Chernoy's: corrugated, pockmarked, insulated from the outside world by a metal detector and an army of armed guards. Crippled by polio as a boy, Lev, at 45, still walks with a severe limp and a leg that curls and swings; his eyes are blue coin slots, his hair slicked onto his forehead in a Transylvanian triangle. He's wearing a black suit and smoking a Cohiba.

"Am I scared of the mafia?" asks Chernoy, smiling. "If I tell you no, it won't be the truth. If I say yes, it's not true either."

In that single, opaque statement, Chernoy has summed up post-Soviet Russia. Since the Soviet Union imploded in 1991, a struggle has unfolded between the half-formed, often conflicted democratic impulses of the Russian people and the centuries-old criminal subculture that holds an unspoken share of power there. The West greeted the rise of parliamentary democracy in Russia with great enthusiasm--and with grand promises of aid and investment--but the country's trajectory in recent years has left little cause for optimism. Now even many of Russia's elected officials are describing the place as a kleptocracy, its social, political, and economic institutions so rife with organized crime that the hardiest souls have all but given up hope. Those Western companies that invested in the Russian economy in the early part of the decade have for the most part either paid dearly for their error or been obliged to make compromises they would never have envisioned.

"Very often the most likely to succeed in these stormy oceans are not the picture-perfect, clean-shaved, deep-tanned, well-built, and fashionably attired yachtsmen under the immaculate white sails," says Lev, reading from a prepared statement, "but unpleasant-looking ugly skippers in command of a pirate ship. One should not be appalled. These are the laws of initial capital acquisition, applicable everywhere."

This is the story of how those laws were applied by Trans World, an enterprise launched by the Reuben brothers, David of London and Simon of Monaco, in the early 1990s. With the help of two Russians--Lev Chernoy and his brother Michael--the Reubens built a Rockefeller-style vertical empire in the former Soviet Union in a

few short years. In 1996, Trans World was hailed as the world's third-largest producer of aluminum, after Alcoa and Alcan. (Russia is the world's No. 2 producer of the metal.) Trans World's scope was so vast yet so invisible that it was called "a state within a state," with hundreds of constantly shifting shell companies and tentacles reaching from the Siberian steppe to the shores of Cyprus, the Bahamas, the Cayman Islands, and ultimately the U.S., where 30% of the empire's aluminum was sold. There the "winged metal," as it's known, was used in rockets, satellites, car wheels, aircraft panels, and myriad household products. Trans World also amassed huge holdings in steel, chrome, coal, and many other raw materials.

The Reubens' time in the sun was brief. By 1998 they had lost control of nearly half their kingdom to former partners. Government investigations in at least seven nations--along with hundreds of mostly foreign media stories critical of Trans World--were threatening to take away the rest. Cutting their losses, the Reubens sold most of their remaining Russian assets a few months ago.

It was late last year, in the twilight of Trans World's reign in the former Soviet Union, that the Reubens gave FORTUNE a most unusual opportunity: They would grant interviews and throw open their offices to the magazine in exchange for an honest appraisal--in print--of their past business practices. It was a bold proposition, and the subtext couldn't have been clearer: Given their uncertain future, the Reubens desperately needed options. Both men are now billionaires, yet their reputation is hardly that of "yachtsmen under the immaculate white sails." Indeed, in Russia their whole industry sails under a black flag. Aluminum is "one of the biggest arms of the Russian mob," according to Frank Cilluffo, who runs a task force on Russian crime at the Center for Strategic and International Studies in Washington. In order to stay in business--especially if, as the Reubens say, they want to move into operations in the U.S. and elsewhere in the West--Trans World needed to get clean. The Reubens' hope was that a FORTUNE article would do the trick. Similarly, they signed up Kroll Associates, the world's largest investigative firm, to scrutinize "every aspect of our business," says David, in the hope that a positive report would be made public.

It is partly that unorthodox, confessional relationship that makes the following story so unusual. Depending on the day, their moods, and their ability to recall what they'd last said, the Reubens and their associates took a dizzying number of positions about their business and what they'd done to make it thrive. On the one hand, the Reubens' openness was careful and selective in the extreme; on the other, they sometimes seemed to forget that FORTUNE was there as an outside observer and not as a Trans World employee. In the course of nearly 100 hours of interviews, the Reubens and the Chernoyes contradicted one another so often as to be nearly unintelligible. Ironically, their attempt at glasnost, while it generated no smoking gun, has ultimately only underscored the dirtiness of the world they moved in--and will likely spur law enforcement agencies to redouble efforts to finish them off. At least that's FORTUNE's conclusion, especially after our investigation traced large sums moving from Trans World to firms at the heart of three big money-laundering scandals that have dominated headlines in recent months: the Bank of New York case, the Kremlin-Mabetex kickback probe, and the collapse of YBM Magnex, a Pennsylvania public company launched by Russian mobsters that was shut down by the feds last year. (See box for details.) As for Kroll, the agency won't confirm it, but a positive report seems unlikely.

In the end, though, Trans World's story is about much more than the rise and fall of a tawdry business empire. It is a vivid illustration of how Russia's criminal class has dismantled the promise of the post-Soviet era. It is a case study in why most Western companies did well to steer clear of doing business there.

## TOLLING FOR DOLLARS

Who are the Reubens? The early record is sketchy. We know that the brothers were born in Bombay and raised by their Iraqi-born mother and grandmother after their parents separated. As poor teenagers, like so many ambitious kids in postcolonial India, the brothers made their way to London, where they landed briefly in a Jewish shelter. Simon eventually went into the rug trade and scraped together enough money to buy his first pieces of real estate (his extensive holdings now include chunks of London's Mayfair district). David spent his early years trading in scrap metal, later co-managing a Soviet metals-trading venture with Merrill Lynch--and eventually laying the groundwork for Trans World by founding his own company in 1977.

The brothers have always shared everything. When they're not yelling at each other, they finish each other's sentences, locking together like two parts of the same greased machine. Even their daily lives are synchronized. Simon is officially a Monaco resident but works mostly in Geneva, where he keeps careful logs of the days he can legally spend in London, David's home. The men also have homes on the French Riviera; David has a third in Florida (though he is a Briton, his wife and children are U.S. citizens). For tax purposes, David doesn't appear as a director or owner of any of their hundreds of shell companies. All roads, at least technically, lead to Simon.

Trans World's London offices look more like a parking garage than the trading headquarters of a global empire. During recent visits by FORTUNE, a manic David Reuben raced from room to room, bellowing demands at cowering lieutenants. It's an incestuous world, with people fighting in different languages, ganging up on one another, making up again, and doing deals--sometimes in the space of minutes. The chaos is fueled by suspicion, and even David Reuben doesn't fully trust one of his high-level comrades, working at a desk nearby. "Everyone questions everyone's loyalty," whispers one insider. "It's a real whorehouse."

The scene is no less bizarre in Geneva, the financial heart of Trans World, where Simon, too, has made screaming the standard mode of operation. "Simon, David, and Lev are, as we say in Russia, *chelovek nastroeniia*--people of mood," says Simon's trusted deputy, Alexander Bushaev, who serves as the liaison between the eastern and western arms of Trans World's businesses. "Their decisions are dependent on the mood of the moment. They'll decide something today and reverse themselves tomorrow, even when they're not in a hurry to decide. All of them like shouting. In the States, it would be seen as abusive." A second insider notes that Simon "tears strips off people's bodies daily." The Reubens, he adds, "are very kind, decent people, other than the way they deal with money. They'd just as soon cut someone's balls off as give them a raise."

When the Soviet Union fell, its entire military-driven aluminum industry collapsed with it. David Reuben says he had built Trans World into one of the largest aluminum



traders in Russia by that time, and he seized the opportunity to expand into the void. It wasn't long before Simon was enlisted in the project as well.

Of course, Russia was even then a fairly lawless society, with overlapping business rules, rampant corruption, lax or naive regulators, and state-appointed factory bosses who suddenly found themselves de facto capitalists--and in dire need of cash. Then as now, a foreigner soon learned that these stormy seas were far more navigable if he had a local partner to help. As David tells it, not long after he opened his Moscow office, in 1992, a man with a heavy cane limped through the door. In the pre-perestroika shadow economy, Lev Chernoy had become a big trader in timber and fish, among other things. "Lev said that only those with money can solve everything," recalls David. "He said, 'Fly with me.' I said I didn't have enough shirts. He said, 'So we'll clean them.' And off we went."

Lev soon introduced David to his older brother, Michael, now 48, who proved a valuable asset to the fledgling enterprise. Michael, who speaks no English and spells his name "Cherney," had dealt in metals and enjoyed great "connections" in the ports, railways, and raw materials plants where the Reubens would grow Trans World. A partnership was born; the agreement, however, was never put in writing. "Business in Russia was not being done like in the West, with contracts," explains David today. "In Russia, hundreds of millions of dollars were going forward and backward by word of mouth." (Of Trans World's four principals, only Michael Cherney wasn't interviewed face to face by FORTUNE. Instead, he responded to selected questions faxed to him in Israel. "I do not possess any exclusive information on the so-called Russian mafia," he wrote. "Sorry to disappoint you." As for questions about bribes, murder, or money laundering, they "have nothing to do with me. My hobby, as I would put it in words, is as follows: Help to good, honest people... I love books, prefer detective stories.")

It didn't take long for the Reubens and Chernoy to strike lucrative deals in Russia's largest smelters as well as in raw materials refineries in Ukraine and Kazakhstan. Trans World built 300 railcars and a port facility in Siberia's far east to unload alumina--the chief ingredient in aluminum--brought in from Australia. In essence, the Reubens were patching up the links between the various republics that had disintegrated with the Soviet Union. Only now Trans World, rather than a central planning committee, was running the show. "We were helping build the infrastructure of Russia, literally," says David. "We succeeded where the Alcos and the other majors were too afraid to take the first risks." (For Alcoa's contrary view, see box.)

Profits literally poured in. "In the West, we were lucky to see a 1% return as traders, or \$ 5 a ton in profits," David explains. "Here I saw the possibility of earning \$ 200 a ton. This greed made us take the risk."

That extraordinary return was a function of a system known as "tolling," which was formalized by the Russian authorities and spread throughout the aluminum industry after 1992. Tolling provided a financial incentive to entrepreneurs to revive the foundering aluminum sector by giving them the right to essentially rent factories: They imported raw materials from abroad (tax-free), processed them into aluminum, and then shipped the metal overseas (also tax-free). The plants received a small fee--enough to keep a low-paid, oversized work force off the dole and free of revolutionary zeal--while the entrepreneurs (in this case the Reubens and Chernoy)

raked in profits that ranged as high as \$ 500 per ton for aluminum selling for about \$ 1,500 on the world market. Says Simon: "If you can't make 40% on your money in Russia, you're a fool."

Tolling was intended to be a temporary fix, but it became an addiction the country has yet to kick. That's partly because tolling had another, hidden benefit: Those fat profits fueled a stream of kickbacks across the industry and into the highest levels of government.

Starting in 1993, with privatization sweeping across the ex-Soviet republics, the Reubens and Chernoy moved aggressively to lock in their tolling deals--and to keep out any would-be competitors who might try to muscle in--by snapping up newly issued shares in the plants where they operated. They bought 66% of Bratsk, the world's largest aluminum factory, in Siberia; in an effort to build loyalty, they lent money so that the plant's management could buy up the remaining third. With some variations, the process was repeated across the region, with Lev serving as a sort of Uber-manager, shuttling between Moscow and the facilities in Siberia, Ukraine, and Kazakhstan, and Michael making the necessary introductions in the ports, railways, and raw materials plants. "In almost all the plants, the group had most of the tolling," says Simon.

The Reubens were locking up the industry like a couple of 19th-century American robber barons--and personally pulling down hundreds of millions a year. The task of protecting that fortune fell to Simon, a gifted architect of corporate opacity if ever there was one.

"I don't seek any tax advice from experts," boasts Simon from his Geneva redoubt. "I can't read a computer screen and never use a calculator. It's all in my head and by hand." Simon's global web, set up to avoid taxes, has baffled investigators for years. For starters, there are more companies than employees: Some 200 entities were created in the West and nearly 100 more by his Russian associates. Shells within shells within shells--constantly shifting, many with similar names--in places like Cyprus, the Bahamas, the Cayman Islands, the Isle of Man. In 1999, a Virgin Islands shell (Landal Worldwide) seems to have been at the pyramid's apex. Below that, at various times: Trans World Group Inc.; Trans-World Group PLC; Trans-World Metals International; Trans-World Metals SA; TWM Holdings; TWM Trading; Transmet; Landal SAM; etc. The Reubens had a private bank in Western Samoa, a second in Moscow, a third in the Bahamas, a bank holding shell in Bermuda, and various accounts at nonrelated Swiss, German, and U.S. banks such as Bank of New York. The layers just go on and on, an optical illusion to make M.C. Escher scratch his head. "Simon loves the complexity," says one Trans World insider. "He'd set up three companies just to pay his rent."

## THE ALUMINUM WARS HEAT UP

To grasp the size of the Krasnoyarsk smelter, imagine 24 football fields strung together in sulfurous darkness. This lone facility, named after Siberia's largest region and city and built to feed the Soviet war machine, feels like some industrial prototype that has been transported across centuries: The fumes and heat are hellacious; workers are enameled with grime. Krasnoyarsk is one of the grimmest expanses in the gray Siberian landscape, a place where snowflakes the size of human heads have been known to fall.

Between their tolling rights and their purchase of nearly 30% of Krasnoyarsk's shares, the Reubens and Lev had become a dominant force in the plant by 1994. Around this time, however, their rise to power began running into serious resistance.

But first, some context: Today it's common knowledge that the Russian government and the old Communist Party nomenklatura are tied in with the thousands of criminal gangs now operating in Russia--gangs run by hundreds of individual bosses and which, according to Western intelligence agencies, have morphed into some 200 global conglomerates. We also know that the structure and character of these organizations is radically different from the traditional Italian mafia as we understand it--much more fluid, less hierarchical, and far more ruthless. (And far more mobile: According to Raymond Kerr, who runs the FBI's Russian mob squad in New York, "Our contacts with foreign law enforcement agencies are off the charts.")

But back in 1994 it was still a shock to hear no less a figure than Russian President Boris Yeltsin--who later faced allegations of serious corruption himself--publicly refer to his country as the "superpower of crime" and the "biggest mafia state in the world." Sure enough, Trans World soon found itself swept up in a swirl of charges and countercharges involving alleged criminal acts. In the spring of that year, both Lev and his brother fled to Israel, as did Michael's old friend **Anton Malevsky**, whom Russia's Interior Minister would later peg as a "leader" of the Izmailovo crime family, one of the country's oldest, biggest, and most vicious groups. Lev and Michael settled a few hundred feet apart, in villas outside Tel Aviv. Though Lev continued to oversee operations from abroad, it was more than four years before he returned to Russia. Michael never did. (Malevsky was later deported, and Israel is now preparing to boot Michael as well.)

Lev, like some Tolstoyan consumptive, blames his departure for the Holy Land on a serious "illness" for which his doctor suggested a "change of climate." (Lev's second brother, David, who lives near Brighton Beach, Brooklyn, thinks different: "Michael and Lev were afraid of arrest, although they did nothing wrong," he says.) Whatever the Chernoy's motives, that fall Trans World received a second blow: The manager at the Krasnoyarsk plant suddenly declared that nearly 20% of Trans World's stock in the plant had been bought improperly--and without further ado, he simply refused to recognize it as a legal holding.

That act triggered headlines all over the world, whipping up the worst fears of foreign investors who were already sensing that Russia's move to a market economy would be more problematic than first advertised. And while the share erasure was by no means the end of the Reubens--their other holdings continued to funnel millions into Simon's labyrinth--it temporarily loosened their stranglehold on Krasnoyarsk, and represented the first real challenge to the power they and the Chernoy's had been consolidating for two years.

The plant manager's assertion, in turn, dragged Trans World into an ongoing government inquiry into the theft of more than \$ 100 million from Russia's central bank by a number of separate criminal groups during the early 1990s. That a theft occurred is not in dispute, nor is the fact that the Chernoy's ended up with a piece of the stolen money and used it to partially fund Trans World's startup phase in 1992. (At Krasnoyarsk, FORTUNE has concluded, it helped fund the initial deals that brought raw materials into the plant.) The inquiry's objective was to determine whether the Chernoy's knew the funds were indeed stolen.

As we'll see, that probe ebbed and flowed over the years to follow. (The plant manager himself was later implicated in the affair.) In the meantime--with the profits from tolling as fat as ever and the gangs' rivalries intensifying--what came to be known as the "aluminum wars" began in earnest. Within weeks of the Krasnoyarsk share erasure, a government supervisor for the metals sector died in a suspicious car crash. So did Alexander Borisov, who had been involved with Lev in the central bank case. In March 1995 two private eyes in Israel were indicted for plotting to kill Michael Cherney and his pal **Anton Malevsky**. (The assassins were equipped with a silenced pistol and a \$ 100,000 contract.) A month later Vadim Yafyasov was sprayed with gunfire just weeks after being named a deputy director at the Krasnoyarsk plant. Not long after Yafyasov's funeral, the throat of Oleg Kantor, a banker with close business ties to the plant, was cut. As one Russian newspaper remarked, "The recarving of the local aluminum market has been going on to the accompaniment of machine guns."

The central bank inquiry soon evolved into full-blown hearings at the Duma, Russia's parliament. The star witness in May 1995: Felix Lvov, who represented AIOC, the largest U.S. metals trader in Russia and Trans World's chief competitor for the tolling business at Krasnoyarsk. (In essence, Lvov was to AIOC what Lev Chernoy was to the Reubens.) Under oath, Lvov spoke harshly about his rival, even as a government report circulating at the hearing stated that Trans World operated legally. Three months later, Lvov was abducted at Moscow's airport by two men identifying themselves as federal intelligence officers; his body was found the next day on the side of a road, pumped full of bullets.

The loss of Lvov was too much for AIOC; by May 1996 the firm was bankrupt, and Trans World had emerged triumphant. A month later it announced it was the third-largest aluminum producer in the world. Reliable figures don't exist, but it appears that Trans World (with its various nominees and associates) was responsible for half of Russia's aluminum output, which remains the country's chief export after oil and gas. The empire also produced 20% of Russia's steel and a huge chunk of its coal and coke, and had become Russia's largest private customer of the railways. In neighboring Kazakhstan, Trans World's holdings in steel, iron, chrome, and alumina generated 20% of that country's gross revenues. David says his entire operation--comprising big stakes in as many as 20 plants--was selling \$ 6 billion a year in goods by 1997. "We could have been the single biggest industrial group in the world," he exclaims, eyes bugging. "We had the trucks, our owns ports, our own shipping, and most of the [imported] raw material supply. Our competitors had to go elsewhere."

## THE MELTDOWN

Yeltsin's own government estimated by 1997 that two-thirds of the Russian economy was under the sway of crime syndicates. The nation's Interior Ministry, for its part, concluded that the mob was penetrating the state's police and justice agencies. Directors of Western intelligence agencies developed irrefutable evidence that the syndicates enjoyed the protection of the ruling oligarchy that had consolidated its power under Yeltsin, and a crush of international law enforcement now began trying to untangle Trans World.

In Switzerland, Michael was briefly arrested and interrogated as a suspect in an organized crime case. (A probe there against him is still under way.) In England, Operation Copperfield (perhaps named for David Reuben) led British intelligence

agents to connect the Chernoy's to Vyacheslav Ivankov, the jailed "godfather" of the American arm of the Russian mafia. The agents found that 25% of the phone calls from Trans World's London offices went to apparent mob figures involved in money laundering, drugs, and gem smuggling. (David: "I would be grateful if you could get them to give you a single phone number, because it must be a mistake." The Brits: No comment.) In Russia, one government investigator linked the Chernoy's to the cycling of funds from drugs and car thefts through retail stores and on to London, but complained that the scale of the scheme was too vast to grasp, according to the Copperfield report. The Russian Interior Minister, without a money-laundering law to back him up, asked the FBI for help.

Joel Bartow, a former FBI agent who specialized in Russian mob cases, spent nearly four years in the mid-1990s trying to indict Michael Cherney for laundering but says, "Money laundering is a difficult charge to prove on someone who is not a U.S. citizen." Bartow says he dug up evidence of "false bills of lading" and "phantom contracts" involving some of Michael's oil deals. "Lev and Michael were moving money for people, and they were taking 10%," he explains. "They knew how to move it, and they weren't asking where the money came from and didn't care where it was going. They were moving it for corrupt politicians, for people who were committing fraud, and for people who didn't want to pay taxes."

Russia's new Interior Minister, Anatoly Kulikov, announced publicly in 1997 that he was intensifying the investigation of Lev and his associates in the central bank caper. The minister also linked the aluminum trade to the Izmailovo gang, which he claimed was being led from Israel by Michael's friend Malevsky. And he announced that "almost all" the deals in the Krasnoyarsk and Bratsk plants were controlled by mobsters. Four days later, journalist Vadim Birukov was found dead in his garage, his body badly beaten, his mouth taped. Birukov's *Business in Russia* was the first independent magazine to expose organized crime's role in aluminum in any detail, and he had attacked the Chernoy's mercilessly. The culprits were never found.

Hemmed in by hostile competitors on one side and Minister Kulikov on the other, David Reuben was growing desperate. In an attempt to clean up Trans World's reputation (an attempt that foreshadowed his hiring of Kroll and his halfhearted cooperation with FORTUNE), he met voluntarily with the FBI and hosted a dinner for reporters in New York. "Let them look into the cupboards and inspect the skeletons," he told the Financial Times. "We are confident that we have maintained the highest business standards," echoed a Trans World press release in early 1997. In open letters to American and Russian leaders in major American newspapers, Reuben attacked the Interior Minister for trying to "steal our company." Kulikov struck back with his own open letter, which blasted tolling deals that "condemn tens of thousands" of workers to poverty. "Mafia-like structures are monopolizing and destroying the market," he wrote. "Large capital does not want to deal either with dirty money or dirty people."

The Reubens clearly needed high-powered help, and they found it in Mickey Kantor, the former U.S. Commerce Secretary, and his law firm, Mayer Brown & Platt, which received \$ 5 million for its services. The lawyers enlisted IGI, the investigative agency that President Clinton used during the Monica Lewinsky affair. The IGI investigator assigned to the case--Terrence Burke, an ex-CIA agent and former acting head of the Drug Enforcement Administration--met with Michael Cherney and various government officials. A top U.S. embassy staffer in Moscow said the U.S.

believed Trans World was "an indirect beneficiary of laundered funds," according to a 1997 Mayer Brown report. The news given to Burke by the FBI was even worse: It believed Michael himself was an organized crime figure.

Burke recommended that the Reubens sever their ties with Michael, and in 1997, Simon reveals to FORTUNE, they did exactly that, giving him about \$ 400 million just to go away. Lev, who remained with Trans World and continued to run the show from Israel, says the payoff was "almost all the profit" earned overall by the Chernoy half of the partnership.

But if the Reubens thought they could buy peace, they miscalculated. Instead, civil war broke out. Michael, feeling underpaid and humiliated after all he'd done for Trans World, proceeded to plot revenge on his brother and the Reubens. At his villa in Israel later that year, he assembled a group of Trans World's plant managers (as well as Malevsky, according to one Trans World insider) to lay the groundwork for a coup. In the end, it proved easy enough: Lev's relations with the managers had been deteriorating since he left Russia, and some of them controlled blocks of stock that had been parked in their names as a way for Trans World to skirt Russia's antimonopoly laws. It didn't take much prodding from Michael to induce the managers to combine their shares with his; by year's end Trans World had lost control of half its empire.

Amid this general retreat, Trans World briefly regained some old ground. Toward the end of 1997, it was invited back into the Krasnoyarsk plant. Apparently the bloody anarchy that had set in during the aluminum wars had proved too much for subsequent management and, with no other likely candidates, the Reubens became the default choice.

The overall outlook was not good, however. By 1998 a frustrated Russian populace had seized on Trans World as the emblem of rapacious foreign capital. The Reubens' rivals goaded this anger by touring the country to decry the practice of tolling and the damage such carpetbaggers had done to the state. Two bombs exploded at a plant Trans World was preparing to buy into (an official there described it as "just an act of routine revenge"), while the local press assaulted Trans World as a "great feudal empire" and a "colonial scheme." ("L'chaim with a British accent," scowled one newspaper. "Dodgy entrepreneurs of Israeli/British/Bombay extraction," screamed another. "Our people who built all these smelters...did not intend the profits from them to accumulate outside our fatherland!") Some Duma members demanded an end to tolling, even as a special unit from three federal agencies was formed to target Trans World.

Then came another brief reprieve. In March 1998, Yeltsin fired the Reubens' nemesis Kulikov, and two weeks later the new Interior Minister dismissed Lev as a criminal target in the central bank caper inquiry. Michael had been cleared a few months earlier. His health "improving," Lev packed his bags and moved back to Russia by early 1999 to try to hold the crumbling empire together. He was too late. He'd become a magnet for bad press, and the Reubens by that point had hired Kroll and were preparing to cut Lev loose as well, in the hope that they could then sell their assets to a Western buyer.

But the walls were closing in fast. The Reubens' ex-managers, backed by Michael, had obtained control of several raw materials refineries and were preparing to cut off

supplies to Trans World's smelters. On a second front, the head of the nation's energy monopoly was threatening to bankrupt the smelters by demanding payment of hundreds of millions of dollars in "back debts." (Somehow the plants had enjoyed cut-rate power for years.) The Reubens realized they had no choice but to sell quickly. In February they and Lev unloaded their biggest assets for \$ 500 million to a group connected with Sibneft, one of Russia's largest oil companies. The Reubens took one half; Lev was promised the other.

In a final twist that underlines just how sordid the entire Russian business scene is, the Sibneft group then proceeded to ally itself with Michael Cherney and the leading rebel plant manager--creating, in effect, a single cartel controlling about 75% of Russia's aluminum industry. So much for fostering competition. So much for "cleaning up" Russia's dirtiest business. Michael, it seems, not only got his \$ 400 million and the privilege of staying in the game--he got the last laugh on everyone.

As the story above makes clear, there is no shortage of accusations against the Reubens and the Chernoy's. But the reality behind those accusations is a slippery thing. Did the Trans World crew actually do anything wrong, apart from greasing the wheels of commerce in a world that wouldn't have moved for them if they'd refused? The answer is necessarily fragmentary. Nevertheless, with the Reubens looking west to the American market, some of those fragments bear close examination.

#### UNTANGLING A WORLDWIDE WEB

Of course, the very form of Trans World implies deception. The Reubens' trusty lieutenant, Alexander Bushaev, in a moment of misguided candor, says as much: "Most of the [Trans World] business in Russia is a bit on the edge, tax-wise. At one time there were more than 100 Russian companies [and] some companies had hundreds of contracts. Not all were profitable or had real activity. But they [Lev and his Moscow team] weren't keeping documents. You wouldn't find a signed invoice. If Kroll wants all the answers, it will take forever." (A Trans World lawyer says he told Kroll last January that most of the Russian databases were destroyed for fear of tax raids.)

By conceding some wrongdoing--what his brother calls "warts"--in the course of being interviewed for this article, David clearly hoped that he might shape it into something positive on balance. In that spirit, he admitted to FORTUNE that Trans World had paid bribes to journalists, and went on to describe how, in many other cases, "to legitimize bribes, companies were created and invoices sent for commissions or transactions."

But that admission doesn't begin to explain an organization through which, FORTUNE has learned, more than \$ 20 billion flowed in 1997 alone. Nor does it excuse the fact that Trans World cannot adequately account for more than 600 payments--totaling nearly \$ 1 billion, to more than 100 entities--that were made from 1993 to 1999.

Clearly, Trans World has more to hide than a few warts. For years, for example, the Reubens publicly disavowed the true role of the Chernoy's in the business. Through the Mayer Brown report, the Reubens insisted that Lev had "no direct interest," while Michael had "no commission, partnership, or other arrangement" with them or even Lev. A year later, a top Trans World executive told Kommersant--then Russia's most respected newspaper--that Lev was a "consultant" to Trans World and that "we have

never had any connections with Michael Cherney." Even today, the Reubens and Lev say that Michael simply introduced them to sources of raw materials and transportation.

In fact, both Chernoy's played a pivotal role from the start, as the Reubens admitted during the course of their discussions with FORTUNE. That role was so pivotal, in fact, that Michael's contribution was deemed to be worth \$ 400 million by the time he was sent away, and Lev claimed half of the \$ 500 million in proceeds from the selloff to the Sibneft crew earlier this year. Even one of the Reubens' own private investigators, Burke, concluded that Michael made an "initial financial investment" in the empire.

But it remains unclear to this day exactly how Trans World financed its start in Russia. David Reuben insists that he and Simon put up their own money for the launch, but they have produced no records showing they were the source of any initial financing. Which brings us back to that oft-mentioned central bank caper. At its core, the scam involved multilayered deals wherein dollar-ruble conversions and false letters of credit delivered government money--through Russian banks--to a number of companies, including Trans World. In the middle of the transactions sat two similar-sounding entities: Trans-CIS Commodities, run by Lev and formed with the help of David Reuben, and Trans Commodities, a firm based in New York in which Michael was a 50% partner. (Michael's partner in Trans Commodities was an American emigre named Semyon "Sam" Kislin, later named in an FBI report as an associate of a now imprisoned Russian "godfather," and whose nephew, according to Joel Bartow, eventually went to work as Michael Cherney's right-hand man. Kislin has since become a member of the Economic Development Board in New York City as well as a big donor to Bill Clinton, Al Gore, and Rudolph Giuliani. He denies any links to either the mob or Trans World.)

When the Chernoy's were cleared of suspicion in the central bank case, it was because the Interior Ministry had concluded that while a group of organized crime figures was behind the scams, and while the Chernoy's obviously benefited from them, there was no proof the Chernoy's knew the money was stolen. That decision, as we know, not only paved the way for Lev's return to Russia to try (unsuccessfully, it turned out) to salvage the Trans World empire--it also derailed an investigation that could have destroyed Trans World's operations throughout Russia.

Lev was cleared, in part, by the testimony of a Krasnoyarsk manager named Gennady Druzhinin. Imagine FORTUNE's surprise, then, when we discovered via bank records that Trans World had earlier paid Druzhinin a cool million dollars--during the period when Trans World had supposedly been pushed out of Krasnoyarsk. Whether this new information will reignite the case remains to be seen.

## THE BLOOD OF THE BULL

David Reuben has long held that the Krasnoyarsk murders took place in the "vacuum" created by Trans World's absence. He insists that Trans World's relationship with the plant had "totally ended" between late 1994, when its shares were erased, and late 1997, when the Reubens returned. Nevertheless, accusations that Trans World underwrote the Krasnoyarsk hits have swirled around Russia for years. It always seemed odd, after all, that nobody connected with Trans World was ever on the wrong end of the violence. And it's certainly understandable that, having



lost their piece of the very profitable plant, the Reubens would want it back. As even Terry Burke, their IGI investigator, points out, three of the dead men worked for firms that had "taken on the role" previously played by Lev.

"The word on the street" was that Lev had "put those contracts" out on the victims, says Joel Bartow, the ex-FBI agent. "But nobody has ever proven that." Lev denies any involvement with the murders, but two of those victims, Borisov and Yafyasov, were killed just months after the central bank investigation began--Yafyasov shortly after he testified that Lev was connected to another firm, Mirabel, at the heart of one of the scams. (Conveniently for anyone who might have been implicated, some of the rap was pinned on Borisov and Yafyasov after they were killed.) Lev has always denied any association with Mirabel, but Simon Reuben tells FORTUNE (not understanding the context of the question) that he believes Mirabel "was managed by one of the Chernoyes." And if that weren't a surprising enough connection, FORTUNE has discovered, through bank records, that the Reubens made three payments totaling more than \$ 1 million in 1996 to Anatoly "The Bull" Bykov, then widely considered to be the godfather of the local mafia in Krasnoyarsk. A second reputed Siberian crime lord--arrested recently in Greece--is accused of more than ten assassinations, many of them during the aluminum wars of the mid-1990s, that he says were ordered by Bykov.

Several months ago, Lev told FORTUNE that "I have no connections whatsoever with Mr. Bykov." Yet at Krasnoyarsk, during the Reubens' exile, Bykov somehow rose from being the plant's security chief to become a full board member by 1996, the year he received the Trans World payments. Not long after that, he emerged as the plant's chairman--and soon enough, the Reubens were back. "We paid to the personal account of this guy," laughs Trans World's Bushaev, also unaware of the implications of what he was telling FORTUNE on the record. "That's a good reason to come back."

After a six-month global manhunt in 1999, Bykov was captured in Hungary just as he was preparing to fly to the U.S. A month ago, he was moved to a cell in Russia, where he faces murder and money-laundering charges. "I always say, 'Don't dig a grave for somebody,' " Bykov once told a TV audience. "You may fall in it yourself." Now Lev will have to answer the \$ 1 million question: Did Trans World subsidize the killings or just the reputed killer? For the Reubens, who cut the checks--but swear ignorance--the questions are also disturbing. (Lev's deputies are calling the payments "commissions" for raw materials.)

#### A ROOF OF ONE'S OWN

Several years ago, the Moscow Times struck the Reubens' biggest aluminum plants from its stock index of top Russian companies, stating that the smelters' mobbed-up reputation had scared off investors. "Trans World has made aluminum a no-touch product in the secondary trading market," explains James Fenkner, chief strategist for Troika Dialogue, Russia's largest investment house. "That thing [Trans World] is so untransparent. There hasn't been much investment. The government wasn't getting much tax. The profits were just being harvested. It was so bad that it just couldn't get any worse. This kind of situation cannot occur in a real state."

So how did it occur? The Russian press has accused former Deputy Premier Oleg Soskovets--the most powerful official under Yeltsin until mid-1996--of providing a

krysha (protected roof) for Trans World. The historical links were certainly there: Soskovets once ran a metals plant, and his deputy there went on to work for Michael Cherney (at Trans Commodities, the entity involved in the central bank case) and then rose to become one of Trans World's most powerful executives. In 1997, Russia's only independent TV station claimed that Trans World issued credit cards in Switzerland to Soskovets and his son--a common method of making payoffs in the new Russia. FORTUNE has confirmed that the cards were canceled a day after the expose aired, but no link to Trans World was ever found.

"Soskovets helped Trans World take control of the plants," insists Sergei Markov, who directs the Institute of Political Studies in Moscow. "What I believe he got in return was money for his political ambitions. Soskovets was close to becoming the Prime Minister." One of Yeltsin's first moves, however, on winning reelection in mid-1996, was to fire Soskovets. "The deal with Yeltsin was that Soskovets would retire, not have any political ambitions, and not be put in jail," claims Markov, adding that proving any of this "would be very difficult."

Another possible source of protection was ex-Sports Minister Shamil Tarpishchev, but, again, there's no proof. David Reuben concedes that Trans World funneled as much as \$ 2 million into sponsorship of sports events, most of it arranged through Tarpishchev, while press reports have linked the disappearance of millions from the nation's sports funds under Tarpishchev to bribery and organized crime. And soon after Yeltsin fired him in 1996, Tarpishchev was videotaped being met at Tel Aviv's airport by Michael Cherney and **Anton Malevsky**. "Michael was friendly with Tarpishchev, and through Tarpishchev he made connections to Soskovets," says one of Lev's aides. Were payoffs made? "You can presume [so]," says the aide. "That's the way Russia is now." Unfortunately, the men at the top of Trans World can't get their stories to match: "Our aim was for a connection to Soskovets, but it didn't happen," admits David. "We didn't succeed." But Lev says, "Neither I nor my partners made any attempts to get assistance or support from Soskovets."

## MEET THE NEW BOSS

The Reubens portray the selloff of Trans World's assets as a success few Westerners have achieved. In reality, it was a fire sale. Trans World's huge stakes in the Bratsk and Krasnoyarsk plants--which account for about 60% of Russia's entire aluminum production--fetched just \$ 500 million, less than Bratsk's annual revenues. According to the February announcements, the buyers were a group of shareholders of Sibneft, the Russian oil giant led by controversial tycoon Boris Berezovsky and his partner Roman Abramovich. Both men are now members of the Duma and are among the most prominent of Russia's new oligarchs; both reportedly helped bankroll the campaigns of both Yeltsin and his successor, Vladimir Putin. Berezovsky has been fighting accusations of criminal activity in the Russian press for years.

The deal was done in typical Trans World style: convoluted and secretive. FORTUNE has learned that the Reubens' \$ 250 million was sent to them before any agreement was put in writing. Their Cyprus-based shares in the plants were transferred to a newly formed shell called Metrascope, set up by one of Lev's lawyers; Lev then passed those shares to the Sibneft people, who wired the money to a Reuben-owned bank in the Bahamas, where Metrascope had an account. Some of that money originated in the tax haven of Liechtenstein, while another piece came from an obscure bank in Vanuatu, a South Pacific nation that has been often cited as a

money-laundering hub for Russian criminals--and a place where many big U.S. banks refuse to deal. "The due diligence on the source of funds remains with Metrascope, not with us," says Trans World's Bushaev. But of course, Lev created Metrascope.

Berezovsky's name doesn't appear on the contract drawn up after the fact--though Abramovich's is listed--but one of the entities that wired money for the purchase was Runicom, an offshore arm of Sibneft that reared its head last fall in the Bank of New York laundering case. (Another purchaser was a newly formed U.S. shell called West Line LLC.)

Under Russian law, Trans World may never have legally owned many of its assets to begin with. Russian anti-monopoly statutes require government approval if any single "group" owns more than 20% of a plant. For Bratsk, Trans World insiders never had that approval, FORTUNE has learned. Not long before the sale, Lev owned about 32% of the plant through two Cyprus shells, while the Reubens held 32% through two of their own. A similar problem seems to have existed at the Krasnoyarsk smelter. Interestingly, Putin's anti-monopoly office has expressed no misgivings about allowing Berezovsky and his cartel to walk off with three-quarters of the industry, and since the Sibneft crowd took over, outrage over tolling has faded to a whimper.

#### A POX ON MOTHER RUSSIA

In May 1999 a front-page article in Kommersant claimed that Boris Berezovsky was seeking money from Lev Chernoy in return for Kremlin access, a charge both men denied. A month later, Berezovsky announced that he wanted to buy Kommersant itself, but before he could, a newly formed New York company called American Capital announced it had already done so. At a press conference, American Capital's "owners," two unknown men of Iranian origin, declared they were not connected to any Russian businessmen; shortly thereafter, Berezovsky said he was sorry he'd lost the bid.

The episode might have been nothing more than an orderly transfer of ownership, but some days later the paper's respected editor quit, insisting Berezovsky was actually in control. Sure enough, the oligarch duly conceded that he had indeed bought the paper from American Capital. In fact, FORTUNE has learned, the Reubens had sent Lev the \$ 22 million for the purchase (through Morgan Stanley) and later deducted it from his Trans World profits. Just what the quid pro quo was between Boris and Lev remains unclear, but Kommersant--a consistent and irksome critic of Trans World--has since been remarkably well behaved.

It is here, in what is for contemporary Russia an almost mundane episode, that we begin to see the larger costs of the way business is now done there. Kommersant is not just a property, after all, but an institution, one of the few that had been willing to challenge the country's criminal culture. Now it is in the pocket of Berezovsky, a man widely believed to be the kleptocrat-in-chief (though, as he reminded a tame Ted Koppel not long ago in an interview on ABC's Nightline, he has never been convicted of anything).

That Lev and Berezovsky could buy Kommersant is a mighty fitting symbol for a place that seems beyond the help of a free press anyway. Similarly, whatever the Reubens' transgressions may be, they represent only one outbreak of an infection

that has all but consumed the country. From one business to the next, from caviar to coal, Russia has made itself repellent to those who might have rejuvenated it. How it will recover now is anybody's guess.

David Reuben likes to say that Trans World "saved" the aluminum industry, the only major sector in Russia to increase production (up 7%) since 1989. At the height of their power, in 1997, the Reubens maintain that they had about \$ 400 million "invested" in those plants. Russia's Economics Ministry puts that figure closer to zero. In truth, Trans World systematically starved one of the ex-Soviet region's few viable industries, breathing just enough oxygen into the plants to keep its own tolling racket alive, while the aging facilities were largely left to wither. A 1997 audited report for Bratsk shows a net loss on nearly \$ 600 million of sales for the world's largest aluminum smelter. The Reubens' internal records for the same year show that Trans World and the plant's management made a profit of nearly \$ 200 million.

Likewise, the Reubens and Chernoy's got control of one of Russia's largest steel plants in 1995 and by 1997 were draining off about \$ 300 million a year. When a group of U.S. investors, including George Soros, announced they had bought nearly 50% of the stock, the new investors were denied a board seat and the right to see the steel plant's trading contracts, despite court decisions in their favor. And no wonder: The plant's pretax profits had shrunk from about \$ 480 million in 1995 to just \$ 40 million the following year, despite a strengthening steel market. At one annual meeting, bodyguards outnumbered shareholders. Lawyers were asked to check their guns at the door.

Things weren't much better in Kazakhstan, where the government confiscated the Reubens' assets after accusing them of having "materially damaged" its plants. And after the Reubens systematically bled one of their refineries in Ukraine, a member of Parliament announced that Trans World "has no place in Ukraine."

In short, the Reubens came, they took, they left. The human cost of this profiteering is easy enough to identify--one need look no further than the men on the floor at Krasnoyarsk or Trans World's other plants. Those workers receive, at best, about \$ 300 per month. That's what the Reubens earn in interest every minute, assuming their \$ 2 billion fortune is invested conservatively (and legally). When Trans World was in control of Sayansk--Russia's third-largest smelter--employees likened the place to a "concentration camp," while the local mayor cried to a newspaper that "my heart breaks when I see the workers boarding trains to go to the smelter." After the plant broke free from Trans World in 1997, its profits improved nearly 600%, while commercial expenses were cut in half, according to a study by Russia's top accounting office.

Meanwhile, Bratsk and Krasnoyarsk "remain the worst polluters in the industry," says Dr. Horst Peters, whose VAW Aluminum-Technologie supplies cutting-edge equipment to Russian plants. "They [Trans World] have done nearly nothing to introduce available new technologies, and they don't follow Russian pollution laws." The city of Krasnoyarsk is overwhelmed by cancer and respiratory ailments, a subject Peters has broached with David Reuben. "He says it's not his issue," says Peters. "He has no moral problems about it, nor do the Chernoy's."

Today, in their thirst for absolution from the West--in their quest, more specifically, to bring their billions here and set up shop--the Reubens are contrite. "We lost our

way in Russia," David concedes, when asked if Lev was given too much independence. Or as Simon puts it, "David and I are a bit naive sometimes. In the early days, nobody monitored payments [requested by Lev] on a one-by-one basis. We just had a global view on what our profits should be." Their own former investigator, Terry Burke, puts a different spin on their naivete: "They were using the same managerial shield that prompted Vice President Bush to nod off during the Iran-Contra talks."

Nevertheless, the Reubens remain adamant that their intentions were honorable, that they have never knowingly been involved with mafia figures of any stripe, that they were a source of light in a Russia increasingly beset by darkness. As far as they are concerned, their admitted peccadilloes were the cost of doing business in a place where most people were willing to do far worse. "I was the only Westerner who succeeded in a place that's like a toilet," says David bitterly. "And you always come out of a toilet with a smell. The biggest mistake that Russia made was in not making heroes out of us. They should have used us as a flag."

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SIDEBAR:

"A Troll Under Every Bridge"

Trans World's David Reuben says that he succeeded in Russia because firms like Alcoa were too afraid to take the first risks. With \$ 16 billion in sales, Alcoa is the world's largest aluminum producer. Last year it enjoyed the biggest share price appreciation of the top 30 companies in the Dow industrials. Its chairman, Paul O'Neill, also heads up the Rand Corp., where he directs a forum of Russian and American business leaders. Here's what O'Neill has to say:

On why Alcoa hasn't invested in Russia: God bless anybody who wants to do it. How would you like to be in charge of a company whose economics were dependent on screwing the people? That's just crazy.

On whether Alcoa was courted by the Russian plants after the Soviet collapse: No, we really weren't given the opportunity. In fairness to the people who went out there and stuck their own money in the ground--and I'm not sure they stuck their own money in the ground--we were not out looking for deals that had all that uncertainty. And we were not looking for deals where we become a chameleon in a system that we find abhorrent, and say, "Well, that's the way you've got to do business in this country." So people don't present us with those kinds of deals. If they did, we'd say, "Go to hell."

On the firms that made the early deals in Russia: They had experience [pre-1992], they knew the people who were moving out of the government into the quasi-private sector, and they were aggressively looking for ways to do these things. It would have been possible [for them] to get the working capital from people who were willing to pay taxes and operate on a Western-style basis. But the people [that the plants] made their deals with didn't have that in mind. They had in mind making short-term quick hits, avoiding taxes, and taking the money out of the country. Do you see any evidence that they've actually reinvested in the place?

On the Krasnoyarsk plant: Under every bridge there's a troll who says you have to pay duties. And the [polluted] conditions that people were working in were unbelievable. The life expectancy was 47 years. Three days after we left there, the guy we had been negotiating with, the deputy director [Yafyasov], was shot to death. And that was the end of that conversation.

On Alcoa's talks with plant directors and the Russian government: I said to them that I am not interested in ripping you off. I had discussed [an idea] with the State Department to establish Alcoa as an example where a danger-free zone could be created. Alcoa would invest a substantial amount, pay 35% tax rates, pay for energy [at full rates], take care of the environment, and pay the people competitive world wages. It was a proposal I was prepared to make last year to Russia's Prime Minister [Vladimir Primakov]. And, before you knew it, Primakov was gone. So who the hell do you talk to?

On Russia's aluminum tolling system: It's another complex layer, and I can't figure out who ended up with the empty chair and who ended up with the money.

On Trans World's selloff to the Sibneft group: It was all done in a shadowy process, with money that never actually lands in the country. It's just not our way of doing business. Russia desperately needs investment, not people who want to take money out.

On Trans World: I've met David Reuben a couple of times. I'd rather stay out of it.

#### SIDEBAR:

##### Moneygrams: A (Trans) World of Wires

Welcome to Trance World--a mystery wrapped inside hundreds of enigmas (read: shell companies). Despite many requests since February, the Reubens and Lev Chernoy have failed to produce credible explanations and supporting documents to Kroll for nearly \$ 1 billion in payments to more than 100 entities that Trans World's banking records reflect were made since 1993. (Some of it "was probably bribes," says a Trans World executive based in London, "and we won't have records.") Well, the loot certainly wound up in some curious places.

MABETEX: This Swiss construction firm is at the center of a huge bribery scandal involving Russia's former President, Boris Yeltsin, and his daughter and de facto campaign manager, Tatiana Dyachenko. Trans World made two payments to Mabetex, totaling \$ 325,000, in 1995, when Yeltsin was preparing to run for reelection. "Mabetex was a conduit to Yeltsin, and the Swiss will prove it," predicts a U.S. law enforcement official. A Swiss raid last year on Mabetex turned up evidence of credit cards issued to Yeltsin and Dyachenko, who deny all wrongdoing. Yeltsin resigned his post suddenly in December but not before receiving immunity from his successor, Vladimir Putin, as well as suspending Russia's prosecutor general, who alleges that \$ 10 million in bribes were paid by Mabetex to Russian officials. Meanwhile, the Swiss issued an arrest warrant to one of Yeltsin's top deputies, who is suspected of laundering some of the alleged bribes.

**BENEX:** This defunct U.S. shell lies at the heart of the Bank of New York money-laundering scandal. Benex received at least seven payments, totaling \$ 3.5 million, in 1997 through a Trans World account at BNY. Benex's chief, Peter Berlin, and his wife, a BNY executive, pleaded guilty to money laundering in February. Investigators believe that \$ 7 billion flowed into BNY from Russia through Berlin's entities. "That was the only way to avoid Russian foreign exchange regulations," says Trans World's talkative Alexander Bushaev, who works as the "liaison manager" between the empire's Moscow and European offices. "In Russia, it's called a normal business transaction. And in the West, they call it money laundering." Last fall, when the BNY scandal exploded, Lev Chernoy's lawyer wrote a letter to two newspapers claiming (falsely) that his client "has no connections or accounts" with BNY.

**ILIS MANAGEMENT:** This obscure entity--its "addresses" are in Moscow, the Isle of Man, and Buffalo--received 50 payments from Trans World (totaling nearly \$ 30 million) between 1993 and January 1998. But Ilis was not even registered to do business in Russia until 1998. Trans World's Bushaev suspects that Ilis served the "opposite" function of Benex: Its role was to get cash into Russia. He adds, "I understand Ilis was covering expenses of the Moscow offices, maybe some kickbacks. I don't know."

Here's a possible clue: U.S. and Canadian government records reveal that Ilis was at the heart of a huge, mob-linked stock scam run through YBM Magnex, a firm based in Pennsylvania that rose to a value of \$ 600 million before the FBI raided the company in 1998. YBM claimed big sales from magnets, bicycles, and oil. In fact, it was creating a lot of bogus paper deals to launder money through straw companies, Ilis prominent among them. Moreover, the feds believe that more than 50% of the firm's stock was controlled by Russian and Eastern European mob figures.

The secret force behind YBM was Semyon "The Brainy Don" Mogilevich, "one of the world's top criminals," according to a British intelligence report. (The British are now reportedly calling Trans World's Lev Chernoy one of his "associates.") Mogilevich founded the YBM enterprise, remained a signatory on a bank account, and worked from one of the firm's key offices in Hungary. Citing Israeli and U.S. intelligence reports, journalist Robert Friedman once wrote about Mogilevich's dubious deals in everything from precious gems to nuclear waste and missiles. Result: The FBI warned the reporter that a \$ 100,000 contract had been put out on his life. (Friedman briefly went into hiding.)

Records in the YBM case show that the firm's two biggest "customers" (one of which was Ilis) shared the same mail drops as YBM's main "supplier." In one deal, YBM bought magnets for \$ 3 each from Ilis, only to sell them back two days later for \$ 6--creating a 100% profit from nothing. YBM also paid Ilis for metal at double the market price. Still other deals involved YBM selling "oil" to Ilis. But YBM never stored any oil, nor could it produce documents to back up \$ 90 million of so-called oil transactions.

**CASH FOR KAZAKHSTAN:** The Reubens' bank records reflect more than \$ 35 million--85 checks, payable to cash--that they claim were provided to certain partners in their Kazakhstan operations. Several Trans World insiders say that a chunk of that loot was deposited in a Swiss account that benefited Kazakhstan's current President, Nursultan Nazarbayev. "I've seen corruption at the highest levels in Kazakhstan," teases David Reuben. When asked if it involved the President, he says, "No

comment." But when asked the same question, Trans World's Bushaev says, "We believe so." Last September the New York Times revealed that Swiss prosecutors were probing a Swiss account that Nazarbayev allegedly had access to. (He denies the charges categorically.)

**BANK SNORAS:** When it comes to following Trans World's money flow, the rabbit hole is bottomless. For example, the Reubens made 56 payments, totaling more than \$ 20 million, to Lithuania's Bank Snoras, which has surfaced in several laundering scandals. In one such scandal, \$ 32 million seemingly vanished from a YBM account at Snoras (see YBM above).

**UNITED NORDLAND:** Trans World made seven payments to this Delaware shell between 1995 and 1997, totaling roughly \$ 2 million. A chunk of it went through BNY. The man behind United Nordland is Moscow lawyer Sergei Sukholinsky-Mestechkin, the architect of Trans World's corporate web in Russia, and a central player in Trans World's recent selloff. Interestingly, in the YBM-Ilis matter (see above), a Delaware shell called United Nordland was at the receiving end of a complex money flow. Some \$ 3 million, originating from Bank Snoras (see above) was moved by Ilis and its sister shells to a YBM account at a bank in Hungary. (A signatory on that account was Igor Fisherman--YBM's chief operating officer, an American citizen, and a childhood friend of Mogilevich's.) Just days later, virtually the same amount of money was wired to a Chemical Bank in upstate New York. Among the recipients: One of Ilis' sister shells, as well as United Nordland. Mestechkin doesn't recall the transaction but says that his "friend," an American, is the man behind Ilis.

**MENATEP:** This defunct Russian bank received more than \$ 40 million from Trans World and was once linked to organized crime in a CIA report; news articles have called it a mob "clearinghouse." Now it turns out that the investigators probing the BNY case have also been looking at Menatep--as well as a Geneva entity, partly owned by Menatep, that shared an office with Runicom, a well-known Sibneft entity (see main story).

**TRIVERTON:** Trans World paid \$ 12 million (in 18 payments) to "Triverton International," an obscure Ukraine "petroleum products" firm that once listed "Rayisa A. Dyachenko" as its agent. It is not known if this agent has any connection with Yeltsin's daughter Tatiana (see Mabetex, above) besides sharing the same last name. The link between her and Tatiana is speculative, surely, but Tatiana's mysterious husband, Alexei (a.k.a. Leonid) Dyachenko, was linked to a complex scheme in the mid-1990s that involved the falsification of shipments of oil products--through Ukraine--and the siphoning of the profits into foreign accounts. Alexei has done metals deals and is close to the Sibneft crowd (as is his wife), and the Russian media have claimed that he's part of a network that funneled cash to Yeltsin for years. Last fall Alexei was found with two bulging BNY bank accounts in the Cayman Islands, and investigators have subpoenaed documents from a handful of companies tied to him.



November 28, 2002

## FRENCH DAILY INTERVIEWS RUSSIAN INDUSTRIALIST ON CORRUPTION, MAFIA DEALINGS

**BYLINE:** Interview with Dzhalol Khaydarov, former partner in the Chernoi group, by Vladimir Ivanidze, place and date not given: "Conglomerates Are the Product of an Alliance Between the Yeltsin 'Family' and the Bandit Clan, Says Jalol Khaydarov"

**LENGTH:** 1358 words

Ivanidze In early 2000, when you broke your ties to the Chernoi group, you met in a large Moscow hotel with Anton Malevskiy, head of the Izmailovo mafia and an associate of Mikhail Chernoi. What did he say to you? Khaydarov He proposed to "talk a little" with me. He wanted me to return to the group. I had put the OUGKM copper production complex, about which they understood nothing, back on its feet for them. And then, I knew too much about the group, its practices, and its financial arrangements. Anton Malevskiy said to me: "If you do not want to work with Chernoi, work directly with me: I will arrange everything." Then the conversation took another turn. He knew that I had transmitted documents to the MVD (home ministry) and FSB (former KGB), in the hope that they would ensure my safety, and he warned me. "You must not do that! No one will help you, neither Cherkessov (number two at the FSB at the time) nor Patrushev (FSB number one) nor Rushailo (home minister at the time). You know very well that we have an alliance, eight years ahead of us." Ivanidze These eight years correspond, you say, to the length of two presidential terms for Vladimir Putin, elected in 2000? Khaydarov Exactly. Malevskiy confirmed to me the alliance between the Yeltsin "family" and one of the very first mafia groups, the alliance of Roman Abramovitch and Mikhail Chernoi. It was thanks to this understanding that the group's immense, vertically integrated conglomerates, built purely and simply on theft, were created. As concerns aluminum, the idea came from Oleg Deripaska (director general of Russal, created in 2000 and the world's second largest aluminum producer) and was implemented by Mikhail Chernoi and the Izmailovo group. Roman Abramovitch and Oleg Deripaska, who each control 50 percent of Russal's shares, symbolize the union of the two clans: an administrative clan at the heart of the state system, and the criminal clan.

Ask why one factory or another has fallen under the control of Russal. You will be told that its shares were purchased. Look further, and you will find that the previous shareholder is in prison, has become a drug addict, or has disappeared. When I worked with Mikhail Chernoi, the group was distributing \$ 35 to 40 million in bribes every year. A judge, a regional governor, a decision, or a law can always be bought. In the early 1990s, they killed. But now, they prefer to have people sentenced or sent to prison. They can do anything.

Ivanidze How does the alliance you describe work? Khaydarov An example: that of Anton Malevskiy. The home ministry has gotten rid of all files on him. In 1996,

Anatoly Kulikov, then home minister, created a scandal by denouncing the Izmailovo group led by Malevskiy and Chernoi to the Duma. Malevskiy found himself the subject of a Russian and an international arrest warrant. And then, nothing happened. I saw a response from the MVD to a request for information from Israel judicial officials that claimed that Malevskiy was an honest citizen and had never been involved in anything untoward! Ivanidze Does this require an "alliance"? Khaydarov Another example. Vladimir Putin, who had just been elected, wanted to appoint Dmitri Kozak to head the Russian general prosecutor's office, a key organ of Russian power. He was not able to do so, and Ustinov, the "family's" liegeman, kept his job. This failure on Putin's part made the country's normal development impossible. Nikolai Axionenko, another member of the "family," was dismissed from the transport ministry because he was calling too much attention to himself. He was taking his percentage from each big factory. Aluminum, in terms of costs, is energy and transport: We need trains. Axionenko made it very clear: Without a percentage of package of shares, there would simply be no railway cars.

Ivanidze Who are the strong men of the Yeltsin "family?" Khaydarov Roman Abramovitch represents them. He manages their shares, for example 50 percent of Russal, based on the agreement signed with the Chernoi group in early 2000. Then, there is of course Vladimir Voloshin, head of the presidential administration under Yeltsin, and whom Putin was not able to get rid of. His story is known, starting with the scandal of the AVVA financial pyramid (created with Boris Berezovskiy). He controls the "family's" interests and takes care of anything that could harm it.

If he cannot do so, he turns to Roman Abramovitch, to Oleg Deripaska, or Valentin Yumashev (former head of the presidential administration, author of Boris Yeltsin's books, and husband of the former president's daughter Tatiana Diachenko). It is not the Yeltsin family in a literal sense: Boris Yeltsin was "thrown out" a long time ago; it is a group that holds the real power. And Chernoi can cover its crimes and develop its business with the help of the state.

Ivanidze Why does Oleg Deripaska seem to symbolize this alliance? Khaydarov You are speaking of his recent marriage to the daughter of Valentin Yumashev? Yes, this is how he became a member of the "extended family." Maybe he loves his wife? So much the better. But I know that the issue of his marriage was discussed within the Chernoi group as early as 1998. They first wanted to marry him to the daughter of an FSB general, then to Boris Berezovskiy's daughter. They finally settled on the Yumashev option.

Ivanidze Concretely, how is the money taken out and collected? Khaydarov There are many possible systems: foreign bank accounts, stock, real estate, offshore! Everyone has their own. I set up between 50 and 100 structures for just one of us! No investigating judge can make head or tail of it. For years, my job was to get all the money to the West and into offshore companies.

Ivanidze Who decides to conduct a transaction in a sector or against a company? Khaydarov Mikhail Chernoi, with the head of the sector in question -- Oleg Deripaska for aluminum or Iskander Makhmudov for metals -- with the involvement of local governors, like Eduard Rossel in Ekaterinburg or Aman Tuleev in Kemerovo. Then, each person carries out the plan at his particular level, as each has his own security service. For example, at Russal, you will find a former KGB counterespionage boss,

former first vice presidents of the FSB, and people who have information about statesecurity.

Ivanidze What effect has Malevskiy's death in November 2001 in parachuting accident in South Africa had? Khaydarov Is he really dead? I have never seen a photo of the body. Nothing has changed. It was decided to put forward people like Deripaska, more presentable types, and to get rid of the more undesirable ones. Knowing Malevskiy does nothelp anyone get a stock market listing abroad. And the group wants to enter foreign markets to put an end to moneylaundering. But who could invest in Russal, buy shares in it, with partners like Chernoi or Malevskiy? Ivanidze Mikhail Chernoi cannot leave Israel because of a judicial investigation. Can the authorities really threaten him? Khaydarov Israel has served as the refuge, the alma mater of the Chernoi group and many others: Lev Levaev, YakovGoldovskiy, Arkadi Gaydamak. Chernoi carries a lot of weight: He has created a foundation, finances members of the Duma, buys police officers. Fortunately, the Israeli authorities have seen how much money has already been invested incorruption and understood that Chernoi is not a "poor persecuted Jew," but a bandit. A law on the mafia hasbeen adopted that provides for sentences of 15 to 20 years for corruption. It is becoming more difficult, but the group is managing to infiltrate everywhere.

Ivanidze What can Vladimir Putin do? Khaydarov In theory, the president of Russia can do anything, but that isonly a theory.

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The Moscow Times  
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## Power and Ambition on Deripaska's Watch

**BYLINE:** Yuriy Humber, Staff Writer

**LENGTH:** 1185 words

SAYANOGORSK, Khakasia -- When rival business factions were fighting for control of the Sayanogorsk aluminum smelter in the early 1990s, its young director often kept watch at the plant overnight. Locals say some nights he slept on the factory floor.

A dozen years later, with the country's often-bloody aluminum wars a receding memory, that plant director, Oleg Deripaska, is now the country's undisputed aluminum king with an estimated fortune of \$14 billion. His company, Russian Aluminum, is poised to clinch a \$30 billion mega merger with its nearest domestic rival, SUAL, and Switzerland's Glencore.

And Sayanogorsk is once again center stage in Deripaska's plans, as RusAl will open a new smelter here in November -- the first to be built in the country in more than 20 years.

For it is in this sparsely populated East Siberian republic that Deripaska will begin his campaign to double RusAl's annual production to 5.2 million tons of aluminum by 2013 and try to leapfrog the world's biggest companies by output, the United States' Alcoa and Canada's Alcan.

Fed by electricity from the giant Sayano-Shushinskaya dam that towers nearby, the new plant, named Khakasia for the republic where it is situated, will operate as an extension of the Sayanogorsk smelter and produce close to 300,000 tons of aluminum per year using RusAl's own smelting technology.

Together, the two smelters will produce 845,000 tons of the metal.

The company's plans are indeed ambitious and depend on an intriguing mix of local and international factors -- from access to hydroelectric power from Siberia's giant dams to winning the global race for supplies of bauxite ore, the key raw material for aluminum.

To add to RusAl's four current Russian smelters "we have a full pipeline of projects," Pavel Ulyanov, the company's managing director of corporate strategy and development, said at a recent briefing in Moscow.

RusAl plans to open a 600,000-ton smelter in Boguchansk, near Irkutsk, in 2012. The following year, the 750,000-ton Taishet smelter will open nearby.

To meet what it forecasts will be a 5 percent growth in aluminum demand worldwide over the next decade, RusAl also plans to open a 140,000-ton smelter in Guinea, West Africa, by 2010.

Other possible locations for new aluminum plants include the Middle East, Iceland, South Africa, Malaysia and Tajikistan, Ulyanov said.

Raw materials for aluminum smelting such as bauxite ore, cathodes and anodes would come from India, Vietnam, Brazil and Jamaica. RusAl's current supplies come from Guinea, Guyana, China and Ukraine.

Despite RusAl's international ambitions, the bulk of aluminum production will remain in Russia -- more specifically in Siberia, said Viktor Zhirnakov, deputy CEO in charge of the firm's aluminum division.

The reason is not so much patriotism as simple economics.

Yuriy Humber / MTThe Sayanogorsk aluminum plant was the last to be built in the Soviet era. Internationally, close to one-third of the cost of producing aluminum is eaten up by electricity, and the most efficient power plants are hydro and nuclear. Within the next two years, rising electricity costs in Europe and the United States are forecast to lead to aluminum plant closures and the loss of 1 million tons of capacity.

Deripaska's company accesses power from Siberian hydroelectric plants that dam some of the world's mightiest waterways. On a map of Khakasia, the Yenisei and Abakan rivers skewer the kidney-shaped land, splitting off into dozens of branches.

It was access to this hydroelectric power that stood at the heart of many of the 1990s disputes in the industry.

"We estimate that, at present, just 20 percent of Siberia's hydro potential is being used," said a spokesman for HydroOGK, the country's biggest hydroelectric power generation firm. The country has the potential to produce 850 billion kilowatt hours of hydroelectric power, the second-largest capacity in the world after China with 1 trillion kilowatt hours, he said.

RusAl's expansion plans will require about 25 billion kilowatt hours of energy by 2013, Ulyanov said. Without building or acquiring new hydroelectric plants, RusAl will find itself 30 percent short of that target, Ulyanov said.

The huge hydroelectric potential in Siberian Russia and China has led some industry players to claim that the two countries hold the future of global aluminum production in their hands.

Not so, say RusAl's rivals.

"You know, only someone from either of the two [countries] would say that. We see great potential in Brazil," among other countries, Alcoa spokesman Kevin Lowery said.

In Russia, however, the race between aluminum producers for hydroelectric assets, or access to long-term electricity contracts with HydroOGK, a subsidiary of utilities giant Unified Energy Systems, tells a different story. Alcoa and Norway's Hydro Aluminum are vying for contracts alongside RusAl and SUAL.

For HydroOGK, that bodes well for attracting investment to build more plants, as the firm seeks to meet the government's target of doubling the volume of energy derived from the country's waterways to 95 gigawatt hours by 2010.

Yuriy Humber / MTWorkers at the Sayanogorsk plant earn 24,000 rubles per month on average. For Khakasia, a picturesque republic known for its grassy steppe and rolling fog at dawn, that could also bring large-scale environmental changes.

"Want to know a great place to shoot the next horror movie?" local RusAl spokesman Vladimir Shulekin told a reporter after a press trip to the smelter last week. "Check out the sides of the reservoir by the Sayano-Shushinskaya hydroelectric plant."

The plant has fed the smelter with cheap electricity over the last two decades. In that time, the powerful flows of dammed water have also pulled bark off trees and made the river less hospitable to some kinds of fish. Local anglers have been forced to go farther upstream to get a good catch.

The smelter's workers will admit that the air too has changed.

"But what do you do -- build coal-fired plants? Imagine the number you'd need to get the same volume of power," Shulekin said.

As RusAl's operations in Khakasia expand, the town of Sayanogorsk and the nearby villages of Maina and Cheremushky will increasingly look to the company to provide jobs. About 80,000 people live in the three settlements, and the Sayanogorsk smelter employs 2,600. A further 600 employees will start at the Khakasia plant in November. Workers at the Sayanogorsk plant earn an average of 24,000 rubles (\$950) per month.

Apart from a small bakery in Maina and the hydroelectric plant, there's little other industry here. A local railroad-car plant shut its doors in the mid-1990s.

In effect, "the smelters juice the local economy," Shulekin said.

Late one evening last week, as the press bus bounced down an almost deserted Sayanogorsk street, one small side effect of the town's geography -- four time zones east of Moscow -- hit home.

At least tonight's not a football night, Shulekin said.

"The desire to come home and watch the matches is there," Shulekin said. But with most matches screened at 2 a.m. Sayanogorsk time, "the chances are rather bleak."

New York Times

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Late Edition - Final

## Out of Siberia, A Russian Way To Wealth

**BYLINE:** By ANDREW E. KRAMER

**SECTION:** Section 3; Column 1; Money and Business/Financial Desk; Pg. 1

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**DATeline:** Moscow

AT the tender age of 32, Oleg V. Deripaska, a former nuclear physicist, had already wrested control of the Russian aluminum industry from a netherworld of organized crime figures, mercenary local officials and ambitious tycoons like himself, securing a spot among the wealthy, powerful and secretive class of Russian businessmen known as "oligarchs."

A year later, in 2001, Mr. Deripaska established his political bona fides by marrying a woman who would soon become the step-granddaughter of former President Boris N. Yeltsin, a marriage that was Russia's social event of the year.

Access to the influential cadre of Kremlin advisers surrounding Mr. Yeltsin and his successor, Vladimir V. Putin, has been an important part of any oligarch's enrichment and survival strategy in Russia. Mr. Deripaska had proved himself to be as shrewd politically as he was financially.

Today, Mr. Deripaska, 38, controls a privately held company called Russian Aluminum, or Rusal, that consists of factories, mines and other industrial concerns operating through his holding company, Basic Element, which has benefited handsomely from a sharp rise in commodity prices internationally.

Vedomosti, a Russian business daily, values Mr. Deripaska's holdings at more than \$14 billion, which could make him Russia's richest man -- or at least in the same ballpark as Roman A. Abramovich, an oligarch in London, whose myriad holdings often have him ranked as Russia's No. 1 mogul.

While Mr. Deripaska is a well-known figure at home, he has a much lower profile abroad. But that may be about to change. Mr. Deripaska and his fellow oligarchs are going global.

In an apparent shift from controversial and legally questionable practices in the 1990's that earned the oligarchs widespread reputations as ruthless plutocrats, Russia's richest men are using their bank accounts, fattened by the commodities boom, to invest outside of Russia, from Asia to South America.

The goal is not merely to put assets beyond the reach of the Russian authorities, as some oligarchs did in the past; this time, the aim is the same as any other company's: bigger profits. "I am always surprised when people say we 'look like' or are 'very much like' a Western corporation," Mr. Deripaska said in an interview here. "We are already a global corporation."

Russian oligarchs are taking stakes in foreign industries as varied as steel and telecommunications and are seeking legitimacy and access to Western capital along the way -- but, thus far, with only checkered results. Still, some of the early forays are impressive. Mr. Deripaska's own moves have been particularly bold.

In the first six months of this year alone, Rusal has bought factories and mines in China, Guyana and Nigeria. Emboldened by corporate profits that surged 56 percent, to \$1.65 billion in 2005, Mr. Deripaska has publicly vowed to unseat the Aluminum Company of America as the world's leading aluminum producer, saying he will achieve that goal by aggressively adding to the international assets he already owns.

THE global expansion by Mr. Deripaska and other oligarchs comes as Russia's superrich are hunkering down at home, after Mr. Putin's jailing of one of their number, the oil magnate Mikhail B. Khodorkovsky. The subsequent breakup of Yukos, the oil company Mr. Khodorkovsky assembled with a series of heavily criticized insider deals, left many oligarchs eager to move their assets out of the Kremlin's reach.

In the first quarter of this year, direct foreign investment by Russian companies amounted to \$5 billion, up from \$3.2 billion in the same period the previous year,



according to Russian Central Bank statistics. In the fourth quarter last year, for the first time ever, Russian companies invested more abroad than foreign companies did in Russia.

"Russian companies are in a very interesting moment now," said Valery V. Vinogradov, spokesman for the Union of Industrialists and Entrepreneurs, a Russian trade group. "They are ready to show Western partners their business is open and conforms to international norms."

This, of course, is not the first time that Russian companies have made bold claims of cleaning up their business operations, Westernizing their accounting practices and pursuing above-board, transparent relationships with investors. Such promises accompanied a feverish gold rush in the 1990's that left many investors feeling burned and benefited oligarchs and their political patrons at the expense of average Russians.

This time, Mr. **Deripaska** and other oligarchs say, the claims are real.

In Europe, alarm bells rang last spring as the Russian state energy company, Gazprom, went on a buying spree, prowling for pipeline and energy deals. That prompted a din of criticism from European leaders that Moscow was trying to extend its political influence through state-owned businesses.

Suspensions of a different sort continue to plague private Russian operators, too. Many of them continue to find welcome mats pulled out from under their feet when they venture abroad, largely because of lingering fears about the influence of organized crime in Russian businesses or about poor corporate governance.

A 40-year-old Russian steel magnate, Aleksei A. Mordashov, opened merger talks this year with the world's largest steel maker by sales volume, Arcelor of Luxembourg, but the talks collapsed because of what analysts described as European resistance to the efforts of Russian oligarchs to expand their businesses beyond their borders. In June, Arcelor struck a deal with the second largest steel maker by sales, Mittal, instead of Mr. Mordashov's company, Severstal.

"The Severstal guys thought they had a deal, then it turned out that nobody knew who they were or were comfortable with their assets," said Robert Edwards, a metals analyst at Renaissance Capital, an investment bank based in Russia. "Mainstream investors are very suspicious of Russian oligarchs."

Mr. **Deripaska**, too, has been unable to avoid the obstacles that such suspicions pose. Former partners and competitors have sued him in New York and London, making allegations that portray an unseemly side to Mr. **Deripaska**'s ascent in Russia's notoriously violent Siberian aluminum industry, and, he says, are intended to tar his reputation and stymie his efforts to expand abroad.

The New York suit, filed by Mikhail Zhivilo, a former owner of the Novokuznetsk smelter, was dismissed on jurisdictional grounds, but Mr. **Deripaska** later paid Mr. Zhivilo unspecified millions to end the fight.



Mr. Zhivilo lives in France as a fugitive; Russian prosecutors suspect he hired someone in an unsuccessful attempt to kill the governor of a Siberian province. Mr. Zhivilo denies the charge, and blames Mr. Deripaska for orchestrating it.

Bruce S. Marks, a lawyer in Philadelphia with Marks & Sokolov, who formerly represented Mr. Zhivilo, said Mr. Deripaska and a business partner at the time, Mikhail S. Chernoy, arranged the charges and that a French court refused to recognize the charges or to extradite his client.

"Deripaska is attempting to make himself look like a nice guy, which he is not," Mr. Marks said in a telephone interview.

Mr. Deripaska also faces a claim from Mr. Chernoy, who, with his younger brother, Lev S. Chernoy, amassed a fortune in Siberian aluminum in the early 90's and is perhaps best known in the West as a business partner of the Russian known as Taivanchik, or the Little Taiwanese. That is the man who was accused of fixing two figure-skating events in the 2002 Winter Olympics in Salt Lake City. The scandal wound down when an Italian court declined to extradite him to the United States; he never stood trial.

Mr. Chernoy resurfaced this month to haunt Mr. Deripaska's efforts to present Rusal to international capital markets by pressing his claim that he owns 20 percent of Rusal based on a buyout deal in 2000. He has hinted darkly that he will sue.

"Now all creditors, potential buyers of stock and eurobonds in Rusal or Basic Element should know," Mr. Chernoy said, according to Vedomosti. "Deripaska didn't settle his obligations with former partners, and by all appearances, doesn't plan to."

Separately, Rusal is battling a lawsuit in a London court over control of the profits from one of the former Soviet Union's largest smelters, the Tajikistan Aluminum Plant. The case is being watched as a test of Rusal's contemporary business practices.

In the suit, former managers of the factory accused Mr. Deripaska of enlisting the support of a brother-in-law of the president of Tajikistan to take over the smelter's offshore trading business in 2004 -- winning control of the cash flow through a British Virgin Islands company, CDH.

In a ruling last month, the London judge dropped Mr. Deripaska from the suit but ruled that Rusal must go to trial, according to Shakir Anverally, a lawyer at Clyde & Company, the law office handling the claim.

Mr. Deripaska, in an interview, declined to discuss litigation against Rusal. "We had problems; we solved them," he said simply.

FEW Russian oligarchs spring from as humble a past as Mr. Deripaska does. Raised by his grandparents on a tiny farm in southern Russia, sheer ambition propelled him into the dangerous swirl of post-Soviet business dealings.

Despite his modest upbringing, he enrolled in the theoretical physics department of the prestigious Moscow State University. In an interview in a Russian magazine from

2003, Mr. Deripaska said he returns to his grandparents' home once a year or so, sometimes climbing into the branches of a cherry tree in the yard, in what he called a peaceful and "restorative" retreat.

Mr. Deripaska was just 26 when he landed as the director of the Sayansk Aluminum Factory, a Siberian smelter, having used his earnings from commodity trading to buy a large stake in the company during the pell-mell privatizations of the early 90's. He somehow survived the bloodbath that accompanied the privatization of the industry, where contract murders, savage beatings and general lawlessness were common.

Within a year of his appointment in 1994, for example, Mr. Deripaska's financial director survived an attempt on his life in Moscow, apparently by a hired killer. The director of a Rusal smelter nearby in Krasnoyarsk quit after being beaten nearly to death in the entryway to his apartment. Later, another factory director was accused of ordering the assassination of a Siberian governor.

So lawless was Siberia that one aluminum factory changed hands literally with a keystroke, when one large shareholder was deleted from a database of owners and had little recourse in the powerless courts.

Mr. Deripaska never faced any criminal charges during that period, though Mr. Zhivilo and others who worked with him have been charged.

In the struggle that came to be known as the Aluminum Wars, Mr. Deripaska first allied himself with a British metals trading group, Trans-World, as a protege of Mikhail Chernoy, the Siberian deal maker now living in self-imposed exile in Israel. The partnership soured in 2000, leading to Mr. Chernoy's threat to sue.

Questions over Mr. Deripaska's role in the Aluminum Wars led the State Department to deny him a visa until last year, after he mounted a high-level lobbying effort in Washington to have the restriction lifted. Still, concerns about his business reputation may hobble his ambition to surpass Alcoa by 2013, a goal stated in Rusal's promotional brochures.

Mr. Deripaska's own analysis of how he won the Aluminum Wars offers a hint to his larger, global strategy in the industry today. He said that owning a monopoly on supplies of the raw ingredient for aluminum -- alumina, or refined bauxite -- let him force rivals out of business.

Rusal's purchases of bauxite mines outside of Russia, including its one in Guyana on the Caribbean last spring, have alarmed even its biggest competitors, including Alcoa and the aluminum division of Norsk Hydro of Norway. Both have deals to cooperate with Rusal in Russia.

Mr. Deripaska said his strategy to win business from competitors rests primarily on one advantage: cheap electricity from hydropower in Siberia. That power cannot be exported via high-tension cables because it is too remote; instead, it is used in aluminum smelters.

"It's like a physics equation," he said, writing off competitors who use smelters in the United States that have already closed because of high energy costs. "If a

country imports energy or energy-related products, it means the country will not be able to produce aluminum."

Mr. Deripaska has other advantages in Russia. His marriage to Polina V. Yumasheva, the daughter of a presidential speech writer to President Yeltsin, Valentin Yumashev, was the closest to a dynastic wedding in the new Russia.

The couple met at the house of Mr. Abramovich, then Mr. Deripaska's business partner. Eighteen months after they were married, Mr. Yumashev married Mr. Yeltsin's daughter Tatyana, making Polina the step-granddaughter of Mr. Yeltsin -- and Mr. Deripaska a member of the Yeltsin family through marriage. He and Polina have two children, Pyotr and Marina.

Whether this helps or harms him now under Mr. Putin, Mr. Deripaska would not say. While the oligarchs were cozy with the government under Mr. Yeltsin, Mr. Deripaska noted that his marriage "happened after Yeltsin already resigned."

In one sign of his good standing, however, the Russian government short-listed Rusal's proposal to complete a huge Soviet-era Siberian hydropower plant and aluminum smelter using cut-rate loans from the national petroleum windfall fund. Critics have characterized the loan program as just another money tree for the oligarchs.

Mr. Deripaska is distinguished from the other oligarchs by his unlikely rise from manager to owner. While other aspiring Russian billionaires made their seed money largely in currency speculation, Mr. Deripaska got his start by working long hours on the shop floor of a smelter in the remote Siberian city of Sayansk. There he sometimes slept beside the electrolytic furnaces, according to Yulia Latynina, a commentator on the radio station Echo of Moscow who has written widely on the lives and business strategies of the oligarchs.

Others among the Russian superrich were propelled into the ranks of billionaires by a single event, a rigged series of selloffs in 1995 called "loans for shares" that were among the most egregious abuses of privatization in the former East bloc. Mr. Khodorkovsky, for instance, bought a whole oil company, Yukos, off the shelf for \$300 million -- and perhaps paid much less. Only later did he muscle out minority shareholders, like the American industrialist Kenneth Dart.

Mr. Deripaska, in contrast, wove his own empire from factories and mines that had been privatized individually, by forcing out weaker owners. More than a beneficiary of privatization, Mr. Deripaska was a post-Soviet corporate raider, acting in a bare-knuckled time when the term was more than a figure of speech. This approach, others in the mercurial Russian business world say, provides Mr. Deripaska a patina of legitimacy at home that other oligarchs lack, regardless of the undeniable violence that swirled around him during his rise.

Aleksandr Temerko, a former vice president of Yukos now living in exile in London, said Mr. Deripaska seems immune to pressure from the Russian government. He is protected by his marriage to Polina and the political instability that could be caused by hundreds of thousands of employees around Russia, Mr. Temerko said. "He is one of the few with a guarantee he won't be touched," Mr. Temerko said in a telephone interview. "He is very close to Boris Nikolaivich Yeltsin."

While privatization may be over, the government has other favors to bestow now.

The rules under Mr. Putin, as understood by all players, suggest a strict quid pro quo of government largess in exchange for fealty and payments to Kremlin-designated pet projects. This year Gazprom, the state gas monopoly, is plowing money into a ski resort outside the town of Sochi as Russia bids for the 2014 Winter Olympics, a national prestige project. Vladimir O. Potanin, a metals and mining oligarch, is building a ski lift. Mr. Deripaska is bidding to rebuild a nearby airport.

Vedomosti, the business paper, reported that Mr. Deripaska bought \$700 million worth of shares of Rosneft, the state oil company, during an initial public offering in July to buoy the price and please the Kremlin. A spokesman for Basic Element, Mr. Deripaska's holding company, said Rosneft shares were purchased but declined to specify the amount.

WHATEVER their influence, oligarchs will eventually fade into the background, Mr. Deripaska said. Integration with the global economy would dilute their influence over commerce more surely than would a government takeover of industry, he added, because the companies' capital needs would impel them to go public and eventually allow ownership by many small shareholders.

"We still have a lot of entrepreneurial involvement in big companies," he said, calling that the distinguishing feature of Russian business. "There's no entrepreneur in General Electric. That was your history 70 years ago. It can disappear overnight in one transaction when a company becomes public. Then these people become just big investors, maybe philanthropists."

Financial Times (London, England)

August 31, 2006 Thursday  
London Edition 1

Newly created aluminium titan may seek mining dominance as next step The merger of two big Russian producers has important implications for some of the UK's biggest resources stocks, writes Rebecca Bream

**BYLINE:** By REBECCA BREAM

**SECTION:** COMPANIES UK; Pg. 19

**LENGTH:** 851 words

The planned combination of Rusal and Sual, Russia's largest and second-largest aluminium companies, will not only create the world's largest aluminium producer but in the next few years could provide a platform to build a huge mining group to take on companies such as BHP Billiton and Rio Tinto.

Sual is run by Brian Gilbertson, former chief executive of BHP Billiton, the world's largest mining company, and Mr Gilbertson is expected to become chairman of the merged entity if the deal goes ahead.

Alexander Bulygin, Rusal chief executive, would keep his role and the combined group is expected to keep the name Rusal.

People close to the deal said Rusal saw Mr Gilbertson - renowned as an ambitious dealmaker in the mining industry - as a valuable asset and would like him to lead the creation of a Russian metals and mining champion.

Rusal plans to list on the London Stock Exchange following the integration of Sual, plus the aluminium assets of Glencore, the Swiss metals trader, and then use its shares to forge deals with international mining groups outside Russia and outside the aluminium industry.

The group's desire to diversify reflects the fact that groups with an abroad portfolio of mining assets usually perform better on the stock market than single commodity groups and are more likely to weather volatility in commodity prices.

People close to Rusal said yesterday: "Our ambition goes way beyond this deal. We see this as the creation of a Russian BHP Billiton; publicly quoted, diversified and acquisitive."

Rusal produced 2.7m tonnes of aluminium last year, making it the world's third-largest aluminium producer after Alcoa of the US and Alcan of Canada.

Sual, in seventh place, produced 1.04m tonnes.

Rusal's biggest smelters, such as the Bratsk, Sayanogorsk and Krasnoyarsk plants, are in remote locations in Siberia and were some of the sites on which the notorious aluminium wars of the 1990s were fought.

Russian oligarchs, including **Oleg Deripaska**, Rusal's owner, and Roman Abramovich, co-founder of Rusal and now owner of Chelsea Football Club, took on rivals for control of these lucrative assets following president Boris Yeltsin's controversial privatisations of Russia's heavy industries in the early 1990s.

At the end of the struggle, which was sometimes bloody, Mr **Deripaska** and Mr Abramovich combined their aluminium assets and formed Rusal in 2000.

As well as its giant Russian smelters, Rusal owns operations producing bauxite and alumina - raw materials for aluminium - in Australia, Guinea in west Africa and **Guyana** in South America.

Sual is more Russia-focused, with large plants across the country and also owns assets in Ukraine.

The planned deal also includes the purchase of alumina and aluminium assets from Glencore, the secretive Swiss company that owns 36 per cent of UK-listed Xstrata.

The three-way deal will create a company with an enterprise value of Dollars 30bn (Pounds 16bn), said bankers, and it is understood that the companies have relatively low debt levels.

Rusal is not likely to close down any smelters after the takeover of Sual and the two groups' combined output of 3.8m tonnes for 2005 puts them just ahead of Alcoa's output of 3.7m tonnes.

Mr Bulygin said last year that he wanted Rusal to be the world's largest producer of aluminium by 2013 but it seems he may hit this target much earlier than expected.

The combination of Rusal and Sual made strategic sense, analysts said yesterday.

Rusal has plenty of power generation assets but is short of raw materials.

In contrast, Sual is well-endowed with bauxite mines and alumina refineries but has fewer aluminium smelters and power plants.

"The sharing of power and raw materials is very logical," said one investment bank mining analyst.

Access to cheap electricity is the key to being a successful aluminium producer, as smelting the metal is much more energy-intensive than making steel, and energy is the largest cost.

This fact is reflected in the trend of building new smelters close to cheap sources of power rather than to raw materials.

For example, Alcoa of the US is building a new smelter in Iceland to take advantage of the island's abundant geothermal energy.

Mr Bulygin told the Financial Times last year that Rusal was buying up power stations in Russia.

"We are becoming a power company," he said, and added that Rusal aimed to control the generation of between 30 and 50 per cent of its electricity requirements.

Mr Gilbertson at Sual has been pursuing a similar aim.

Last year, he unveiled the acquisition of TGK-9, a Russian utility company, and of a portfolio of coal mines in Kazakhstan as a way to hedge rising energy costs.

The two companies have been in merger talks for the last 18 months, said people close to the deal, and an agreement was nearly struck on two occasions.

But the main shareholders, Mr Deripaska at Rusal and Victor Vekselberg at Sual, could not agree on terms.

But there has been co-operation between Rusal and Sual for some time.

Last year the two groups agreed to work together on the Dollars 1bn development of a large bauxite mine and alumina refinery in Russia's remote Komi region.

The Mining Journal

September 1, 2006

## Thinking big

**BYLINE:** [KEN.GOODING@MINING-JOURNAL.COM](mailto:KEN.GOODING@MINING-JOURNAL.COM)

**SECTION:** FIFTH COLUMN; Pg. 15

**LENGTH:** 1382 words

**OLEG Deripaska** has long held the ambition to turn Rusal, the Russian aluminium group he controls, into the world's biggest business of its kind. And, if the reports and rumours coming out of Russia are to be believed, it won't be long before he achieves that ambition.

It's been suggested that, later this year, Mr **Deripaska** will merge Rusal with Sual, the aluminium group controlled by one of his former bitter rivals, Victor Vekselberg (*MJ*, August 25, p1).

This week, the rumour mill gathered steam as the London *Financial Times* reported seeing a non-binding merger agreement between Rusal and Sual signed last Friday (August 25).

The deal would also involve the acquisition of the alumina assets of Swiss-based commodities trader Glencore, in return for a 14% stake in the new giant.

Analysts reckon that this time the oft-mooted merger will materialise. As evidence, they point to three factors in particular:

- \* Russian President Vladimir Putin wants to see his country establish 'national champions' in a number of key sectors of the global economy -- companies that would have a dominant international presence -- rather than let Russia rely almost entirely on being a petrochemical economy. A Rusal-Sual combination fits this profile beautifully;

- \* Mr Vekselberg wants to release some cash from Sual so he can spread his interests into new ventures in the petrochemical and power sectors; and

- \* as far as Mr **Deripaska**'s ambitions are concerned, the deal would immediately propel the combined Rusal-Sual group to the top spot among world aluminium producers, with annual output of about 3.7 Mt compared with the 3.5 Mt/y produced by each of the North Americans, Alcoa and Alcan. And aluminium is an industry where size really counts economically.

Although only 38, Mr Deripaska is already firmly established among Russia's super-rich oligarchs. He came from humble beginnings -- raised by his grandparents on a small farm in southern Russia. He told one interviewer that he returns to that farm once a year, sometimes climbing into the branches of a cherry tree in the garden for a "peaceful and restorative retreat".

He was always bright and ambitious, and emerged from the prestigious Moscow State University with a Degree in Nuclear Physics. But he made his first, modest fortune from sugar trading. He used those earnings to buy a big stake in Sayansk Aluminium during Russia's pell-mell rush into privatisation in the early 1990s. So, aged 26, he was installed as a director of the Sayansk business.

According to one biographer, Mr Deripaska worked long hours on the shop floor at Sayansk and sometimes slept beside the electrolytic furnaces.

Later, he somehow survived the bloodbath that accompanied the privatisation of Russia's aluminium industry. Aluminium was one of the few Russian products that was of high-enough quality to be sold internationally -- and for US dollars. A great deal of money was at stake, and the so-called 'aluminium wars' were well-named.

We know, for example, that, in the fierce struggle for control of the Krasnoyarsk aluminium complex, as contending parties bought up available shares and exercised pressure to place their own people in management positions, several businessmen and officials wound up dead.

Among them were the former deputy director of Krasnoyarsk, Vadim Yafyazov, and Yugorsky bank president Oleg Kantor. In November 1994, Yuri Karetnikov, deputy chairman of the Russian Federation Metallurgy Committee, was killed in a suspicious car crash. Also, the director of Krasnoyarsk quit after being beaten nearly to death near his apartment. Later, another factory director was accused of ordering the assassination of a Siberian governor. Mr Deripaska's financial director survived an attempt on his life in Moscow, made apparently by a hired killer.

So lawless was Siberia that one aluminium plant changed hands literally at a keystroke, when one large shareholder was deleted from a database of owners and found little recourse in the powerless courts.

During this time, Mr Deripaska allied himself with a UK-based metals trading group, Trans-World, as a protege of Mikhail Chernoy, the Siberian deal-maker today living in self-imposed exile in Israel.

Some of those who worked with Mr Deripaska have faced criminal charges, but none has been directed at him. Nevertheless, questions over Mr Deripaska's role in the aluminium wars led the US State Department to deny him a visa until last year, and then only after he mounted a high-level lobbying effort in Washington to have the restriction lifted.

Former partners and competitors have sued him in New York and London, making allegations that portray an unseemly side to Mr Deripaska's aluminium industry career. He says these are intended to tar his reputation and block his efforts to expand abroad.



In Russia, Mr Deripaska's image is different from that of most other oligarchs. He is seen as someone who was a corporate raider after the collapse of the Soviet Union, taking over businesses after forcing out weaker owners, rather than someone who made a quick fortune from currency speculation or from the rigged 'loans for shares' series of privatisations in 1995.

His relationship with Mr Chernoy had soured by 2000, and the following year Mr Deripaska's profile in Russia was lifted enormously when he joined Roman Abramovich, the oil billionaire and owner of Chelsea football club in England, to merge their aluminium interests to form Rusal.

Today, Russian reports suggest that Mr Abramovich is Russia's richest man, worth an estimated US\$ 18 billion, and Mr Deripaska is the richest Russian actually living in Russia, worth US\$ 14 billion.

The two remain business partners with joint interests in banking and other investments. Both own houses in London, where Mr Abramovich lives full-time, whereas Mr Deripaska is reported to fly in most weekends to study English.

Mr Abramovich was, inadvertently, to pave the way for Mr Deripaska to join the inner circle of the Kremlin elite and win important political patronage. For it was at Mr Abramovich's house that Mr Deripaska first met Polina Yamasheva, the daughter of Valentin Yumasheva, a close confidant of and speechwriter for President Boris Yeltsin.

Eighteen months after they were married -- it was Moscow's social event of the year -- Mr Yumasheva married President Yeltsin's daughter, Tatyana, making Polina the step-granddaughter of the president and Mr Deripaska a member of the Yeltsin family via marriage.

The signs are that Mr Deripaska can also count on President Putin's goodwill. For example, the Russian Government has shortlisted Rusal's proposal to complete a huge Siberian hydropower plant and aluminium smelter, using low-interest loans provided by the country's national petroleum windfall fund.

This is part of Mr Deripaska's ambitious plan to increase Rusal's annual output to 5 Mt by 2013. Rusal has also been expanding outside Russia -- in the first six months of this year, it made acquisitions in China, Guyana and Nigeria.

Mr Deripaska holds his stake in Rusal via his main holding company, Basic Element, which also has assets in the energy, machinery, financial services and construction sectors. Basic Element says it employs 290,000 people all over the world, that its annual revenue tops US\$ 13 billion and its assets are worth over US\$ 14 billion.

A great deal of Mr Deripaska's money comes from Rusal, which paid him US\$ 1.48 billion in dividends for 2005 and is expected to hand over US\$ 2 billion this year. Rusal was the most profitable aluminium company in the world last year, with net income of US\$ 1.65 billion and an EBITDA (earnings before interest, tax, depreciation and amortisation) margin of 33.7%. The only company that comes close is China's Chalco, with an EBITDA margin of 30% last year. Rusal posted a 22% margin.

And, if the mooted merger with Sual is implemented, Mr Deripaska would control 64.5% of the world's biggest aluminium producer (based on the latest rumour, which allows for the 14% Glencore stake and 21.5% for Mr Vekselberg). The new giant would have a monopoly in its domestic market and an international market value -- a 'guestimate' of course -- in the order of US\$ 30 billion.

The Observer (England)

October 22, 2006

## Business & Media: Business: MANAGEMENT: The world's most modern plant - and it's in Siberia

**BYLINE:** Simon Caulkin

**SECTION:** OBSERVER BUSINESS PAGES; Pg. 8

**LENGTH:** 855 words

SIBERIA IS huge, empty and inhospitable - a five-hour plane ride from Moscow in a battered 1970s Tupolev gets you no further than the wild central republic of Khakasia: population 600,000; average yearly temperature, zero Celcius. It seems an unlikely hotbed of new developments in a £ 30bn world industry.

Yet nothing better illustrates the changing of the world's industrial guard than the new Khakas aluminium smelter at Sayanogorsk, south of capital Abakan. Khakas, the first smelter built in Russia since 1985 and claimed to be the most technologically advanced in the world, is being built by Russians, using Russian technology, with Russian money. The £ 375m investment is just a starter: even before this month's merger announcement with smaller rival Sual, parent Rusal (for Russian Aluminium) had began a £ 8bn expansion and modernisation programme aiming to almost double production to 5 million tonnes by 2013.

At a stroke, the merger, which includes the raw materials assets of Swiss metals trader Glencore and will be known as United Company Rusal (UCR), achieves Rusal's aim of becoming the world's Number 1 producer, overtaking long-time North American leaders Alcoa and Alcan. Given the company's history, this is remarkable in itself. Only six years old, Rusal emerged as a joint venture put together by oligarchs Roman Abramovich and Oleg Deripaska out of the wreckage of the 'aluminium wars', a violent struggle for control of the industry in the mid-1990s. Its chief assets were four giant Soviet-era smelters whose size was offset by being run down, over-manned and an environmental nightmare. The captive workforce wasn't just disaffected - it was dangerously mutinous.

But it would be a mistake to dismiss the company's rise from nowhere as a triumph of dodgy finance and quantity over quality. 'Becoming number one is good, but it's all about quality,' says director of strategy and corporate development Pavel Ulianov. As bold as the company's growth goals, is its ambition to become Russia's best-managed company and an employer of choice. This means playing a canny game on at least two levels.

The first is strategic and geopolitical. The largest cost element (at 30 per cent) in aluminium production is energy - which is why, as competition for energy sources heats up, the industry's centre of gravity is shifting to the Middle East, Iceland and Siberia, which is blessed with clean and renewable hydropower. Energy will account for a third of UCR's investment spend. Also vital is a secure supply of raw materials - alumina for smelting and the bauxite from which that alumina is refined.

Increasingly, aluminium production requires global scale. As Deripaska noted, the estimated £ 15bn Rusal-Sual-Glencore deal creates 'a truly global company', with assets stretching from Guyana to Guinea by way of Australia and Europe, and substantially in energy as well as aluminium. In turn, that requires the company to raise its game in managing operations, and, particularly, people. 'I used to believe we needed to breed "Rusal people",' says HR director Victoria Petrova, part of a young top team that relishes the idea of creating a world-class Russian enterprise. 'Now I think diversity is more important.'

Alongside R&D and design capabilities, the group has set up a corporate university, professional 'academies' for functions such as HR and finance, and a medical institute. With 110,000 employees in 17 countries across five continents in the combined group, diversity now has a strong international element.

Just how far Rusal has come in international awareness is in evidence at the Sayaganorsk complex. On the walls of the spick-and-span plants are charts tracking production, quality and absence levels, while at the Khakas smelter, robots delicately stack aluminium ingots on pallets. Apparently at Deripaska's behest, Rusal invited sensei (teachers) from Toyota to advise on production techniques. It now boasts a 'Rusal Business System' along the lines of the famous Toyota Production System which, according to Petrova, is removing swathes of bureaucracy as well as identifying novel ways of boosting smelter productivity. Although this has doubled since 2000 it still lags behind the best international standards.

In other areas, however, the company remains unabashedly Russian. It is proud that, having sacked the original international contractors, it is building Khakas using its own engineering and construction resources. The advanced processing technology used at the site is also self-developed. It had to be - foreign rivals refused to license theirs.

Less welcome - and its most obvious Achilles heel - is another Russian speciality of the 1990s; less-than-transparent corporate governance and the potential for political influence. A flotation in London in the next two years - a condition of the merger - and Russian presidential elections in 2008 are tests that will be watched by investors and competitors alike. But assuming those hurdles are passed, have no doubts: it won't be how the cold-war warriors were expecting it, but the Russians are coming.

The Independent (London)

February 13, 2007 Tuesday  
Fourth Edition

## Abramovich's friend replaces him as the richest man in Russia

**BYLINE:** Andrew Osborn in Moscow

**SECTION:** EUROPE; Pg. 20

**LENGTH:** 452 words

Roman Abramovich has been dethroned as Russia's wealthiest individual for the first time since rich lists began. He has been replaced by one of his closest friends, a controversial oligarch who controls much of the world's aluminium production and owns a £25m house in Belgravia, London.

Though not a household name in the UK, where he likes to improve his English, **Oleg Deripaska**, 39, the new oligarch of oligarchs, is well known in his native Russia for his impeccable Kremlin connections and his control of much of the country's industrial crown jewels.

According to a rich list published by Finans magazine, Mr **Deripaska** is worth \$21.2bn (£10.9bn), making him Russia's richest man. Mr Abramovich has the next spot, with \$21bn.

Second place is something of a novelty for the Chelsea FC owner. It is the first time since 2004, when rich lists appeared in Russia, that he has not been crowned the country's wealthiest citizen.

While Mr Abramovich has spent more and more of his time in London, Mr **Deripaska** has been quietly consolidating in Russia. Sometimes called "the Aluminium King" because of his vice-like grip on the industry, Mr **Deripaska** enjoys a reputation as the hard man of the infamously ruthless metals business, a reputation he claims is exaggerated.

Feared and respected for his ambition and drive, he survived Russia's bloody "**aluminium wars**" in the 1990s when the country's mineral wealth was divided in a spray of bullets and violent stand-offs to emerge with more assets than anyone else. In April, his aluminium company, Rusal, is due to merge with two firms in a deal making it the world's biggest producer of the lightweight metal.

Mr **Deripaska**'s methods have not always been appreciated by his competitors and he has been sued in the US and the UK. One unsuccessful American lawsuit claimed he had made his fortune from "physical force, bribery and extortion", allegations that Mr **Deripaska** denied. In Russia he is seen as more loyal than Mr Abramovich and is not perceived to have turned his back on the motherland. **Oleg** Anisimov, editor-in-chief of Finans, suggested Mr **Deripaska** was a more worthy No 1. "Roman Abramovich is engaged more in speculation whereas **Oleg Deripaska** is more engaged with development," he wrote. "His consumer habits don't attract as much attention as Abramovich's. And at least they don't damage the country's image. In the final analysis **Oleg Deripaska** lives in Russia whereas Roman Abramovich prefers London."

Mr **Deripaska** enjoys excellent relations with President Vladimir Putin and Russia's political elite in general. Like Mr Abramovich, he is a fan of the beautiful game. He co-owns a football team in southern Russia and has been linked to a bid to buy Arsenal FC.

Detroit Free Press (Michigan)

May 11, 2007 Friday  
METRO FINAL Edition

## BILLIONAIRE BUILDS TOUGH-GUY REPUTATION; MAGNA DISMISSES A SHADY MYSTIQUE

**BYLINE:** TIM HIGGINS

**SECTION:** NWS; NEWS; Pg. 16

**LENGTH:** 344 words

TORONTO - Will Chrysler end up partially owned by **Oleg Deripaska**, one of the richest men in Russia?

A deal announced Thursday gives **Deripaska** a big stake in auto supplier Magna International Inc., thought to be the leading contender to purchase the Chrysler Group from DaimlerChrysler AG.

Magna Chairman Frank Stronach will share power with **Deripaska** in a holding company that will hold a controlling stake in Magna.

By all reports, **Deripaska** is a cunning businessman whose mere survival in the cutthroat Russian aluminum industry is a testament to his abilities.

His fortune is estimated to be worth as much as \$21.2 billion, and several publications around the world have reported that he has been on the move to invest outside of Russia.

"Tall, with boyish features, cropped blond hair and relentless blue eyes, **Deripaska** looks not unlike Daniel Craig - and shares the Bond actor's reputation for toughness," said a Guardian of London report this year.

"I am always surprised when people say we 'look like' or are 'very much like' a Western corporation," **Deripaska** told the New York Times in an interview last year. "We are already a global corporation."

The Times report also noted that the U.S. State Department had denied **Deripaska** a visa until 2005 over questions about his role in the so-called **Aluminum Wars**, a lawless time in the early 1990s in Siberia where fights to control aluminum factories often turned bloody.

**Deripaska** never faced criminal charges during that period but his associates did, the report pointed out.

Earlier this year the Wall Street Journal reported that **Deripaska** was denied a visa again in mid-2006 after concerns were raised about his alleged ties to organized crime and the accuracy of statements he made to the FBI.

Stronach said questions about those issues were unfair.

"We've spoken with a lot of European companies where he has ownership. We only hear the highest regards as a businessman, as a gentleman," Stronach said.

The Globe and Mail (Canada)

May 12, 2007 Saturday

## Meet Russia's oligarchs: Some ruthless. Some exiled. All filthy rich

**BYLINE:** SINCLAIR STEWART

**SECTION:** REPORT ON BUSINESS: INTERNATIONAL; COVER STORY: RUSSIA INC.;  
Pg. B4

**LENGTH:** 1707 words

**DATELINE:** NEW YORK

In the mid-1990s, billionaire oil and media mogul Boris Berezovsky boasted that he, along with six other men, controlled half of the wealth in Russia. An unlikely sounding claim, perhaps, but not necessarily an inaccurate one.

The Seven Oligarchs, so dubbed because of their potent combination of financial and political clout, had amassed unheard of fortunes in less than a decade, drawing inevitable comparisons to the U.S. robber barons of the 19th century.

Their ascent began in the late 1980s, after former Soviet leader Mikhail Gorbachev inched the country toward free-market reforms and allowed some companies to be privately owned. But the real money wasn't made until the early 1990s, after the election of Boris Yeltsin and the dissolution of the Soviet Union.

The economic chaos that ensued proved to have dreadful consequences for most of the country - and lucrative ones for aspiring entrepreneurs like Mr. Berezovsky. Rules, when they existed, were opaque, corruption was rampant, and the black market flourished. This was capitalism, shoot-'em-up style.

The Russian government greased the rise of these would-be tycoons with policies like "voucher privatization," in which citizens were given a voucher, or share, in the country's wealth. These did not put food on the table, however, and many were sold for next to nothing, creating enormous wealth for the buyers.

Another notorious scheme was the "shares for loans" program, in which the government issued cheaply valued shares in its massive state-owned companies in

exchange for loans from privately owned banks that sprouted up seemingly overnight. The policy led to what many describe as the looting of Russia, giving these oligarchs control over major industries, not to mention the country's treasure trove of resources.

The group of seven banded to support Mr. Yeltsin's re-election in 1996, and shortly thereafter crested in power. When Vladimir Putin succeeded him at the end of 1999, he warned that these wealthy businessmen should not meddle in politics. Some listened; others, emboldened by their sudden fortunes, pressed on, which usually led to exile. Others, like Mikhail Khodorkovsky, were jailed for fraud.

Yet there is a new generation, led by the likes of **Oleg Deripaska**, who continue to prosper, and are now attempting to invest outside of Russia - and win credibility as respected businessmen. Observers say this group, like Mr. **Deripaska**, has learned to survive by sticking to business, and staying out of the political arena.

## **ROMAN ABRAMOVICH**

Born: 1966

Estimated Worth: \$18.7-billion

Path to riches: Oil, mining, media

The "Stealth Oligarch," nicknamed "Roma," is arguably the best-known Russian tycoon outside of his native country.

Mr. Abramovich, one of the youngest Russian billionaires, gained prominence in the West after purchasing the storied Chelsea football franchise. He grew up with his grandparents in Siberia, and after university took a job as a commodities trader. But it was his friendship with Boris Berezovsky that vaulted him into Boris Yeltsin's inner circle. He joined the board of Russian oil producer Sibneft, and later bought a controlling stake from Mr. Berezovsky when his mentor fled to exile following the election of Vladimir Putin.

Mr. Abramovich, who is close friends with Mr. Yeltsin's daughter, also owns Russia's largest TV network and sold his stake in Russian Aluminum to **Oleg Deripaska**. The billionaire is governor of remote Chukotka, though he spends most of his time in London, where he has several grand properties, including a \$50-million (U.S.) townhouse and an estate that once belonged to King Hussein of Jordan.

## **BORIS BEREZOVSKY**

Born: 1946

Estimated worth: \$840-million

Path to riches: Aviation, media, mining, oil

Mr. Berezovsky was one of the "Seven Tycoons" who helped back Mr. Yeltsin's successful re-election in 1996.

A PhD grad in math and physics, he amassed a multipronged empire, consisting of a controlling position in the national airline, Aeroflot, along with Sibneft, aluminum companies, and ORT, the influential TV broadcaster. Mr. Yelstin rewarded his loyalty by appointing him deputy secretary of the National Security Council, and he continued to flourish until Mr. Putin came to power. Mr. Berezovsky drew the new president's wrath when his television network was sharply critical of the way Mr. Putin handled the sinking of a Russian submarine. He went into exile in Britain and France, sold the bulk of his holdings to Mr. Abramovich, and was later arrested abroad for allegedly defrauding the Russian government. The charge was thrown out, and Britain granted him political asylum. He has several lavish homes there, along with a retreat in the south of France said to be worth tens of millions of dollars.

### **MIKHAIL PROKHOROV**

Born: 1965

Estimated worth: \$13.5-billion

Path to Riches: Mining, banking, power

Mr. Prokhorov made headlines in January after he was one of 27 people - including several young Russian women - arrested at a posh ski resort by French authorities investigating a suspected prostitution ring. He was cleared several days later by a French judge. The towering, 6-foot-7 kickboxing and basketball enthusiast is often called Russia's most eligible bachelor - not to mention one of its richest citizens. One of the most prominent of Russia's young oligarchs, Mr. Prokhorov began his career in banking, and along with Vladimir Potanin helped attract money from former state-run companies. The two soon moved into resources, and in 1992 began building Interros, a holding company that has swelled into a \$15-billion private investment firm with stakes in media and resources, including nickel giant Norilsk. Mr. Prokhorov was CEO of Norilsk since 2001, but resigned earlier this year after a split with Mr. Potanin. Mr. Potanin bought out Mr. Prokhorov's shares in the nickel miner, and Mr. Prokhorov acquired his partner's piece of Russia's biggest gold company.

### **VLADIMIR POTANIN**

Born: 1964

Estimated Worth: \$13.5-billion

Path to riches: Mining, media, real estate, power

Mr. Potanin, who came from an affluent communist family, studied at the Moscow Institute of International Relations before embarking on a finance career. He started Interros, recruited Mr. Prokhorov, and opened two banks that developed strong ties with state-owned companies. He reportedly cashed in on the "shares-for-loans" program, in which companies gave up equity in exchange for borrowing, and became First Deputy Prime Minister for a seven-month span in mid-1996, but took a hit in the financial crisis of 1998. Nevertheless, he remains one of the most powerful Russian businessmen, thanks to his control over Norilsk, and the range of assets



housed in Interros. He has a lavish home in Moscow, and has become a patron of the arts, serving as a trustee on the board of the Guggenheim Museum.

### **MIKHAIL KHODORKOVSKY**

Born: 1963

Estimated worth: \$500-million

Path to Riches: Oil and banking

He has had dinner with Condoleeza Rice, and rubbed shoulders with many of the West's business elite, including Warren Buffett and Bill Gates.

But now Mr. Khodorkovsky is languishing in a jail, and his once formidable \$15-billion empire is in shambles. An enthusiastic communist as a boy, Mr. Khodorkovsky embraced the fitful move toward privatization, first selling computers, and later founding a bank, Menatep. The company was suspected of having ties to the KGB and other government agencies, and it prospered. He also had considerable success with the privatization of state vouchers, which eventually provided him with the money to go on a bargain shopping spree for a variety of resource and energy assets. His coup came in 1995, when he acquired control of oil behemoth Yukos, but his persistent involvement in politics - he funded opposition parties - rankled Mr. Putin. Mr. Khodorkovsky was arrested at gunpoint in 2003, and in 2005, in a case that drew considerable international attention, was sentenced to prison for fraud and tax evasion. Many of his companies have been sold off.

### **VLADIMIR GUSINSKY**

Born: 1953

Estimated worth: \$400-million

Path to Riches: Banking and media

The man once described as the "Rupert Murdoch of Russia" is said to have relied less on the process of privatization to amass his fortune. He dabbled in just about everything - the army, the theatre, women's clothing, and even cab driving - before finding his groove with a consulting firm for foreign investors. This was the start of a business empire that soon spilled into the media sector, and made Mr. Gusinsky a mogul. He started the country's first independent newspaper and television station, created a satellite TV arm, and owned magazine and radio stations. Yet he offended Mr. Putin with critical coverage, and soon fled the country. He was arrested several times - in Moscow, Athens, and Spain - but the charges were thrown out. Many of the businesses he left behind were auctioned off to Gazprom, the massive state gas company. He now splits his time between Israel, the United States and Spain.

### **OLEG DERIPASKA**

Born: 1968

Estimated worth: \$13.3-billion

Path to riches: aluminum, airplanes, and autos

The youngest oligarch is quickly becoming one of the most powerful, and some Russian reports now list him as the country's richest citizen.

Mr. **Deripaska**, who this week took a \$1.5-billion stake in Canada's Magna International Inc., has shown a deft political instinct. He has cultivated close ties with Mr. Putin and is married to the daughter of former president Boris Yeltsin's son-in-law. The former commodities trader managed to gain a foothold in a Russian smelter in the early 1990s, and emerged from the violent "**aluminum wars**" as a resource kingpin. He later bought Mr. Abramovich's stake in Russian Aluminum and combined it with his own company to form the world's biggest aluminum company. Regarded as both shrewd and ruthless, he has been sued by several former business partners who have accused him of shady dealings, but the cases have been dismissed. He paid the law firm of former presidential candidate Bob Dole \$560,000 to help him get a U.S. visa in 2005, but was denied permission to enter the country last year, according to The Wall Street Journal.

PR Newswire US

June 1, 2007 Friday 6:39 AM GMT

## Russian Information Center Report: Exiled Russian Oligarchs Plot a Regime Change in Moscow

**LENGTH:** 1407 words

**DATELINE:** MOSCOW and NEW YORK June 1

MOSCOW and NEW YORK, June 1 /PRNewswire/ -- Exiled Russian oligarchs plot a regime change in Moscow, according to the report by Russian Information Center circulated at the UN Headquarters in New York and unveiled earlier in May in Moscow and New York. The 50-page research paper entitled 'Exiled Russian Oligarchs: Battle for Moscow' claims that "the notorious oligarchs, who were de-facto rulers of Russia in the 90s, are preparing a comeback, aggressively trying to revamp their image tarnished by plundering the Russian economy and ties with organized crime, and in some cases -- regain physical access to countries like the US, which denied them visas, vying for support of political forces in the West, soliciting former and active law enforcement and intelligence officials in Great Britain, the U.S., Israel, Italy and Eastern European countries with a dual task of using their expertise and connections to soften official scrutiny of their shadowy business practices and getting help in undermining the current government of Russia".

Among the oligarchs whose activities as seen by the Western, Israeli, Russian and the Ukrainian media were analyzed in the report are Boris Berezovsky, Mikhail Chernoy (Michael Cherney), Vladimir Goussinsky and Leonid Nevzlin.

The report provides up-to-date profiles of the exiles, along with the evidence of "attempts by the oligarchs to enlist support of Western political elite, building a

financial base in the countries neighboring Russia, .to finance opposition to the Kremlin and establishing routes to channel funds to Russia".

The paper concludes that the oligarchs are actively involving "western PR and even covert operations experts' help in undermining current Russian government".

The full text of report along with additional resources on the subject are still available at <http://www.russianpresscenter.com/> despite recent hackers' attacks and attempts to erase all the data from the Center's websites and replace those with false and frivolous statements. Commenting on the hacker attacks on one of the group's websites its New York office director Vladimir Pavlov stressed, that it happened within less than a month after the Center's first report was posted and in a few days after it was distributed to the UN media and the diplomats. 'It is absolutely clear to me that this was done by those close to the oligarchs mentioned and the preliminary investigation initiated by the Center supports this theory'. In Pavlov's words this is yet another piece of proof that the oligarchs "would stop at nothing to achieve their goals". According to the New York office director, since the report was posted in early May it has been downloaded more than 200 thousand times.

Highlights of the report, based on analysis of open sources such as Western and Russian media, on and off the record statements by experts, businessmen, law enforcement officials and politicians, demonstrate that the exiled oligarchs, who were de-facto rulers of Russia in the 90s, are preparing a revanche. On one hand they aggressively try to revamp their image tarnished by plundering the Russian economy and alleged ties with the organized crime. On the other, in some cases, - regain physical access to countries like the US, which denied them visas, vying for support of political forces in the West, soliciting former and active law enforcement and intelligence officials in Great Britain, the U.S., Israel, Italy and Eastern European countries with a dual task of using their expertise and connections to soften official scrutiny of their shadowy business practices and getting help in undermining the current government of Russia.

Among the traits highlighted by the media and experts are:

- Attempts by the exiled oligarchs to enlist support of Western political elite -- mainly the so called new conservatives, legislators in the US, British Labour Party officials and Israeli "hawks" -- on the pretext of an opportunity to get a more "predictable and user-friendly" Russia in 2008.
- Building of a financial base in the countries neighboring Russia, such as the Ukraine, Georgia and the former Baltic republics of the USSR, to finance opposition to the Kremlin and establishing routes to channel funds to Russia.
- Getting western PR and covert operations experts' help in undermining current Russian government utilizing a wide array of techniques ranging from smear campaigns in the West against the leaders of Russian political and business elites to possible acts of terror in Russia and the West to implicate the Kremlin.

The scope of this campaign as highlighted by the media can be illustrated by the case of Mikhail Chernoy (Michael Cherney) who along with his brother Leo gained almost full control over Russia's aluminum industry in the 90s in what became known as the bloody "**aluminum wars.**" While Leo was in charge of business operations, Mikhail was reported to act as a liaison with organized crime, which provided "protection" from the competitors often leaving numerous human casualties after "business disputes."

Mikhail Chernoy, now living in Israel after the US stripped him of his visa in 1999, appears to be the hub in a tangled web of connections linking the Russian mafia, corrupt politicians, Chechen separatists, Russian opposition and notorious archenemy of the Kremlin -- the exiled oligarch Boris Berezovsky, who found refuge in London.

Chernoy's activity has recently most noticeably spread to the Ukraine, where he controls several companies, the largest being First Ukrainian Development (FUD), which will soon break ground on a \$1 billion building project in Kiev. Ukrainian journalists refer to their country's construction business today as "the flush pipe of criminal capital," and indeed, FUD's main office is registered at an offshore location in Cyprus, while its Kiev office is headed by Efim Borodulin, a man with close ties to Berezovsky. Chernoy himself flew to Ukraine three times this year on Berezovsky's personal airplane.

Soon, Chernoy may even be managing the flow of Berezovsky's assets. For years, Georgian businessman Badri Patarkatsishvili has handled this responsibility, but lately he has chosen to distance himself from Berezovsky, and experts predict Mikhail Chernoy may soon take his place.

Chernoy began his career as an entrepreneur during the Soviet period and by the 1990s, he and his brother Leo were in control of Russia's biggest metal enterprises. Their company, TWG, was a conglomerate of offshores scattered throughout the world. Any theory as to where the Chernoy brothers got their start-up capital is pure speculation, but the press has circulated a version involving a forged remittance slip.

Journalists described a clear division of labor between the two brothers: Lev answered for the economic and financial state of TWG, while Mikhail struck deals with anyone who had influence over the business, from government officials who set quotas on metal exports to organized crime bosses who sought tribute -- a kind of protection arrangement now known in Russia as "roofing." Chernoy's particular talent in managing this sphere led TWG to dominate Russia's metal industry.

European law enforcement has repeatedly suspected Chernoy of money laundering and mafia connections. He was investigated on suspicion of money laundering and drug-trafficking in the US, Russia, Switzerland, Bulgaria and Israel.

In recent years his efforts to regain right of entry to the US have significantly increased -- Chernoy has been sponsoring the Intelligence Summit, an annual gathering of former and acting US law enforcement and intelligence officials; the former FBI agent, who has been conducting an investigation of Chernoy's illegal activities in the US, was reported to be on his payroll, and Chernoy is courting members of the US Congress on their trips to Israel.

As his brother Leo stated in a recent interview to the RBC Russian newswire, which sounded more like an appeal to the Russian opposition groups, "the fate of Russia depends on the right, I stress -- right forms of corporate government; I am confident of this and hope to persuade those understanding that the clock is ticking."

CONTACT: Vladimir Pavlov, NY Office Director, Russian Information

The Observer (England)

June 3, 2007

**Business & Media: Business: MAMMON: First oligarch claims his due: Michael Cherney rose from running a Tashkent street lottery with ping-pong balls to revolutionising the Soviet industrial machine. A former partner of Abramovich and Berezovsky, he's now suing the country's richest man for \$6bn**

**BYLINE:** Simon Bell

**SECTION:** OBSERVER BUSINESS PAGES; Pg. 9

**LENGTH:** 1642 words

An English courtroom is set to stage a legal contest next year between Russia's richest man and the mentor who paved the way to his riches.

**Oleg Deripaska**, whose fortune recently exceeded that of Roman Abramovich, is being sued for 40 per cent of the aluminium company Rusal, a stake worth at least \$6bn. The man bringing the suit is a little-known Russian businessman living in Israel called Michael Cherney, who gave **Deripaska** his first break, in 1993, as one of his factory managers.

Cherney has avoided the limelight since emigrating to Israel in 1994 and, unlike the oligarchs, stayed out of the political intrigues revolving around Boris Yeltsin and Vladimir Putin. He is, however, the missing link between the 'red directors' of Soviet industry and today's Russian tycoons. As well as fostering **Deripaska**, Cherney also backed Iskander Makhmudov and Vladimir Lisin, the metals magnates now worth \$8bn and \$11bn respectively, and Alexander Mashkevich, a minerals billionaire.

When the Soviet Union collapsed at the end of the Eighties, heavy industry ground to a halt and its labour force went unpaid, but Cherney was the man who literally kept the country's furnaces burning. By the early Nineties, he had been so successful in wiring up the clapped-out Soviet industrial base to modern Russia that Rusal - which he founded with Berezovsky, Abramovich and **Deripaska** - was on its way to becoming the largest aluminium company in the world.

Cherney was born to Jewish parents in Tashkent in 1952. 'Tashkent was a pretty wild place when I was a kid,' he says. 'It attracted roughnecks from all over the Soviet Union, looking for jobs in construction after an earthquake. It was all about drinking and fighting.'

Rejected by Komsomol, the Communist youth league, Cherney developed his skills as a boxer and basketball player until he was conscripted into the Red Army. When he left the army, he decided to become a businessman. 'At the time it was a capital offence to possess more than \$10,000,' he recalls.

Cherney started a lottery on the streets of Tashkent, played with ping-pong balls in a drum. 'We had to pretend it was just another socialist enterprise', he says. 'But soon we were making 30,000 roubles a month, when a teacher's wage was 120 roubles. We had to pay off the cops and, if they weren't around, show some muscle ourselves.'

His business horizons opened up when he was offered a job as a sports official that allowed him to travel all over the Soviet Union. He began exporting watermelons to the Siberian industrial city of Krasnoyarsk, until he was chased away by criminal gangs. Then he teamed up with an Israeli to sell Russian honey in aluminium milk churns to the West, but when his partner told him he would be paid in tomato sauce rather than dollars, Cherney dropped the scheme.

'Real money back then only came from the tzech ['workshops']', he says. 'It was illegal, but it had always operated. A tzech owner made a deal with factory managers to buy leftover raw materials. I bought what was rubbish to them and made shoes. You had to bribe everyone: the police, the soviets, the factory managers, the municipal authorities.'

The leap from underground manufacturing to dollar millions came through foreign rouble transfers and bartering. 'Using a Bulgarian company that negotiated foreign debt, I bought cloth from Korea through an Uzbek import body. My commission was 10 per cent. It was my first million. To get the money, I had to go to Austria. I remember standing in this spotlessly clean bank staffed by coiffed blondes in this capitalist country. I was in a complete daze.'

After Cherney went into partnership in 1988 with Sam Kislin, a Ukrainian-American, the deals began to multiply: iron ore pellets in exchange for Lada cars; coke and coal for food and sugar. 'Basically, I converted roubles to dollars by exporting coke and importing consumer goods,' he says. 'I approached Russian factories, which were operating only at 30 to 40 per cent capacity. They were on the point of collapse without the coke to run the furnaces.'

By 1991, the company Cherney and Kislin had set up, TransCommodities, was making \$30m to \$40m annually. Cherney was summoned by the Minister of Metallurgy and ordered to provide coke and coal for Russia's factories. Merely on the promise of payment, Cherney supplied Russian industry with \$100m-worth of Polish coal. 'We brought all the coke smelters back to life,' Cherney says. 'We practically kicked the Russian economy into gear.'

In 1992, profits grew to over \$300m and Cherney was approached by David and Simon Reuben, two British brothers who wanted to buy aluminium. Through a

company called Transworld, Cherney and the Reubens began importing raw materials and exporting aluminium, using a system called 'tolling', whereby manufacturers were given government permission to import and export tax- and duty-free. 'We set up production lines, paid workers' salaries, paid for electricity for the plants and paid for transport of the finished product,' he says.

Much vodka was drunk to cement the deals, and Cherney began to acquire enemies. 'By early 1994, a campaign against me was under way. During privatisation, we acquired factories that others wanted. Our aluminium business also caused a massive loss in profits to certain corporations in the West and consequently to their Russian partners. And, of course, we were Jews.'

A company backed by the Russian Interior Ministry and the FSB security service began to pressure Cherney and his partners. After a manager who had just signed a deal with Cherney was beaten up, friends at Yeltsin's tennis club in Moscow told him: 'We've heard people want to kill you. You should leave.'

Cherney emigrated to Israel, from where he has conducted his business since 1994. Meanwhile the '**aluminium wars**' raged in Russia, a struggle from which Rusal is now emerging as the world's number one aluminium producer. 'In 2001, I sold my stake to the **Deripaska** group,' he says. 'I'm out of the aluminium business now, except for the money owed to me from this stock sale.'

Sitting in a Russian restaurant in the Israeli port of Jaffa, now 55 and greying, Cherney still looks every inch the boxer he once was. 'I managed my businesses in Russia from here,' he says. 'Everything went fine until 1997. But then kompromat - black propaganda - began to be published in Russia at someone's behest.'

'I have no criminal record anywhere, but suddenly articles were written claiming I was guilty of drug trafficking, kidnapping, money laundering, murder, you name it. Perhaps it was convenient for someone in the aluminium business to lay their own crimes and murders at my door. My stake in the business was - is - very valuable and certain people wanted to get their hands on it. At any rate, the accusations mounted until the Israelis, who had set up a special bureau to investigate Russians in Israel, became afraid of me, I believe.'

The special bureau tapped Cherney's phones for five years and found nothing to incriminate him. Their investigation went global - Cherney appeared on the files of foreign agencies as a figure 'being investigated by Israel for various crimes'. The mud began to stick.

He was arrested in Switzerland, only to be freed next day for lack of evidence. He was accused of attending a mafia convention in South Africa, but the secret services there could only report his absence. Finally, he was accused of murdering the son of a Bulgarian minister over a telecoms deal. 'The problem with this accusation,' Cherney says, 'is that the son of the Bulgarian minister wasn't dead. The Bulgarians finally informed the Israelis that no relative of any minister had been murdered since the days of the Ottoman empire.'

This was the turning point in what Cherney and his supporters say had become a campaign of victimisation. . A scandal unfolded in Israel that linked figures who had

been hounding Cherney with the political left, who did not welcome rich Russian Jews in Israel. Cherney had been a pawn in a political war begun by his enemies in Russia.

Cherney says '[Deripaska] panicked when he heard in 2001 that I was going to sell my stake in Rusal to MDM Bank for \$1bn. He met me in London. So I sold the stake to him instead, and the contract guaranteed payment in three years. He met me in secret in Vienna in 2003 and I told him he had violated the terms. Then he stopped answering the phone.

'In January 2005, we met again in Kiev. In the intervening years, Deripaska has bought out Berezovsky and Abramovich, using our joint money to do so - mine as well as his. That means I now have 40 per cent of the company, where before I had 20 per cent. If he'd kept to our agreement, none of this would be happening and he would have ended up paying less. My final deadline in March last year passed without him paying me. I own 40 per cent of \$15bn - or \$21bn, depending on the valuation when we finally get to court.'

He refuses to say whether it was Deripaska who instigated the kompromat . 'People don't pay what they owe you; that's life. But this is different. When I first met Deripaska, I liked him. He penetrated my soul. I took him to Paris, showed him expensive hotels and women for the first time. He was young, a dynamic achiever. I saw in him a reliable partner. So I'm not going to let him do this.'

Deripaska refutes these allegations and is challenging the interpretation of the contract.

Cherney settles back and lights a large cigar, exuding all the confidence of the billionaire - or of the former boxer who still relishes a fight.

## THE CV

Name Michael Cherney

Age 55

Job Businessman; investor; founder of the Michael Cherney Foundation for victims of terrorism

Family Married, four daughters

Education After secondary school, he was drafted into the Soviet Army and then attended technical college

Interests Sports, children's health

Moscow Times

June 18, 2007 Monday

## Journalist Writing Book On Metals Tells of Attack



**BYLINE:** The Moscow Times

**LENGTH:** 268 words

A Channel One television reporter said he was shot in the shoulder by an unidentified gunman outside his apartment building last week in an attack that might be linked to a book he is writing about the 1990s **aluminum wars**.

Andrei Kalitin, 37, said he was shot at around 9 p.m. Wednesday in the courtyard of 4 Vysokaya Ulitsa in southern Moscow, Kommersant reported Friday. The attacker fired a shingle shot with a gun equipped with a silencer, Kalitin told the newspaper. He said the attacker's face was obscured by a baseball cap.

Kalitin sought treatment at a hospital and was released shortly afterward at his own request. He reported the shooting to the police the next day.

Kalitin speculated that the attack might be connected to his years-long investigation into the murky aluminum industry of the 1990s, including scandals surrounding former metals tycoon Mikhail Chyorny, who now lives in Israel, Izvestia reported. Chyorny's spokesman declined comment, the report said.

Kalitin's book, titled "Mafia in Black," is to be released in August.  
The Guardian (London) - Final Edition

July 2, 2007 Monday  
Correction Appended

## G2: The richer they come . . . : Can Russias oligarchs keep their billions - and their freedom? By Luke Harding

**SECTION:** GUARDIAN FEATURES PAGES; Pg. 6

**LENGTH:** 3459 words

Today Boris Berezovsky, Vladimir Putin's most implacable enemy, goes on trial in Russia for corruption, accused of stealing millions of dollars from Russia's state airline, Aeroflot. If convicted, the former mathematics professor faces 10 years in jail. But he won't be in court to face his accusers, or to hear the verdict weeks from now. Berezovsky has dismissed the case as a Kremlin show trial and has said he won't turn up.

The charges against Berezovsky have their origins in the 90s, when a small, well-connected group of entrepreneurs made a killing from the privatisation of Russia's state assets. But what happened to the rest of them? A survey of the oligarchs, as they have become known, reveals an intriguing picture. Most of the first wave are now in prison or in exile, including Berezovsky, who has lived in Britain since 2001, the year he fell out with Putin, and has enjoyed asylum since 2003. Only a handful, led by Roman Abramovich, Russia's richest man, have managed to succeed under both Boris Yeltsin and Putin, his successor.

Few ordinary Russians will feel much sympathy for the losers. Any admiration for the gusto with which the country's 50-odd billionaires live their lives is more than outweighed by outrage at the way many of them made their money. And in a country where anti-semitism is still rife and openly expressed, nationalist rabble-rousers have made much of the fact that of the seven oligarchs who controlled 50% of Russia's economy during the 1990s, six were Jewish: Berezovsky, Vladimir Guzinsky, Alexander Smolensky, Mikhail Khodorkovsky, Mikhail Friedman and Valery Malkin. That fact is incontestable - but it is the result not of some grand conspiracy, but of the way the Soviet Union restricted Jews' ability to assimilate and rise up in society. While ethnic Slavs dominated all the best career slots in the highly bureaucratised official society, Jews who wanted to get ahead were forced into the black market economy. When communism collapsed and the black market was legalised as free market capitalism, the Jewish entrepreneurs had a head start.

All this changed when Putin became president in 2000. Putin's previous employer was the KGB - a notorious Slavs-only club. Since he took power, most of the original Jewish oligarchs have fled. But this probably has more to do with their failure to observe the new rules in Putin's Russia than their religion. During his time in office, Putin - who is due to step down next year - has established a new law: leave politics to the Kremlin. Or else.

Overleaf: who made how much - and how

Roman Abramovich

Age 40

Who is he? Russia's richest tycoon, as well as the owner of a small football club somewhere in west London. Abramovich's fortune is now estimated at a whopping \$19.2bn, according to Forbes' 2007 list of Russia's top 100 businessmen (which reckons that there are 52 other Russian billionaires). That is some \$2.4bn more than the nest-egg of his former business partner, **Oleg Deripaska**, who comes second (see below). Shy, media-phobic, and with still-boyish features, Abramovich has managed to navigate the transition between the Yeltsin and Putin eras. He has maintained good relations with both Kremlins. He has thus hung on to his fortune, acquired in the 1990s when Abramovich was an oil trader. He has also adopted the new Putin-era mantra of social responsibility, ploughing millions back into Chukotka, a province of reindeer farmers and polar bears in Russia's frozen and generally knackered far east. Abramovich is still the governor there, despite several attempts to resign. His recent divorce from his wife Irina - and his alleged romance with 24-year-old Daria Zhukova - have propelled him uncomfortably back into the tabloid limelight.

Relationship with Putin Chummy. During a recent one-on-one meeting in the Kremlin, the president told Abramovich that he had to soldier on as Chukotka's governor. Wisely, Abramovich agreed.

Place of residence Knightsbridge, London, and a 440-acre estate in Fyning Hill, West Sussex. It has its own go-kart track, apparently.

How he got his money In the 1990s he and his fellow oligarchs took advantage of the privatisation of Russia's state assets. In 1995 he hit the big time - when Abramovich, together with Boris Berezovsky, acquired a controlling interest in a large oil

company, Sibneft. Critics say the company was worth billions more than the pair paid for it. The bidding process was rigged, they add. Sibneft employees also allege that they were later forced to sell their shares for food when Sibneft failed to pay their wages. By 2001, Abramovich's empire - held by his investment vehicle, Millhouse Capital - included not just Sibneft, but stakes in Aeroflot, aluminium, insurance, cars and hydroelectrics. Since then he has sold many of his Russian assets.

Family Two ex-wives: Olga - they divorced in 1990 - and Irina, a former Aeroflot stewardess, with whom he has four children. Last autumn Abramovich denied rumours that his marriage to Irina was in trouble. In April he confirmed that he and Mrs A had split. She is believed to have got a derisory \$300m. She was spotted in Moscow last month opening a new hotel.

Hobbies Football? Did anyone mention this? Abramovich bought Chelsea FC in 2003, beginning a trend of foreign multimillionaires snapping up English clubs. Despite a galaxy of overhyped stars, Chelsea failed this season to win the Premiership or the Champions League - though they did make off with the FA Cup.

Prospects Good. Abramovich is likely to maintain good relations with Putin's successor, while continuing his oxymoronic dual identity as London-based emigre and Russian patriot. Putin may even drop in to Chukotka this week.

### Oleg Deripaska

Age 39

Who is he? According to Finans magazine, Deripaska is now Russia's richest man, with a fortune estimated at \$21.2bn. Forbes magazine puts him in second place with \$16.8bn - just behind his friend Roman Abramovich. Deripaska, who made his fortune from aluminium, claims the estimates are exaggerated. Either way, he is the most successful of the new and ambitious generation of Putin-era oligarchs. Deripaska grew up in the north Caucasus and studied in Moscow. He began work in the early 1990s as a metal trader. Beginning with a small stake in a Siberian smelting factory, Deripaska seized control of Russia's vast, lucrative aluminium industry, merging his company in 2000 with Abramovich's. His firm - Basic Element - is due to float on the London Stock Exchange for \$25-30bn. Several ex-business partners have sued Deripaska; the US has previously refused him a visa. Like Abramovich, Deripaska likes London, speaks English and is a keen Anglophile. Unlike Abramovich, though, Deripaska has no plans to leave Russia. He also claims to be indifferent about football. In an interview with the Guardian earlier this year, he denied rumours that he wanted to buy Arsenal FC. "I'm not very enthusiastic about football. Not at all," he said.

Relationship with Putin Very close. The two ski together, it is said. Putin took Deripaska with him on a trip to Austria in May .

Place of residence Moscow and the North Caucasus. Like any self-respecting oligarch, he also has a small London pad.

How he got his money By emerging like a triumphant gladiator from the "**aluminium wars**", the corpse-and-bits-of-body-strewn battle in the 1990s for control of Russia's aluminium industry. **Deripaska** denies tales that at one point the local mafia tried to blow him up with a grenade launcher. But even among oligarchs - who are not exactly a bunch of softies - **Deripaska** has a reputation for ruthlessness. An Israel-based businessman, Michael Cherney, is one of several disgruntled ex-business partners currently suing **Deripaska** in Britain. He alleges that the tycoon has swindled him out of billions. **Deripaska** denies the claim.

Family **Deripaska** is usefully married into the Yeltsin clan, Russia's former first family. The father of his wife Polina - Valentin Yumashev - was chief of staff to Boris Yeltsin and is married to the late president's younger and politically astute daughter, Tatyana. **Deripaska** has two children aged four and five. Oh yes, and a British nanny.

Hobbies Unknown. The tycoon doesn't talk about them. But he has spent money on patriotic projects, including the restoration of Russian churches.

Prospects Excellent. **Deripaska** is, in the words of one observer, "untouchable", thanks to his dynastic alliance with the Yeltsin family and his friendship with Putin. He is now aggressively expanding his empire into property and construction, and has also bought the ailing British van maker LDV. He is Russia's leading deal-making tycoon.

Mikhail Khodorkovsky

Age 44

Who is he? The man who defied Vladimir Putin and ended up in a Siberian jail. One of the original "magnificent seven", the group of oligarchs who swaggeringly bestrode the Yeltsin era, Khodorkovsky acquired his spectacular fortune during the knockdown privatisation of Russia's state assets in the 1990s. While Abramovich got oil, Khodorkovsky got oil, too - lots of it - with his firm Yukos becoming Russia's biggest oil company. Like the hero of a dubious morality tale, however, Khodorkovsky broke the rules established by Yeltsin's ex-KGB successor Vladimir Putin: don't meddle in politics. In the autumn of 2003 he funded opposition political parties ahead of Duma elections. The Kremlin's response was blunt. It charged Khodorkovsky with tax evasion and fraud. A court sentenced him to eight years in jail; receivers broke up his Yukos empire and sold off the bits. Brilliant and ruthless - he once installed video cameras to spy on his employees - Khodorkovsky is now either a justly convicted criminal or Russia's most famous political prisoner, depending on your point of view. He is unlikely to get out of jail any time soon. Once Russia's richest man, he has seen his fortune dwindle to a paltry \$500m, Forbes suggests.

Relation with Putin Not good. See place of residence.

Place of residence Prison camp number 13, Chita jail, eastern Siberia. It's a very long way away from Moscow. He was last year given a spell in solitary for illegally possessing two lemons. His mum was allowed to visit him recently on his 44th birthday.

**How he got his money** According to the Kremlin, he nicked it. Like the others, Khodorkovsky aggressively exploited Russia's Yeltsin-era privatisations. An ambitious middle-class Soviet kid, Khodorkovsky began buying and selling in the late 1980s. He founded his own bank, Menatap, then in 1995 bought Yukos for just \$350m. Two years later the firm was valued at \$9bn. The deal was part of the notorious loans-for-shares programme, which saw Yeltsin give away state assets to a small group of 23 or so oligarchs. In return they agreed to get Boris re-elected as president in the face of a resurgent Communist party. He was.

**Family** Wife and four children.

**Hobbies** Before his internment, Khodorkovsky was a frequent visitor to Maharaja, a Moscow curry house. He is also a fan of Abba, and prefers jeans to formal suits.

**Prospects** Rubbish. Khodorkovsky now faces the prospect of a second trial on further charges of embezzlement and money laundering. The latest charges appear designed to ensure that the tycoon stays in prison until well after Putin departs office next year - and an as yet unknown Kremlin-backed successor takes over.

**Boris Berezovsky**

**Age** 61

**Who is he?** Brainy former mathematics professor and former Kremlin kingmaker who has morphed into Putin's enemy number one. In an interview with the Guardian in April, Berezovsky claimed he was plotting a coup against Putin, and called for a violent uprising against the Russian state. Russia has opened a criminal investigation and accused him of treason. It has repeatedly called for his extradition from Britain, where he has lived since 2001. Slight, balding and with a fondness for abstruse Latin phrases, Berezovsky began dabbling in the private sector in the late 80s. His unrivalled ability to get close to those in power led him to penetrate Yeltsin's family circle. He then used his political connections to acquire profitable stakes in state companies. They included a car dealership, the national airline Aeroflot, and several oil companies that he organised into Sibneft (see Abramovich). He also bought a TV station, ORT. His fortune is now estimated at \$1.1bn.

**Relationship with Putin** A bit like that between Darth Vader and Luke Skywalker, though without the touching family reconciliation death scene. (Putin is Luke). Britain's refusal to hand over Berezovsky to Moscow continues to irritate the Kremlin, and poison UK-British relations (see below).

**Place of residence** A mansion on the Wentworth estate near Weybridge, a house in Chelsea and a vast Belgravia apartment. Definitely not Moscow.

**How he got his money** Like his fellow oligarchs, Berezovsky was a beneficiary of the extraordinary series of sweetheart privatisation deals that saw state assets flogged off in the 1990s for a fraction of their real value. Berezovsky's share of the swag was Sibneft (see Abramovich), a newly created oil company, which he got for a whisker over \$100m. Its value was later estimated at \$1bn. Berezovsky also held stakes in a car dealership, and in the state-owned airline Aeroflot. In return, Berezovsky masterminded the 1996 re-election of Boris Yeltsin for a chaotic, bedridden, vodka-

soaked, corruption-tainted second term. He and his billionaire friends coughed up £140m for Yeltsin's campaign.

Family Married at least three times, with six children.

Hobbies In his 2002 entry in Russia's Who's Who, Berezovsky modestly lists two hobbies: work and power.

Prospects Surprisingly good. In the wake of the horrible murder of his associate Alexander Litvinenko - allegedly killed by a former KGB agent using radioactive polonium-210 - no British court is likely to send Berezovsky back to Russia. Berezovsky will continue to enjoy life under his assumed British name - Platon Elenin - and make revolutionary mischief.

Mikhail Prokhorov

Age 42

Who is he? According to the Moscow tabloids, he is Russia's most eligible bachelor, with a snappy little fortune of \$15bn. At the age of 42, Prokhorov is still defiantly unmarried, despite a string of eligible girlfriends and a recent spoof announcement that he intended to tie the knot. His playboy reputation was cemented in February when French police arrested him during an investigation into an international prostitution ring. Police seized Prokhorov in the French skiing resort of Courchevel - a favourite destination for Russia's ultra-rich. He was later released without charge. "The allegations are absurd," Sergei Chernytsin, spokesman for Prokhorov's firm Norilsk Nickel, said in January. He added: "Naturally, he likes girls, and treats them in a natural way. But this isn't a pretext to accuse him of pimping." The incident provoked a personal chewing-out from the ascetic Putin, it is said. As well as liking women and parties, Prokhorov is Russia's fifth richest man. His billions were made from the vast nickel and gold deposits hacked out of Russia's frozen north. His mine in the town of Norilsk, the second largest human settlement north of the Arctic Circle, was privatised in Russia's anarchic 1990s.

Relationship with Putin Worsening? Putin last year awarded him the Order of Friendship - a token of Kremlin esteem. But his arrest in January may have led to a cooling.

Place of residence Moscow, and (sometimes) the Alps.

How he made his money Back in the early 1990s, Prokhorov was a clever young banker working for the state-run International Bank of International Cooperation. Vladimir Potanin, an influential banker from a privileged Soviet background, talent-spotted him. The two men moved into private banking, got their mitts on several billion-dollar government accounts, and never looked back. In November 1995 Potanin and Prokhorov snapped up Norilsk Nickel, Russia's largest nickel company, for £78m less than the asking price. Months later Potanin had become deputy prime minister.

Family Plenty of exes, but no Mrs Prokhorov as yet.

Hobbies Loads. As well as throwing lavish parties, Prokhorov likes basketball (he's two metres tall) and skiing. Then there is kickboxing, football, the avant-garde, and - strange but true - Salvador Dali.

Prospects Good, assuming he watches his step on the pistes. According to Kommersant newspaper, Prokhorov intends to resign as general director of Norilsk Nickel to concentrate on acquiring electricity assets. Though this means a split from his long-term business partner, Vladimir Potanin - Russia's fourth richest man - it will leave him still nursing his billions.

Viktor Vekselberg

Age 50

Who is he? Putin-friendly oligarch, and Russia's 10th richest chap, with a fortune estimated at \$10.7bn. After working in an obscure state lab for many years, Vekselberg made a killing when the aluminium industry was privatised in the 1990s. He became a major player after Boris Yeltsin's re-election in 1996, when he became co-owner and chairman of Tyumen Oil (TNK), one of Russia's largest oil and gas companies. His company later developed a joint venture with BP. Like other oligarchs who have thrived under Putin, Vekselberg realises the importance of patriotic gestures. In 2004 he bought nine of the legendary Faberge eggs from the US Forbes publishing family in New York. The collection was shipped home to mother Russia and triumphantly exhibited at the Kremlin. He also forked out \$1m to Harvard University to pay for the return of a set of Russian bells to a Moscow monastery. Like most Russian oligarchs, Vekselberg is of Jewish origin - he has a Jewish father, though he doesn't regard himself as Jewish. He is currently restructuring his assets, which also include aluminium and property.

Relationship with Putin Mixed. Putin invited Vekselberg, together with **Oleg Deripaska**, on his trip to Austria and Luxembourg in May - a good sign. But he also recently criticised Vekselberg and TNK-BP (his joint venture with BP) for failing to develop a gasfield in eastern Siberia. TNK-BP was forced to sell it to Gazprom.

Place of residence Moscow.

How he made his money You should know the answer to this one. He got rich when Russia's aluminium industry was privatised in the 1990s - together with other state assets sold for a bag of beans. His Siberian and Ural aluminium company (SUAL) has just merged with **Deripaska**'s company RusAl to create the world's biggest aluminium company.

Family He is married to Marina, and has two children, a daughter, Irina, and a son, Sasha.

Hobbies Pass. Although he looks a bit like Father Christmas.

Prospects Good. Vekselberg still enjoys reasonable relations with the man who counts, and heads the influential Russian Union of Industrialists and Entrepreneurs. His preference for building business partnerships with friends and university mates has helped him multiply his billions.

Mikhail Friedman

Age 43

Who is he? Wheeler-dealer from western Ukraine and Russia's sixth richest man. (According to Forbes, there is \$13.5bn in his piggy bank). Friedman has so far avoided the fate of Khodorkovsky and other fallen oligarchs. Stocky, and with a pudgy, boyish face, Friedman grew up in Lvov - the formerly Polish city now in Ukraine. He was once a communist youth activist. He embarked on his capitalist career at a student in the late Soviet Union by buying and selling theatre tickets. Having learned how to run a business, he set up a kooperativ - selling windows, importing photocopiers and cultivating bureaucrats. He then moved on to banking, buying large stakes in Russian firms and selling them on at a profit. In 2003 he merged his giant oil firm TNK with BP in a \$7bn deal. Friedman is also the head of Russia's powerful Alfa Bank. When Boris Yeltsin died earlier this year, Friedman turned up at Moscow's Christ the Saviour's Cathedral to pay his respects.

Relationship with Putin Unclear, but may be getting a bit wobbly. See prospects.

Place of residence Moscow.

How he got his money After trying theatre tickets (see above), Friedman experimented with windows, Siberian wool shawls and breeding laboratory mice. His breakthrough came when he started exporting oil - much cheaper in the Soviet Union than in the west. But essentially it's the same old story of privatisation and bandit capitalism.

Family Divorced with two children.

Hobbies He claims to be less busy than he seems. Otherwise, no hobbies as such.

Prospects Slightly ominous. According to Moscow's scurrilous expat newspaper the Exile, Friedman's name popped up on a bunch of signs waved by demonstrators at an anti-Putin rally in St Petersburg - not a good omen. Additionally, officials are now investigating claims that he illegally purchased his mega-dacha - a bad sign \*

Intelligence Online

July 6, 2007

Correction Appended

## The Russian **Aluminium War**, Act Two

**SECTION:** POLITICAL INTELLIGENCE

**LENGTH:** 711 words

After the prolonged struggle between the IPOC equity fund and Mikhail Friedman's Alfa conglomerate, business intelligence firms and communications concerns on both sides of the Atlantic have been thrown into another battle between oligarchs Mikhail Chernoy (who now calls himself Michael Cherney) and **Oleg Deripaska**, the world's 40th richest man with an estimated fortune of USD 13.3 billion. A long-standing



stakeholder in Siberian Aluminium, which has since become RusAl, the world's leading aluminium producer, Cherney sold off his stock in the company to Deripaska in 2001. He feels, however, that he only got a fraction of the stock's real value at the time and is now demanding the rest. Cherney's offensive may well thwart RusAl's flotation on the London Stock Exchange, which could take place this year and raise up to GBP 15 billion. Tracking Quarry in U.K. In a bid to force Deripaska to pay him what he believes the true value of his stake in RusAl, Cherney filed suit against his former partner before the commercial court at London's High Court last Nov.

24. His lawyer is John Fordham from the Stephenson & Harwood firm. Since the London court only has jurisdiction if one of the two parties resides in Britain, Cherney had Deripaska under surveillance by several business intelligence outfits to prove that the luxury home he owns in the ultra-posh neighbourhood of Belgravia is his main residence. RISC Management, a firm chaired by retired colonel Timothy Collins and run by former policeman Cliff Knuckey (IOL 536), offered advice in the operation (RISC has worked a lot for London-based oligarch Boris Berezovsky, who recently became friendlier with Cherney). But on May 3 the High Court ruled Deripaska wasn't a British resident and therefore that it was not competent to examine Cherney's complaint. The latter appealed the ruling and is now also poised to enlist the media in his campaign. He hired Bell Pottinger sans Frontieres, a public relations agency founded and run by a former spokesman of Margaret Thatcher, Lord Bell, that is also Berezovsky's mouthpiece. Advised by Alan Hamerman, a Bell Pottinger executive, Cherney recently played host to several financial journalists in Israel, where he has resided since 1996. Bell Pottinger is working on the account with the small business intelligence unit of the private British security concern Aegis Defence Services founded by Tim Spicer. (Peter Inge, chairman of Aegis' board, was once a partner of Graham Barr, CEO of Bell Pottinger sans Frontieres, in a now defunct consultancy ,Global Strategy (IOL 4513). Cherney is similarly represented in Washington by Mark D'Anastasio, a former Wall Street Journal newsman in Moscow who went into public relations. D'Anastasio also works for the IPOC fund. Israeli Investigators Turned. Like Cherney, Deripaska has hired a raft of consultants to fight off the attack of his ex-partner. Defended by the lawyer Paul Hauser from the Bryan Cave firm and by the London PR company Finsbury, he retained several business intelligence concerns, among them Diligence, to investigate Cherney, his investments in East Europe and his troubles with the FBI and Serious Organized Crime Agency: they suspect the businessman, who has never been convicted, of links with organized crime. In Israel, a private intelligence firm, Matara, was assigned to watching Cherney and assessing his influence among Israeli decision-makers. Matara was founded in 2004 by a former head of Tevel, the Mossad's international relations department, Yoram Hessel. Hessel was also Mossad's station chief in Washington. But disagreement over the results of Matara's surveillance prompted the Israeli company to suddenly change sides in May and make contact with Cherney to offer its services and inform him of the various operations carried out against him. Following Matara's defection, Cherney mounted a counter-attack against Deripaska and his advisers in several Russian media outlets, particularly on the stringer.ru web site. But as Deripaska is one of the oligarchs closest to Vladimir Putin, Cherney's campaign in Moscow has little chance of making an impact. In coming months he is expected to focus his efforts on the western press and - again

Business Wire

July 27, 2007 Friday 9:54 PM GMT

# Russian Press Center: Exiled Oligarchs Aim to Start the New Cold War Between Europe and Russia

**LENGTH:** 702 words

**DATELINE:** NEW YORK

Russian Press Center hosted a roundtable discussion on issues surrounding the "Battle for Moscow 2008" report, which talks about Russian oligarchs' supposed attempt to gain power in Russia after President Putin steps down in 2008. The roundtable addressed the exiled Russian oligarchs' recent efforts to induce a diplomatic crisis between Russia and the UK. The list of participants included Vladimir Pavlov, Russian Press Center's director, Julian Lowenfield, one of the leading US attorneys specializing in Russian-American relations, Bill Milberg, an economist whose specializing in the field of countries' reputations, Michael Thompson, a political scientist, media representatives among others.

The report by Russian Press Center, published earlier this year and presented at the UN in May, states that Russian exiled oligarchs, including Boris Berezovsky, Mikhail Chernoy, Leonid Nevzlin and others, are staging a comeback in 2008 to get back their "fair share" of the nation's wealth and control over politics. The report, based on analysis of open sources such as Western and Russian media, on and off the record statements by experts, businessmen, law enforcement officials and politicians, demonstrates that the exiled oligarchs, who were de-facto rulers of Russia in the 90s, are preparing a revanche, aggressively trying to revamp their image tarnished by plundering the Russian economy and ties with organized crime, and in some cases -- regain physical access to countries like the US, which denied them visas, vying for support of political forces in the West, soliciting former and active law enforcement and intelligence officials in Great Britain, the U.S., Israel, Italy and Eastern European countries with a dual task of using their expertise and connections to soften official scrutiny of their shadowy business practices and getting help in undermining the current government of Russia.

Vladimir Pavlov, Russian Press Center's director, said at the roundtable, that the recent diplomatic crisis might be a result of the lobbying by the exiled oligarchs: "No doubt that Mr. Berezovsky, the archenemy of the Kremlin, is actively involved in the dispute between Russia and the UK. He himself was the reason for it, as the UK did not agree to extradite him to Russia, where criminal charges are filed against him. The less support current Russian government has from Europe, the easier it is to take over Russia after the presidential elections in 2008" - says Pavlov. Russian Press Center's research showed that Berezovsky is not acting alone: one of his close business partners is Mikhail Chernoy, who gained almost full control over Russia's aluminum industry in the 90s in what became known as the bloody "**aluminum wars**." Mikhail Chernoy, now living in Israel after the US stripped him of his visa in 1999, appears to be the hub in a tangled web of connections linking the Russian mafia, corrupt politicians and Russian opposition.

Chernoy's activity has recently most noticeably spread to Ukraine, where he controls several companies, the largest being First Ukrainian Development (FUD), which will soon break ground on a \$1 billion building project in Kiev. Ukrainian journalists refer

to their country's construction business today as "the flush pipe of criminal capital," and indeed, FUD's main office is registered at an offshore location in Cyprus, while its Kiev office is headed by Efim Borodulin, a man with close ties to Berezovsky. Chernoy himself flew to Ukraine three times this year on Berezovsky's personal airplane.

The Russian Press Center's report states that the web of exiled Russian oligarchs is setting up their operations in such a way that it would be easy for them to take part in Russian political and business activity and wait for the right time to enter the "Battle for Moscow" in 2008.

Russian Press Center and participants of the roundtable welcome feedback regarding any of the topics addressed at the roundtable. Record of the discussion and the "Battle for Moscow 2008" report are available on Russian Press Center's website - [www.russianpresscenter.com](http://www.russianpresscenter.com).

The Moscow Times

July 31, 2007 Tuesday

## Russneft Chief Blames State for His Ouster

**BYLINE:** Miriam Elder, Staff Writer

**LENGTH:** 1023 words

The head of Russneft said Monday that months of state pressure had prompted him to sell the embattled oil company to rising, Kremlin-friendly oligarch **Oleg Deripaska**.

"Not everyone has liked Russneft's success," CEO Mikhail Gutseriyev said in a letter published in the company's internal magazine.

"I was invited to leave the oil business 'on good terms.' I refused. Then to make me more compliant, the company was subjected to unprecedented hounding," Gutseriyev wrote.

Russneft's board of directors approved Gutseriyev's resignation late Monday, the company said in a statement. Senior vice president **Oleg** Gordeyev was appointed acting president.

"Mikhail Gutseriyev is temporarily stopping his entrepreneurial activities, leaving all business projects and intends to undertake scientific activities in Russia," the statement said.

Gutseriyev formed Russneft in 2002, after leaving state-run oil firm Slavneft and subsequently buying its assets on the cheap. He has since grown the company into Russia's seventh-largest oil producer, pumping 300,000 barrels of oil per day.

Then last year, tax and legal authorities began slapping the company and its shareholders with lawsuits as the Kremlin tightened its grip on the country's energy sector by means often criticized as lacking transparency.

Basic Element, **Deripaska**'s holding company, confirmed on Monday that it had asked the Federal Anti-Monopoly Service for approval to buy Russneft.

Neither Russneft nor Basic Element would comment on the details of the sale. Vedomosti on Monday cited a source close to **Deripaska** as saying the two sides had agreed last week on a \$6 billion price tag, while sources close to Russneft told the newspaper that the price had been set at \$9.6 billion.

Gutseriyev, worth an estimated \$2.9 billion according to Forbes, will receive a payout of \$3 billion, Vedomosti said. He is estimated to own 70 percent of the privately held company.

**Deripaska**, Russia's second-richest man and the Kremlin's favored oligarch of the moment, will pay off the \$2.8 billion debt that Russneft owes Glencore, the Swiss-based commodity trader that helped finance the firm's expansion, the newspaper said.

Glencore already has links to **Deripaska**, having merged its aluminum assets with **Deripaska**'s Russian Aluminum and Viktor Vekselberg's SUAL earlier this year. That merger created United Company RusAl, the world's largest aluminum company.

RusAl plans to carry out an initial public offering this year, as **Deripaska** seeks to shake off a controversial reputation forged during the **aluminum wars** of the 1990s.

If Basic Element's request is approved, it will merge the firm into its En+ energy unit, Basic Element said in a statement. The holding also manages **Deripaska**'s metals, automobile, construction and property assets.

**Deripaska** has proven his loyalty to the administration of President Vladimir Putin. "I don't separate myself from the state," he told The Financial Times earlier this month, adding that he would give up RusAl if the Kremlin asked him to.

Analysts said **Deripaska** could hold Russneft before passing it on to state-controlled oil giant Rosneft, which is heavily in debt. The firm has borrowed more than \$25 billion this year alone.

Rosneft spokesman Nikolai Manvelov said the company was not interested in buying Russneft from **Deripaska**.

Rosneft spent hefty sums scooping up assets that once belonged to Yukos. The purchase of two Yukos production units at forced bankruptcy auctions this year propelled it to the top spot among Russian oil producers.

Yukos was felled by over \$30 billion in back tax charges and CEO Mikhail Khodorkovsky was jailed for eight years on charges of fraud and tax evasion.

Gutseriyev hinted in his letter that he hoped to avoid a similar fate.

"I have taken the decision to quit our company. I hand control of the holding to a new owner whose appearance, I am sure, will ensure that all Russneft's problems will be resolved in time," Gutseriyev said.

He accused the country's "financial and power structures," including the Prosecutor General's Office, the Interior Ministry and the Federal Tax Service, of carrying out an unprovoked attack against the company.

"I don't know what I am guilty of and where I made mistakes" in drawing their ire, Gutseriyev said in the letter.

The Kremlin was believed to be unhappy with Gutseriyev for seeking several Yukos assets without its approval, but Russneft said last week that it had dropped its interest after receiving requests from Gazprom.

The Federal Tax Service had brought a total of eight lawsuits against 11 companies that are or have been shareholders in Russneft. In May, Gutseriyev himself was charged with fraud, and in June, tax authorities froze some of the company's shares.

"This whole affair, including Gutseriyev's claim that he was forced out of the company through the combined effort of state agencies ... could cast a shadow over investors' perceived sentiment as to the business environment in the Russian oil and gas industry," UBS warned in a research note.

Gutseriyev's exit comes fresh on the heels of TNK-BP's decision to sell its share in the Kovykta gas project to Gazprom, after months of pressure from the Natural Resources Ministry. Shell, Mitsui and Mitsubishi sold a majority stake in the Sakhalin-2 oil and gas project to Gazprom after a similar campaign late last year.

"The government is moving toward increasing the state share of production," said Julia Nanay, a senior analyst at PFC energy. "Russneft has been high profile, with aggressive goals to grow its output," she said.

Gutseriyev said last year that the company was seeking to raise net income to \$1 billion this year by producing 20 million tons of crude. The company was also considering an initial public offering.

Analysts say the state's increased activity in the energy sector shows it hopes to consolidate control over the industry ahead of presidential elections in March.

According to Alfa Bank, the state currently controls 44 percent of the country's oil production, if Russneft is included.

Russneft owns 30 production assets, three refineries and 300 petrol stations, the com

National Post's Financial Post & FP Investing (Canada)

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Magna's man in Moscow remains a mystery; ; Who Is Oleg Deripaska?

**BYLINE:** Nicolas Van Praet, Financial Post

**SECTION:** FINANCIAL POST; Pg. FP1

**LENGTH:** 2022 words

Russian metals magnate **Oleg Deripaska** was holed up in a room in the basement of Toronto's Roy Thomson Hall with his new business partner, Magna International Inc. founder and chairman Frank Stronach, as burly security personnel guarded the doors.

Reporters had been asking where Mr. **Deripaska** was. He didn't show up at the morning news conference to discuss his proposed deal with Mr. Stronach --easily the biggest deal the auto parts big shot has hammered out in years. Magna executives were left to defend him over questions about why the State Department won't let the Russian into the United States. They also countered queries over whether his stormy career would scar Magna's reputation.

Half an hour later, here he is: One of Russia's biggest industrialists, at 39 certainly its youngest billionaire, a survivor of one of most violent episodes in Russian business history, the last person in the world you might expect to see on a typical fresh May day in Toronto.

Sitting at a small table with Mr. Stronach, Mr. **Deripaska** spoke quietly and enthusiastically about his US\$1.54-billion proposed investment in Magna. That's the price he will pay to win six of 14 seats on the company's new board of directors. That's the price for access to its technology. In return, Magna says, he will lead the Canadian auto parts company to a sales bonanza in the Russian region -- one of the fastest-growing automobile markets in the world.

Appearing relaxed with the top button of his dress shirt undone and wearing a plain grey Polar-brand exercise watch, the almost boyish-looking Russian praised the manufacturing capability of Magna's Steyr assembly plant in Graz, Austria, where he first met Mr. Stronach. He talked of Russia's growing middle class and its hunger for new cars.

He said Magna, "one of the best companies," can help Russia revive its domestic auto industry and expand its business in the process.

On the eve of the Magna shareholders' vote on the deal Tuesday, and in the three months since he made those statements, what has become clear is this: As he expands investments in his holding company, Basic Element, from aluminum into planes, cars, timber and construction, **Oleg Deripaska** has done little to dispel the mystery that surrounds him.

In fact, his advances to Western companies like Magna and General Motors Corp., in which he has reportedly bought a 5% stake, is generating some angst on this side of the Atlantic. And it's far from certain the concern will go away.

At least two of Magna's biggest shareholders say there is significant strategic risk in Magna hitching itself to a Russian oligarch with such close ties to the Kremlin. They

say Mr. Deripaska is more hungry than Mr. Stronach to do this deal. And they have vowed they will not endorse this change of control without getting something more than what has been proposed in return.

Magna, recognizing shareholder doubts over the deal, has restored most of its dividend and will do another share buyback in addition to the one previously announced to sweeten the pot. Both moves will buy some goodwill among investors. But will it be enough to ease any fears that Magna is playing Russian roulette by getting hitched to Oleg Deripaska?

"It's a bit like doing a deal with the devil," said a manager with one of Magna's major institutional shareholders. "The Russians have structured a lot of deals so that they work in their favour, whether it's the forced takeover of the assets of Yukos or the virtual expropriation of the Sakhalin island project from Shell. And you sort of think: 'Well you know, are you going to get a fair shake from these guys?'"

Oleg Deripaska is no ordinary investor. He is married into the family of former president Boris Yeltsin. He is chummy with Russian President Vladimir Putin. He controls an empire of energy, resource and manufacturing companies that is expanding with Mr. Putin's blessing, including aluminum giant Rusal and automaker Gaz. And, as is the case with many Russian oligarchs who rose to great wealth and power amid the chaos and confusion of the country's reorganization, his biography is not entirely squeaky clean.

Mr. Stronach calls his new partner "the most successful Russian businessman." He says he is credible and has "a social conscience." Others who have dealt with him are much less kind. Former partners and business rivals have sued him in courts in London and New York. Michael Cherney, a former associate, claims Mr. Deripaska broke legally established financial and business agreements and owes him 20% of Rusal. The former heads of two large smelters in Russia also sued, alleging Mr. Deripaska coerced them into selling their stakes in the businesses. They eventually settled out of court.

Mr. Deripaska has said the suits are intended to sully his reputation. "I am not ashamed and I don't need to hide," he told the Financial Times this summer.

These things about Oleg Deripaska are known: Married with two children, he was born in the town of Dzerzhinsk near the industrial city of Nizhny Novgorod. At age four, he settled in a traditional Cossack village in southern Russia with his widowed mother. He lived with his grandparents for a time, but moved from relative to relative for seven years, helping his family with chores like milking cows.

That time without a real home steeled him, he told a recent interviewer. "Difficulties are not a catastrophe," he said. "If there was a flood, you would just go out and deal with it. You solve the problem."

Later, he served in the Russian Army, guarding a missile battery near the Chinese border before starting physics studies at Moscow State University. When the Soviet Union disintegrated, Mr. Deripaska struggled to feed himself in the turmoil that ensued. He worked on construction sites to earn money. He got his degree eventually, but decided there were more opportunities outside science. He became a metals trader, joining other arbitrage players selling low-cost Russian-made



aluminum internationally at much higher prices. And he used the money he made to buy shares in the Siberian aluminum smelter Sayansk, eventually becoming its director.

Exactly what happened after that, and how Mr. Deripaska amassed his personal fortune estimated at more than US\$13-billion, is more muddled. Confusion over the Russian's explanation of his past is also perhaps the reason the United States has denied him a visa. Mr. Deripaska was asked in 2006 not to enter the U.S. "pending resolution of certain unspecified questions that had arisen within the government," Magna has said.

Russia's aluminum industry went through a major period of conflict in the mid-1990s during its privatization that has come to be known as "the **aluminum wars**." There were bloody fights. There were gun battles. There were contract murders. Mr. Deripaska's finance director in 1994 reportedly survived an attempt on his life in Moscow. But he and his associates hit back when the Sayansk smelter was attacked, crushing the local mafia. Mr. Deripaska has said he won the wars by controlling supplies of alumina, the raw ingredient for aluminum.

"His business techniques are not anything that would be acceptable to any investor in the West," said an American businessman with long experience in the former Soviet Union.

Mr. Deripaska also took a run at forestry. There was a much-publicized takeover attempt of Russia's Ilim Pulp, in which Mr. Deripaska tried to take the company's mills by armed force. He had legal documentation to back up his claim, but rivals charge it was questionably obtained. An armed stand-off lasting two years ensued. Ilim cried for help, drawing international attention. The Russian government eventually intervened and the two sides agreed to bury the hatchet.

Mr. Deripaska never faced any criminal charges during that period. But it's clear some who have dealt with him believe he has not lost his hunger for expansion. Last month, another oligarch, Mikhail Gutseriev, was forced to give up his oil company RussNeft after apparently losing favour with the Kremlin and facing what he called "unprecedented persecution" by state agencies. Mr. Deripaska has applied to Russia's antimonopoly agency to take over control.

"It's very clear that he's been able to do things that others have not and that Putin gives him a pretty wide berth," said Marshall Goldman, a specialist on Russia at Harvard University and author of an upcoming book called *Petroleum, Putin and Power*. "But I wouldn't want him investing in my business."

More recently, there are concerns over Mr. Deripaska's comment that he would be ready to give Rusal back to the state at any moment. "I don't separate myself from the state. I have no other interests," he told a business newspaper. Georgy Oganov, advisor to Mr. Deripaska, told the Financial Post by e-mail the comments were taken out of context and misrepresented. "He was simply expressing his commitment to Russia as a patriotic businessman," Mr. Oganov said. Magna has done extensive research on Mr. Deripaska and his business practices comply with "the best international standards," Mr. Oganov said.



Russian analysts such as Kirill Chuiko at Uralsib Capital argue there's nothing to fear about doing business with Mr. Deripaska or his countrymen. Several Russian companies have bought foreign assets with no negative consequences, such as Norilsk Nickel's takeover of Canadian miner LionOre. Doubts in the West persist about oligarchs but the risks are overstated, Mr. Chuiko said.

Others make the same point: "More rubbish is written and spoken about Russia than any other country on the planet Earth," Daniel Thorniley, senior vice-president of the Economist Intelligence Unit, said at the St. Petersburg International Economic Forum this past June. "Business success in Russia is the best kept business secret in the world."

That's what Mr. Stronach is hoping Magna investors will have concluded when they vote on Tuesday. Institutional Shareholder Services has given its approval to the deal, arguing Magna has to diversify geographically given the weak outlook in the North American auto industry.

Other analysts say it makes sense for Magna to choose Mr. Deripaska as a partner simply because he can open doors in Russia and elsewhere. "[His] political clout and understanding of the Russian automotive market will significantly reduce the business risks associated with Magna launching business in Russia," said Elena Sakhnova, an industrials sector analyst with Deutsche UFG in Moscow.

Mr. Stronach, who sought blessing for the deal from Mr. Putin, said he told the president he could help create 300,000 manufacturing jobs in Russia within 10 years. But this is not a charity mission for the Magna boss. Through a side deal negotiated with Mr. Deripaska, he will pocket \$150-million when the transaction closes in exchange for giving up control of half of his consulting company to the Russian. And he gains millions more through a special dividend-sharing structure. By one measure, Mr. Stronach is selling his future compensation now.

Wayne Lilley, author of *Magna Cum Laude*, a recent biography of Mr. Stronach, sees the deal as a way for the Magna chairman to plan his exit from the business he founded in a small garage 50 years ago.

John Doddridge, Magna's chief executive from 1992 to 1994, thinks otherwise. He says he cannot fathom Mr. Stronach letting go of the company, and argues he is rather making a very calculated bet to push East. Everyone is afraid of Russia, he says, and that has left the field wide open for companies like Magna.

"The bottom line is this may not be as crazy as it sounds," Mr. Doddridge said of the Magna-Deripaska deal, arguing shareholders have done well with Magna while investors in several rival companies lost their shirts. "Working for Frank, I underestimated him. I was trying to run a business and he was out doing everything else. And he'd come up with these, I thought, wild ideas, high-risk ideas, including some things he wanted to buy in Europe. It was too risky for my blood. I didn't think it had been well thought through. And he proved

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## The Russian whose fortune fell from the sky; BUSINESS - Jules Evans says billionaire industrialist Oleg Deripaska has global business ambitions - but a dispute with another Russian tycoon, Michael Cherney, may get in his way

**BYLINE:** Jules Evans

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Oleg Deripaska wants it all. He already has quite a lot: assets in Russian insurance, pulp, construction, airports, media, cars, and oil, and a controlling stake in the world's largest aluminium company, Rusal. These make him Russia's second-richest man, worth \$18 billion according to Forbes; only Roman Abramovich is richer.

But Deripaska's ambition is not yet sated.

He wants a place in the top league of global businessmen alongside Bill Gates and Lakshmi Mittal. And so far his ambition appears to enjoy strong Kremlin backing.

This is remarkable considering the extent to which he is a Yeltsin-era figure, and how badly others of that ilk, such as Boris Berezovsky or Mikhail Khodorkovsky, have fared under President Putin. But, like Abramovich, Deripaska has managed to make the transition from the era of the oligarchs to the era of the security services.

More than any other Russian businessman, Deripaska is now profiting from Putin's ambitious 'public-private partnership' programme to rebuild Russia. The Kremlin is preparing to put tens of billions of dollars into infrastructure projects around Russia, and Deripaska's company, Basic Element, has already attracted state backing for a new hydroelectric dam and aluminium smelter in central Siberia. It also recently bought 30 per cent of a German construction company, Strabag, for \$1.6 billion, which puts it in a strong position to win huge PPP road-building contracts. So tight is Basic Element's embrace with the Kremlin, it is practically a ministry of the Russian government.

The big gun in Deripaska's industrial arsenal is Rusal, which was formed last year by the merger of Deripaska's Russian Aluminium with SUAL, the aluminium business of another oligarch, Viktor Vekselberg, and the Russian metals assets of Glencore, Marc Rich's former company. The merger was personally approved, on television, by Putin, who has long called for the creation of 'national champions' to project Russia's economic muscle into the global economy.

Now, Deripaska wants to move to the next level. Rusal is preparing for an IPO on the London Stock Exchange, possibly as soon as November. Rusal doesn't just want to

be the first Russian company to list on London's primary market, it wants to be the first Russian blue-chip: 'Getting into the FTSE100 is the top prize, ' says one banker working on the IPO.

The company plans to float a 25 per cent stake, which could raise as much as \$10 billion - the biggest-ever foreign listing of a Russian company. This would give **Deripaska** the fire-power to continue an extraordinary run of acquisitions: in the last six months, he bought a Canadian car-parts maker, Magna (\$1.5 billion), and a Russian oil company, Russneft (\$3 billion), as well as the Strabag stake, and more. He's also rumoured to have bought 5 per cent of General Motors, and to have approached Ford about buying Land Rover and Jaguar. There is speculation that after the IPO, Rusal might bid for Alcoa or Alcan or buy out the Russian shareholders of Norilsk Nickel, the world's largest nickel company, who are thought to be less in favour with the Kremlin.

What could stand in **Deripaska**'s way? As with other Russian businessmen looking to go global, his past may come back to haunt him. He started off as a young metals broker, and was spotted by a Jewish entrepreneur from Uzbekistan called Michael Cherney, 15 years his senior, who met him at a Metals Bulletin conference in London and was impressed by his drive and vision. Cherney says he helped finance **Deripaska**'s acquisition of the Sayansk smelter in Siberia, and the two set up a 50/50 holding company for the smelter, called Sibirsky Aluminium.

The aluminium industry in Russia in the mid-1990s was rough terrain. It was here that the mafia diversified beyond their usual areas of business and made a bid to go mainstream. Violent battles were fought over smelters around Siberia. When I visited one in Krasnoyarsk, now owned by **Deripaska**, my guide pointed to the hotel car park and said, 'Here's where the car bomb exploded.' Our young metals broker was not intimidated. As Vladimir Zhukov, metals analyst at Alfa Bank, says: 'Many people were killed during the **aluminium wars**. **Deripaska** survived, and won.' One by one, his rivals were either arrested or sold their assets to **Deripaska** or a rival aluminium firm, Sibneft, controlled by Abramovich and Boris Berezovsky. Sibneft and Sibirsky eventually merged in 2000 to create Russian Aluminium, in negotiations in which Cherney says he played a key role.

What happened next is subject to vigorous dispute. A spokesman for **Deripaska** says he 'has never had a business partnership with Mr Cherney', whose claims are too 'spurious' to merit detailed response. 'This person had no relation to my business, ' **Deripaska** himself told the FT earlier this year, in an interview in which he also summed up his own career: 'I was lucky. Just consider that everything fell from the sky.' Cherney says it was all a bit more complicated than that. His version is that shortly after the creation of Russian Aluminium, **Deripaska** told him that the new Putin regime did not look favourably on Cherney (by then living in Tel Aviv) and it would be better if his name were taken off the shareholder register. **Deripaska**, according to Cherney, said he would hold Cherney's assets for him in trust. Cherney says: 'I placed complete trust in **Deripaska**. I would describe our relationship as akin to one of father and son.'

The Cherney version continues: **Deripaska** and Cherney met a year later, and Cherney mentioned he was considering selling his 25 per cent stake in Russian Aluminium.

Deripaska said he wanted to buy the stake himself. The two worked out a deal, Cherney claims, whereby Deripaska would buy 17.5 per cent of Sibirskiy Aluminium for \$150 million plus \$100 million of its debt, and then buy Cherney's remaining stake in Russian Aluminium within three years, at market price. The deal was, he says, witnessed and signed in a London hotel. Deripaska admitted to the EBRD, when it made a loan to Rusal in 2006, that he had bought 17.5 per cent of Sibirskiy Aluminium for \$150 million in 2001 from Cherney.

Then a year later, Cherney says Viktor Vekselberg offered to buy both Cherney and Deripaska out of Russian Aluminium for \$3 billion. Cherney asked Deripaska to consider the deal, but Deripaska told Cherney 'he had always dreamed of managing a business of this size and therefore did not want to sell'.

After that, Cherney says, 'Deripaska . . . did not return my calls.' Cherney is now trying to sue Deripaska for 20 per cent of Basic Element, worth perhaps \$6 billion. He attempted to serve suit last year, but a London judge ruled that it had been improperly served, because Deripaska did not habitually live or do business at the address where it was served and because it was handed to a bodyguard, not to Deripaska himself. Cherney appealed, and in the High Court on 8 August he won the right to bring the case again within four months, which he is expected to do.

This is awkward for the IPO. Disputes over ownership are nothing new in Russia. As Zhukov of Alfa Bank says: 'Many Nineties-era owners have skeletons in their cupboard.'

The difference is perhaps the size of the skeleton in this instance.' The bankers working on the IPO, including Morgan Stanley, Goldman Sachs, Deutsche Bank, JP Morgan Cazenove, Credit Suisse and UBS are feeling the heat, because Rusal is going for a listing of ordinary shares, as opposed to a GDR listing like every previous Russian offering.

An ordinary listing opens an IPO to a much broader investor base, including FTSE tracker funds. Bankers say if Rusal wants to raise billions of dollars from foreign investors, an ordinary listing is 'virtually the only option'. But many FTSE investors will never have bought Russian shares before, and will not be familiar with Russian business practices. So they might be caught offguard if a big dispute were suddenly to erupt.

As Reinout Keepmans of Deutsche Bank says: 'Ordinary shares tend to be distributed more broadly and hence some of these [disclosure] issues are more sensitive.' The dispute with Cherney poses no threat to the day-to-day running of Rusal but it raises obvious questions about Deripaska's multi-billion-dollar spending spree. It could yet derail the biggest IPO of the year - and Deripaska's attempt to join the super-league of global businessmen.