

WITNESS STATEMENT OF VLADIMIR MATVEEVICH DUBOV

1. My name is Vladimir Matveevich Dubov. I was born on 7 February 1958 in Moscow (USSR). I currently reside at 53 Hasadot, Kfar Shmaryahu, Israel.
2. I am submitting this written witness statement in proceedings before the Court of Appeal in The Hague, The Netherlands, which deal with the Russian Federation's request to set aside the arbitral awards handed down in favour of the former majority shareholders of Yukos. Previously, I have already been a witness in other legal proceedings relating to this case. On 15 September 2010, I submitted a written witness statement in the arbitrations and, in 2012, I appeared as a witness at the arbitration hearing in The Hague, where I provided oral evidence under cross-examination by lawyers for the Russian Federation. In March 2017, I submitted a written statement in proceedings challenging the recognition and enforcement of the said arbitral awards in France.
3. The lawyers of De Brauw Blackstone Westbroek N.V. ("**De Brauw lawyers**"), who represent the companies Hulley Enterprises Limited, Yukos Universal Limited and Veteran Petroleum Limited ("**HVY**"), asked me to respond to certain questions, some of which have already been touched upon in my previous witness statements. These questions relate to the process of privatisation of state property in Russia in the 1990s, the history and activities of Bank Menatep, the acquisition of the controlling stake of shares in Yukos in the 1990s, the relations between the new investors and leading managers of Yukos, the development of Yukos after privatisation, and, also, the attack on Yukos by the Russian authorities.
4. This witness statement has been prepared in response to the questions from De Brauw lawyers. I have carefully examined the content of this witness statement and confirm that everything stated in it is true.

1 INTRODUCTION

5. I was born in 1958 in Moscow. I grew up as an only child. My father was an engineer and then a director of The Experimental Bakery Products Distribution Facility in Moscow¹ in the USSR. He was very hard-working - worked 6 days a week for a moderate salary. My mother was a lecturer in a university and authored various school textbooks.
6. I graduated with a degree in chemistry from Moscow Lomonosov State University (MSU) in 1979. After that, I worked as a research chemist and then as junior researcher at the Institute

¹ A "full-cycle" enterprise for storage, processing and packaging of grain. Today it bears my father's name.

of High Temperatures of the USSR Academy of Sciences, where I also worked on my PhD thesis on the structure of monofluorides of rare-earth metals. Since the Institute did not pay particularly well, I built country houses during my vacations to earn some extra money.

7. In 1988, my work at the Institute focused on a database for thermodynamic properties of individual chemical substances called "IVTANTHERMO". The database was initially used by only one customer, which used the data for improving rocket fuel. At the same time, due to its unique characteristics, it allowed to conduct calculations, which were of interest to a wide range of specialists. The "IVTANTHERMO" database is still being used today.
8. Changes to legislation, which entered into force the same year, allowed us to sell our calculations to all interested organisations. In order to sell the database to other clients, we needed an intermediary to conduct the transactions. One of my former classmates from university worked at the time with Menatep and with Mikhail Khodorkovsky. Menatep was one of the few intermediaries with experience in the chemical science sector, so, upon receiving the agreement from the main customer and from the management of our Institute, we started working with them. I found Menatep's business very interesting, got acquainted with the people working there and then moved to work at Menatep. Although I finished the work on my PhD thesis at the time, because my focus fully shifted to my work at Menatep I ultimately never defended it.

2 BANK MENATEP

9. Bank Menatep's origins go back to the "Youth Centre for Scientific and Technical Creativity" ("NTTM") led by Mikhail Khodorkovsky in Frunze District of Moscow in the late 1980s. Such centres were one of the first corporate forms in the USSR. Soon after, NTTM was transformed into an enterprise called "Interdisciplinary Scientific and Technical Programmes", which was abbreviated as "Menatep". The first core commercial activity of Menatep was to conduct certain scientific projects for scientific institutes, such as its involvement with the "IVTANTHERMO" project, but the key focus areas of Menatep's activities changed with the course of time.
10. As of 1988, Menatep started to expand its business activities, for instance in information technology. It was forbidden for state-owned enterprises to buy personal computers abroad or from private persons. However, they were allowed to buy computers from commercial organisations. When a new law regulating incorporation and activities of the first private commercial organisations – cooperatives – came into effect, cooperatives were incorporated around Menatep, which then purchased computers abroad, Russified them, installed necessary software and subsequently sold them in the USSR. Menatep's good business relations with various organisations in connection with the activities described above, gave Bank Menatep access to a wide range of potential customers.

11. After changes to Soviet legislation in the late 1980s allowed for the creation of private commercial banks. Menatep established the "Commercial Innovation Bank for Scientific and Technological Progress" in late 1988 (this name was changed in 1990 to "Bank Menatep"). The state entities to which Menatep had previously provided services became some of the bank's very first clients.
12. One of the first unique services provided by Bank Menatep was the placement of security deposits: a buyer of services would place a deposit with the Bank. Upon submission of a "services completion report" signed by both parties, the Bank would then pay this amount to the service provider. These accounts were in substance "escrow accounts", but such definitions were unknown to us at that time. Bank Menatep was also the first bank in Russia to start issuing transferable deposit certificates, which was highly profitable during the times of crisis of non-payments, when prior economic ties had broken.
13. Later on, Bank Menatep extended the list of its banking services by starting to perform foreign currency operations in 1990. In 1991 Bank Menatep opened a correspondent account at Cr dit Lyonnais bank in France and was given a licence by the USSR Central Bank entitling it to provide all banking services in foreign currency. Back then, Soviet companies that were participating in foreign economic activity could export goods abroad. However, they were not allowed to hold current accounts in foreign currency, they only had off-balance accounts, which provided them with rights to use foreign currency. Bank Menatep was assisting such companies to convert said rights to cash funds in roubles. As part of such operation, Bank Menatep provided a company with a loan in roubles which was secured against rights to receive foreign currency. When such company failed to repay the loan, Bank Menatep foreclosed the pledged property and obtained access to foreign currency, which it was then free to use.
14. A broad range of unique and, for the USSR, innovative bank services allowed the Bank to increase its earnings, grow fast and develop. At the end of 1990, Bank Menatep conducted an initial public offering of a portion of its shares. This was the very first initial public offering in the USSR and people queued for hours to buy shares.
15. Around the same time, I became a good friend with Khodorkovsky, and then we became partners. At the time, the vast majority of people involved in business in Russia simply aimed to make profits which they then would quickly cash-out, because they simply did not believe that the freedom of entrepreneurship would last for long. Although Menatep was performing very well financially, Khodorkovsky was making sure that instead of distributing profits, all partners in Bank Menatep agreed to direct funds earned in accordance with a long-term development strategy. The people who didn't agree to this approach had gradually left the Bank. This is how Khodorkovsky, Platon Lebedev, Mikhail Brudno, Leonid Nevzlin and I became partners and core shareholders in Bank Menatep. We all agreed that we were in the business together for the long run. It was never our intention to get rich and live luxurious lifestyles. Our personal lifestyle did improve when our businesses started to grow, but we only lived from our salaries and did not pay any dividends to ourselves until the early 2000s. For a long period, we paid our senior accountants and specialists much more than we paid ourselves.

16. A positive atmosphere for employees at all levels was created at Bank Menatep (and later in YUKOS). Employees' conscientious attitude to work and great loyalty to the organisation were notable. They were paid good wages and enjoyed protected social rights. For example, in a case of sexual harassment, the perpetrator was always punished, regardless of his position, which was absolutely atypical for the Russian Federation. During the attack on YUKOS, hundreds of employees were interrogated by Russian law enforcement agencies and all but three refused to give false testimony against Khodorkovsky and other former company executives. Some of them paid for this refusal with their freedom (Pichugin, Pereverzin, Bakhmina and others), and the chief lawyer of YUKOS Vasily Aleksanyan - with his life.

3 THE PRIVATISATION PERIOD

17. My role at Bank Menatep varied over time. I was the Head of the Securities Department, the Head of Foreign Currency Department, the Director for Development, and then the Director for Commerce. In 1992, I became Deputy Chairman of Bank Menatep's Board of Directors and Deputy Chairman of its credit committee. During the 1990s, I also supervised the bank's privatisation division. In these roles, I was personally involved in the privatisation of dozens of state-owned companies. I will discuss the privatisation in more detail below.

3.1 The transition from state-planned economy to market economy

18. Already in the second half of the 1980s the Government of the USSR started implementing reforms that were aimed to transition from a state-planned economy to a market economy. By then, the state-planned economy was failing, and the country had developed a substantial "shadow economy". Many people had off-books jobs on the side only to sustain themselves and their families (like my job constructing country houses). The reforms were aimed, among other things, at creation and regulation of private entrepreneurship and at introducing amendments to corporate legislation.
19. Privatisation of state-owned assets was also part of the transition to a market economy. Preparation for privatisation in Russia began at the end of 1991 and the process of privatisation itself was commenced by the Government of the Russian Federation in the beginning of 1992.
20. Prior to selling shares of enterprises to their employees or to the public, such enterprises were transformed into shareholding companies. Most of such newly created companies were in fact factories or other non-self-sufficient production facilities with no infrastructure for the procurement of necessary materials and for the sale of ready products, as these parts of their operation had been previously handled by central state bodies.
21. Following the decentralisation of the Russian economy and its transition to a market model, most enterprises could not function properly as they stopped receiving instructions or, in fact, any assistance from central state planning bodies. The management of these newly created

companies lacked the skills and expertise necessary to build a relationship with suppliers and prospective clients. In addition, newly created companies were practically lacking proper financial planning and financial management.

22. The managers of such enterprises were usually people with a Soviet mentality, and therefore they were not only unprepared for the new economic reality but were also often opposed to it. The ideas of private ownership, corporate growth and generation of profits were completely alien to them. Many of them longed for a return to Soviet times. Many redirected the cash flows of the enterprises they were appointed to lead to their own companies, thus depriving those enterprises of profits while lining their pockets.
23. A large number of major companies in Russia run by these managers were located in various regions of Russia. Those enterprises were often based in one-company cities, in which they were the biggest employer in the community. They therefore had a decisive effect on rates of employment and the functioning of the infrastructure and social welfare of the city. The fortunes of the entire city were tied to the success or failure of such enterprise, especially in cities located in severe climate zones. The managers of those companies had tremendous standing in their communities and, naturally, had the support of the municipal administration, the local population and the company's workers.
24. The main objectives of privatisation were not only the receipt of funds from the sale of shares to private persons and companies, but, to a larger extent, to facilitate regular payments of taxes and duties by companies to be privatised and to release the state of its obligation to provide additional financial means to loss-making companies to cover payments of wages to their employees.
25. Privatisation got underway with the sale of small- to medium-sized enterprises via a mass privatisation programme. In October 1992, each citizen of Russia received from the Government a privatisation bearer cheque with a nominal value of RUB 10,000 ("voucher"). Russian citizens could use said vouchers to buy shares via privatisation auctions. They could also sell these vouchers for money or exchange them for a share in a voucher investment fund. These investment funds would themselves decide which companies on the privatisation list these vouchers would be used to purchase shares in. By the end of July 1994, over 100,000 small- to medium-sized enterprises had been partly privatised via such "voucher privatisation".
26. Starting from July 1994, when the pace of voucher privatisation slowed down, "monetary" privatisation started. In the course of monetary privatisation, shares of enterprises were sold either to employees or to the population via so-called investment tenders, commercial tenders, and commercial and specialised auctions.

3.2 Bank Menatep's privatisation activity

27. In late 1991, I participated in an international conference that took place in Germany in order to study and gather a better understanding of privatisation processes, both in theory and in practice, based on the experiences of other East European countries. It was there that I learned

about the two main methods of privatisation in the former GDR: (1) the acquisition of a company's shares by an outside investor and (2) the acquisition of shares by a company's own management, often with outside financing.

28. During the early stages of privatisation, Bank Menatep's principal activity was, as its name indicated, banking. The bank would provide financing (and, also, advisory services) both to company managers looking to acquire shares in the companies they ran, and to outside investors seeking to purchase shares in state-owned companies that were being offered for sale. This assisted the bank to develop its client base, as the investors who purchased enterprises with the bank's financial backing would often return as banking clients.
29. Bank Menatep assessed privatisation programmes that were prepared and put together by companies themselves and by the state authorities and monitored and studied the results of privatisations. One of the main conclusions made by us based on this experience was that in order to achieve success in privatisation, it was necessary to acquire a significant stake in a company and to build an effective management system to run the business.
30. When Bank Menatep had gained sufficient experience and understanding as to how to effectively manage privatised companies, it was decided that Bank Menatep would start acquiring shares for itself in companies being privatised.
31. Bank Menatep's privatisation business took off quite rapidly. The bank successfully introduced new management standards and restructured the production and sales practices of the acquired companies. Soon, it became clear that the bank's privatisation activities were outpacing its banking activities. The several dozen companies shares in which were acquired by Bank Menatep spanned various industries. I personally sat on the boards of some of those newly privatised companies during 1992 to 1999 (including RK Rostekstil (600,000 employees), Mosmontazhspetsstroy (more than 35,000 employees), Glavmosstroy (100,000 employees), Nefteexport (former name Soyuznefteexport, that used to hold a monopoly on the export of oil from the USSR), Prodintorg (that used to be a monopolist in the import of food products in the USSR), Roskontrakt (more than 100,000 employees), Mospromstroymaterialy, Centrakademstroy, AVISMA and OAO Apatit).

3.3 Relations between Bank Menatep and management of the privatised enterprises

32. The decision as to which companies' shares would be included in the privatisation programme was taken by The Russian Federation State Property Management Committee ("GKI"). However, the GKI was not providing any information about companies' financial positions and was not answering questions potential investors were interested in. The result was that we, as all other potential investors, had to engage in talks with companies' management in order to receive detailed and credible information on the companies' financial position. The situation with Yukos was no exception (see below).
33. These discussions would also allow us to learn about the management's attitude towards privatisation as a whole and towards possible cooperation with us as potential buyer. As a rule,

we always tried to agree on a long-term cooperation and ensure that management was interested in the company's future development and success. This agreement gave us confidence that the company's management would not hamper the privatisation process and would help us to make the privatised company profitable. We certainly understood that a privatised company's management could promise its cooperation to a number of potential investors.

34. If we acquired a company without opposition from, or with the support of, the incumbent management, we would consider this a friendly takeover. Sometimes we had to acquire a privatised company even when its key managers were actively opposed to it. In our opinion, this was a less preferable option, as in such case it was to be seen whether management would be willing to implement our development strategy for the company. In the case of a lack of cooperation from the side of management following the privatisation, we needed to find new management (which was very complicated, and sometimes practically impossible, at that time), there was also a risk of long-lasting court proceedings, which would substantially increase the risks related to the company's acquisition.
35. Generally, the dialogue and subsequent cooperation agreements between potential investors and the management of companies were both in the interest of the investor and in the interest of the Russian Federation itself. Considering that investors would have to invest millions and sometimes even hundreds of millions of dollars in the companies, providing investors with a possibility to interact with the management in order to get information about the company and to discuss a cooperation, increased the chances of investors' participation in tenders for the acquisition of such companies and their willingness to pay a better price. After all, the better an investor's knowledge about a company was, the better the investor would be able to ensure that the invested funds would be used effectively. Keeping the same senior managers, specialists in their areas (engineers, geologists and in some cases general directors) in the company also increased the chances that the company following its acquisition would ultimately become profit-making. All this also assisted the Russian Federation and the regions where the companies were located to increase the volume of tax revenues (which was one of the fundamental objectives of privatisation, as I mentioned above), as well as the companies' workforce to whom a timely and full payment of wages and an improvement of labour conditions were guaranteed.
36. As a result of the Russian Federation's interest in the success of the privatisation process and subsequent growth of privatised enterprises, such contacts were openly encouraged both by the Government and by other state bodies involved in the privatisation matters, whose representatives sometimes organised such meetings and took part in the discussions between the potential investors and incumbent management.
37. Cooperation agreements with managers of various companies acquired by us were often concluded orally rather than in writing. Oral agreements and lack of written contracts were a common practice within Russian business community at that time. For example, my own share in Bank Menatep was also based on an oral agreement with Khodorkovsky and other partners.

Our partnership agreements and our stake in joint business were not formalised in writing until late 1997, when GML was incorporated. In particular during the privatisation process, managers wanted to avoid social tension among a company's staff caused by other employees, be it of senior, middle or junior level, with whom no such agreements were concluded. There was still a strong Soviet-era mentality amongst companies' employees, which implied that everything should be shared equally. Managers therefore wanted to avoid written agreements that could fall into the wrong hands and could subsequently lead to negative consequences for them.

4 BANK MENATEP'S ACQUISITION OF YUKOS

4.1 The privatisation of oil companies and the Loans-for-Shares programme

38. The privatisation of major oil companies was defined by the decree issued by the President of the Russian Federation in 1992, under which a certain percentage of shares in the biggest oil companies due to be privatised would remain State property for three years after their incorporation. YUKOS was one such company. It was incorporated as an Open Joint-Stock Company ("OJSC") on 15 April 1993. For the ensuing three years, 45% of its shares, held by the Russian Federation, could not be privatised. Moreover, the Federal Law "On The Federal Budget for 1995" stipulated that there would be no early sale of blocks of shares in oil companies that had been allotted to the State, such as YUKOS.
39. In the beginning of 1995, the Government of the Russian Federation was badly in need of funds and was trying to find additional sources to replenish the state's budget. Roughly at the same time when the Federal Law 'On the Federal Budget for 1995' was adopted, the Government agreed to consider a proposal advanced by Vladimir Potanin, President of United Export Import Bank ("ONEXIM-bank"), the essence of which was that the Russian Federation would auction the rights to enter into loan agreements with the Government, secured by pledges over the Russian Federation's shares in major state-owned companies, including some oil companies (the so-called "Loans-for-Shares auctions"). On 31 August 1995, the Loans-for-Shares-auction programme was adopted by Presidential Decree.
40. Whether to participate in a Loans-for-Shares auction was not an easy decision for any potential investor. Foreign investors were hesitant to invest in Russian enterprises given the economic and political uncertainty at the time. The amount of cash available on the Russian financial market was limited. Only banks were capable of accumulating sufficient capital. In some cases, the banks confined themselves only to funding and did not participate themselves in the auctions, as for example in the cases of LUKOIL and Surgutneftegas. In those cases, the investors were managers of the companies themselves. The authorities were perfectly aware of this.
41. Beside difficulties with finding sufficient capital in order to participate in Loans-for-Shares auctions, potential investors also had to take various additional risks.

- (i) In accordance with the Presidential Decree of 31 August 1995, the Loans-for-Shares auctions were to be held within a very short timeline – everything had to be completed by the end of 1995, i.e. within 4 months. Accordingly, potential investors (including Bank Menatep) had very little time to collect information about a company and its financial position. Available information was extremely limited and superficial. Under those circumstances it was practically impossible to carry out a proper “due diligence”.
- (ii) In 1995, the political situation in Russia was extremely unstable. Parliamentary elections were set to take place in mid-December 1995 and the presidential elections were scheduled for June 1996. The communists, who were considered to be favourites in the election race, had called for undoing the results of the privatisation of strategic companies, especially those in the energy and natural resources sectors, like Yukos. There was a general understanding in the Russian business community that, should the communist candidate win the presidential election, the companies acquired during the privatisations would be re-nationalised without compensation, i.e. confiscated. Those fears were partly confirmed only a few days after the Loans-for-Shares auction and the investment tender for Yukos shares had taken place, when the 17 December 1995 parliamentary elections led to the Communist Party becoming the largest party in the State Duma. The majority of people both in Russia and outside of Russia then expected that the Communist Party leader, Gennady Zyuganov, would also win in the upcoming 1996 presidential election.
- (iii) In most cases, state-owned companies lacked qualified managers in the area of financial management, personnel management and project development. In addition, as Soviet-era companies they were not “commercial” enterprises in any ordinary sense of the word, as I have explained above. Accordingly, the new owners of those companies risked encountering difficulties in the organization of the efficient management of their commercial activities.

4.2 Bank Menatep was approached to participate in Yukos' privatisation

- 42. In 1992, Menatep-ImpEx, a company within the group of companies connected with Bank Menatep, participated in a joint business project with a company called Yuganskneftegas (about one year later, Yuganskneftegas was integrated into the newly formed Yukos Oil Company, becoming its core production company). At that time, there was a serious shortage of sugar supply in Russia. Traditionally, the Soviet Union imported large volumes of sugar from Cuba, but in 1992, the Russian Government had no financial resources to finance necessary sugar supplies. Cuba, in turn, was badly in need of oil and oil products, which it used to buy from the USSR, but Cuba likewise had insufficient funds to finance those. The situation was solved by an agreement between the Russian and Cuban Governments, which provided for the supply of Russian oil and oil products to Cuba in exchange for sugar. As Russian foreign trade organisations were not capable of carrying out all the necessary tasks for the implementation of that agreement on their own, it was decided to engage private companies as sub-contractors. Menatep-ImpEx was one of the winners of the tender organised to this end by the

Russian state authorities. The tasks of Menatep-ImpEx included the procurement of oil and oil products in the domestic market, their transportation to Cuba on the basis of an export quota provided by the Russian Federation for that purpose and the transportation of sugar from Cuba, its distribution and sales in various regions of the Russian Federation.

43. As part of identifying a potential supplier of oil and oil products, Menatep-ImpEx approached various Russian oil companies. Yuganskneftegas was the only company that agreed to participate in that project on reasonable terms. As a result of this cooperation, the head of Menatep-ImpEx, Mr Andrey Glagovsky, established a good business relationship with Mr Sergey Generalov, financial director of Yuganskneftegas (who later on became financial director of Yukos). The cooperation on that project continued after Yuganskneftegas became part of Yukos from the moment of its incorporation in 1993.
44. At some point in the summer of 1995, Mr Glagovsky informed my partners and me that he had been contacted by Mr Generalov to discuss the possibility of Bank Menatep's participation in the privatisation of Yukos.
45. Mr Generalov explained that the Government was planning to hold auctions and tenders, where a controlling block of shares in Yukos would be sold or transferred under the control of private investors. He explained that the Government and Yukos' management were trying to identify a strategic investor that would not be interested in extracting short-term profit but would see the company as a long-term project and would be willing to invest additional funds and effort into its development and overhaul.
46. In order to obtain information about Yukos, its financial position, the value of its shares and the amount of investment necessary to turn the company into a profitable enterprise, we entered into a dialogue with Yukos' management as well as with the state bodies responsible for the implementation of the privatisation process. At about the same time, on 31 August 1995, the Presidential Decree setting out the Loans-for-Shares programme was published. I thought the programme in general was extremely high-risk for the reasons I have explained above. Most importantly, I found the political and economic risks too significant.
47. Initially, I and some of my colleagues and partners were sceptical about the idea of acquiring Yukos shares (both in ownership and as collateral for a loan to the Russian Federation). I personally was against that idea. This was a very risky investment considering that Yukos was arguably on the verge of bankruptcy and that Bank Menatep had no experience in running an oil company. The debts of Yukos and its subsidiaries, including tax arrears and unfulfilled obligations vis-à-vis various suppliers and the company's employees as to the payment of their wages, were in the hundreds of billions of roubles. At the same time, Yukos was failing to obtain the timely repayment of debts from its clients to whom it was supplying oil and oil products. One of Yukos' major debtors was the Russian Federation itself, which was not paying for fuel supplies to the Russian army and other state customers. An additional problem was the fact that the company was in serious need of servicing, modernising and replacing its equipment, which was impeded by its lack of funds.

48. On top of all of this, there was a substantial risk that the communists would return to power and would reverse the privatisation results, without payment of any compensation (as I explained above). The political and economic risks were further compounded by the fact that the high starting prices in the Loans-for-Shares auction and investment tender in relation to Yukos meant essentially putting all funds that Bank Menatep had into one project.
49. There were, however, those, including Mikhail Khodorkovsky (the Chairman of the Board of Directors of Bank Menatep at the time) who considered the idea worth pursuing. After inquiry, we decided that Yukos was a good, albeit risky, investment: the company had valuable assets, notably access to large oil reserves and an experienced workforce. However, as I have already mentioned, the company was in poor financial shape and additional funds were needed to ensure a higher quality technical servicing and modernisation of production and operating equipment. This combination of strong fundamentals but poor financial performance meant that Yukos was in need of a better financial management.
50. Ultimately, we decided to participate in the privatisation of Yukos because we believed we could rescue Yukos and turn it into a profit-making company. We realised the magnitude of the risk, but we also understood that in the event of success, the reward would be significant. We had experience in successfully turning companies into profit-making enterprises, which was beneficial not only for Bank Menatep, but also the companies' employees.

4.3 Bank Menatep's participation in the Loans-for-Shares auction and tenders for Yukos shares

51. Once the decision to participate in the Loans-for-Shares auction for Yukos was taken, Bank Menatep started to accumulate capital. This was not an easy task given the limited availability of cash funds in the market.
52. On 4 November 1995, the Russian Federation officially announced that the Loans-for Shares auction and the investment tender for Yukos shares would be held on 8 December 1995.
53. Bank Menatep requested secretarial company RTT (Russian Trust and Trade) to register two holding companies ("ZAO Laguna" and "ZAO Reagent"). Both companies were registered on 21 November 1995, at the same address. ZAO Laguna and ZAO Reagent submitted applications for participation in the Loans-for-Shares auction as well as in the investment tender in conformity with the published requirements. The applications were secured by a guarantee provided by Bank Menatep and a USD 350 million deposit into the Russian Federation Finance Ministry's account with the Central Bank of the Russian Federation. This deposit was made by Bank Menatep.
54. Although the Loans-for-Shares auction and the investment tender were open to all-comers, an interest to participate was expressed by only one additional investors' consortium (representing the interests of Alpha-Bank, Inkombank and "Rossiysky Kredit" Bank). The application on behalf of this consortium was submitted by "AOOT Babayevskoye", a confectionery factory. After said consortium was unable to transfer the security deposit

required to participate in the investment tender, the investment tender committee had resolved to deny the registration of its application, and "Babayevskoye" officially withdrew from the Yukos Loans-for-Shares auction. As a result, the only participants left were Laguna and Reagent.

55. It was public knowledge that the companies Laguna and Reagent represented Bank Menatep's interests. Before the Loans for Shares auction and the investment tender in December 1995, Bank Menatep had officially announced its plans to acquire a controlling stake in Yukos. As I stated above, Bank Menatep also acted as guarantor for Laguna and Reagent. In accordance with the rules applied to the Loans-for-Shares auctions, the winner of the auction was entitled to assign the right to grant a loan to the Russian Federation to its guarantor. Bank Menatep's role as the guarantor was yet another confirmation that both companies represented its interests.
56. I was personally present as Bank Menatep's representative at the Loans-for-Shares auction and the investment tender for Yukos shares on 8 December 1995. After the auction and tender, Mr Alfred Koch (acting chairman of the GKI) personally congratulated me on Bank Menatep's acquisition of Yukos shares. During the press-conference organised by the Government immediately following the auction and tender, Mr Koch and Mr Vladimir Sokolov (chairman of the Russian Federal Property Fund("RFFI")) officially confirmed that they were aware that the winner represented the interests of Bank Menatep. This fact was also widely covered in the press. A few months later, we separately mentioned Bank Menatep's victory in the Loans-for Shares auction and the investment tender for Yukos shares in Bank Menatep's 1995 annual report as one of the milestones in the Bank's development.
57. In 1996, the Russian Federation defaulted on the loan it had received as a result of the Yukos Loans-for-Shares auction. As a consequence, on 1 September 1996 Bank Menatep became entitled to sell the pledged shares through a commercial tender.
58. On 20 November 1996, the Government announced that the commercial tender with investment conditions for the pledged Yukos shares would be held on 23 December 1996. By that time, the pledged block of shares constituted 33.3% of Yukos' total shares. (having been diluted from 45% as a result of the issuance of additional shares by the company in 1996). In accordance with the terms set by the Government of the Russian Federation in connection with the Loans-for-Shares auction programme, Bank Menatep acted as commissioner in that tender.
59. Similar to the Yukos Loans-for-Shares auction and investment tender of December 1995, two companies ("ZAO Monblan" and "OAO Moskovskiy pischevoy kombinat") representing the interests of Bank Menatep's shareholders participated in the commercial tender in relation to Yukos shares. The applications for the commercial tender submitted by these companies were secured by a guarantee provided by Bank Menatep. Despite the fact that the tender was open to all-comers, there were no other participants. As in the case of the Loans-for-Shares auction and investment tender in 1995, and for the above-mentioned reasons, the Government was

fully aware that "Monblan", which had won the commercial tender, represented the interests of Bank Menatep's shareholders. It was also known that the company "Moskovskiy pischevoy kombinat" was controlled by Bank Menatep.

5 AGREEMENTS WITH YUKOS' KEY MANAGEMENT

60. As I have explained above, Bank Menatep always tried to agree on a future cooperation with the managers of the companies it acquired, and Yukos was no exception. While Bank Menatep had the expertise in management and financial structuring required to make Yukos profitable, it was also in need of managers who would bring with them industrial expertise, which was essential for effectively running the company. At that time in Russia, it was practically impossible to find top-level managers to run a company like Yukos. Also, as the new owners, we needed trust and support of the workforce and strong relationships with local authorities in the regions that key managers already fully enjoyed.
61. Of the top managers who continued with Yukos after the privatisation, four were key. Sergey Muravlenko, the president of the company, had the respect and support of the local authorities, along with the Yukos workers. Viktor Kazakov was in charge of oil production and refining and was the leading oil engineer and main technical expert at the company. Viktor Ivanenko was in charge of security and public relations and had worked in the region for years. Finally, Yury Golubev was the chief adviser to Muravlenko and was Yukos' international trade specialist. As far as I can recall, he had worked previously as a Soviet trade official in Canada. He spoke English well and had wide business connections abroad.
62. While I was not personally involved in those discussions, I discussed the arrangements that were reached with Yukos' key managers with other members of Bank Menatep's Board and with Mr Ivanenko. Although I am not sure whether the concept of stock options existed at the time in Russia, the arrangements with these four top managers were in essence stock options, similar to those issued in the West to existing management by new shareholders. The arrangements reached with management were the following: if Yukos was turned into a profitable company, the managers would have a share in this success by way of an interest in the future of the company. This would recognise their efforts to keep the company afloat and set the framework for its future success and also incentivise them to remain and keep working for the growth of the company.
63. I do not recall how the exact details of the arrangements were worked out, but no monetary amount was ever agreed. Back then, no one could predict Yukos' future or what the price of Yukos' shares would be. The ultimate result was that the four managers together would receive 15 per cent of the proceeds of the future sale of the acquired Yukos shares. In other words, the amount to which these managers would eventually be entitled depended entirely on the share price of Yukos. As I recall, shortly after its privatisation, this price was very low. The share price went up in 1997, but then again dropped drastically during the 1998 Russian economic crisis and as far as I remember by the end of that year the market capitalisation of Yukos was around

USD 100 million. Given the political and economic risks mentioned above, a stake in the company could have turned out to be worth nothing. Therefore, any allegation as to an exact amount of money “promised” is pure speculation.

64. In light of the uncertain future of Yukos, nothing was set out in writing at the time. The Communist Party was expected to win not only the parliamentary elections in December 1995, but also the upcoming presidential elections in the summer of 1996. Should this have happened, the results of the privatisations were likely to be reversed. This explains why Yukos' management was not at all eager to record the arrangements in writing. If the Communist Party returned to power, the existence of documentary evidence that the management had been collaborating with the so-called “capitalists” during the privatisation process, could be detrimental for their future careers, and possibly even their lives.
65. As I have explained above, oral agreements were a common practice in the Russian business community at the time. During privatisation, managers also wanted to avoid social tension among a company's staff that was still of the opinion that everything should be shared equally.
66. The stabilization of the Russian economy and the successful growth of Yukos at the end of the 1990s led to a decision to consider a listing of Yukos' shares on foreign markets. It was in this context that the earlier arrangements with the Yukos managers were put to paper. This was around the same time that Yukos became the first fully transparent company in Russia, it provided full disclosure of its shareholding structure, including the incumbent and prior managers' interests.
67. De Brauw's lawyers explained to me that the Russian Federation alleges that Bank Menatep paid “bribes” to Yukos' management for the purpose of manipulating the process and outcome of the privatisation, ensuring the acquisition by me and my partners of the company's shares against a price lower than the market price. This is not true.
68. The privatisation was run by the Russian Federation authorities, notably GKI and RFFI under the control of the Government and the President of the Russian Federation. Yukos' managers were not in a position to change the results of the privatisation (and we did not ask them to do so). Nor could Yukos' management dictate to the Government of the Russian Federation or other state bodies the terms and conditions for the pledge and sale of Yukos shares that had been state property. We perfectly understood and realised that.
69. I understand that Sergey Muravlenko sent a letter to First Deputy Prime Minister Anatoly Chubais suggesting that only those investors who were willing to participate in the investment tender should be able to participate in the Loans-for-Shares auction. The Russian Federation is now, twenty years later, trying to present this as proof of a supposed criminal conspiracy between Mr Muravlenko and Bank Menatep. I find this attempt to be nothing more than complete fiction. To my knowledge, nobody from Bank Menatep requested that this letter should have been sent. As Mr Muravlenko himself explained in the letter, the reason for his proposal was to ensure that there would be a strategic investor with a real interest in

developing the company, rather than someone intending just to make a short-term profit. Given the investment obligations it undertook and performed, Bank Menatep did have a real stake in Yukos' future, which it proved in the course of the following years.

6 THE DEVELOPMENT OF YUKOS AFTER PRIVATISATION

70. From 1992 to 1999, I held various high-level positions at Bank Menatep, Yukos-Rosprom and Yukos Moscow². From 1996 through to the end of 1999, I was Deputy Chairman of the board of directors of Yukos-Rosprom, and from 1998 through to the end of 1999, I was also a member of Yukos' board. I was thus closely involved in the development of Yukos after its privatisation.
71. After Bank Menatep first came to control a stake in Yukos at the end of 1995, we gradually started to get involved in the management of the company. First, we learned in detail about everything that was happening in the company and then started planning the concrete steps which were to lead to improving the situation in Yukos. From August 1996, we gradually moved managers from our management company Rosprom to Yukos.
72. Our findings confirmed what we had learned prior to the December 1995 auctions. The company was doing well in the technical and engineering divisions, along with the geological survey, thanks to its skilled oil and geological experts, led by Viktor Kazakov. However, many other aspects of the company had to be rebuilt and reorganized, for example:
- (i) Although Yukos was a vertically integrated company, each subsidiary was basically only pursuing its own interests. Most of the subsidiaries also had major debts and insufficient revenues, low profitability. They attempted to solve those problems by paying their expenses (electricity, transport, taxes, etc.) in oil or oil products instead of cash, thus only increasing their losses. We made sure all the operations were centralised under the parent company Yukos, so separate entities no longer could sell oil or oil products independently. Bank Menatep also extended credits to the subsidiaries so they could start paying for their expenses in cash rather than in oil or oil products.
 - (ii) We cut down Yukos' internal costs by restructuring, removing or outsourcing its inefficient parts and non-core businesses. For instance, we sold Yukos' own beer brewery, which was heavily loss-making. Another good example was the catering for the workers in the fields, which was handled by a catering facility with staff of more than 2,000 people, the cost of which to the company was enormous. We held a tender for professional catering services, engaged a professional service-provider and thus saved unnecessary costs.

² Yukos-Rosprom was a management company for downstream subsidiaries. Yukos Moscow was a management company of a higher level (parent company of Yukos-Rosprom) and a direct subsidiary of Yukos.

- (iii) In production we managed to heavily increase the so-called "oil recovery factor". In the USSR, the State expected oil production companies to reach an oil recovery factor of 24%. We managed to increase that to 65%, which meant that we basically more than doubled the efficiency. This was mostly due to innovation in the company's technology for which we also attracted leading foreign engineers.
 - (iv) We greatly improved employees' motivation. For instance, when Khodorkovsky was working in the field³, he found out that the clothing and the shift camps were not at all suitable for the low temperatures in the regions. Khodorkovsky devoted a lot of time and effort so that the company started providing the best quality special clothing and shift camps, which also greatly helped to solve problems with the workers' collective. Sets of clothes for both the winter and summer were specifically designed on the basis of clothing used in Norway. Those were very expensive with a wholesale price of around USD 400 per set, but it was all very much appreciated by the employees. In fact, workers started to wear their Yukos uniform outside work and at social events, simply because they were proud to work for the company. In addition, as described in my witness statement in the arbitrations, we started the "New Civilization" project for children in Nefteyugansk and other regions, which was inspired by the Scout Movement. Such things had a great impact on employee satisfaction, and in turn on Yukos. Yukos employees started to put their efforts into getting maximum value for the company, instead of trying to find ways to ease their own work (which was the common practice in the Soviet Union and thereafter in Russia).
 - (v) In the headquarters of Yukos and of its subsidiaries, we also introduced drastic changes. We removed all individual office rooms and created open work spaces. Only the higher managers had their own offices, but those had glass walls.
73. By the early 2000s, together with the members of the incumbent management we managed to consolidate the shares in the subsidiaries, consolidate shares into a single class and significantly bolster the assets of Yukos and its subsidiaries, the company was consistently performing well, was paying taxes and wages on a regular basis and was further developing and improving the processes relating to the production and refining of oil and oil products. It was clear to all that Yukos was on its way to becoming one of the world's biggest oil companies. I was no longer involved in the affairs of the company at that stage, having been elected as a Deputy in the State Duma in December 1999. Prior to assuming my seat in the State Duma, I resigned all my positions at Yukos and all other companies (and my interests were transferred to a trust).

³ Khodorkovsky himself spent 3 months working in Nefteyugansk in production to get to know and understand the company and the people who worked there. After that, every senior manager had to do the same.

7 MY MOVE INTO POLITICS

74. In February 2000, I was elected chairman of the tax sub-committee (part of the tax budget committee of the State Duma). I was also a member of the Russian Federation State Duma committee for reviewing subsoil use in conformity with production-sharing agreements. In 2001, I joined the collegium of the Tax Ministry on taxes and duties. In addition, I was a co-founder and member of the supervisory board of Open Russia, a non-profit organisation that was founded in December 2001, whose central aim was to build and foster a civil society in Russia.
75. I entered into politics because I wanted to further develop and protect the rule of law in Russia and contribute to the development of a more democratic society. For example, the lack of clarity and specificity in the legislation gave the state authorities too much power, because a lot was left to their discretion and depended on their own interpretation. My main objective was to create directly applicable legislation, in which the rights of both citizens and the authorities are strictly prescribed in the text of the law.

8 TRUSTS

76. By 2002, some of my former partners and I faced serious health problems. This caused us to think about possible scenarios where our shares in GML would be inherited by our family members. We started discussing this. We were all aligned that we would have to find a solution which would ensure the financial security of our families. At the same time, we also wanted to avoid a situation where our family members, who had no commercial experience, would find themselves in a position where they would have to make business decisions. We consulted about this with our lawyers, who advised that the use of trusts that would be managed by a professional and independent trustee would best serve our aims. We agreed and decided to set up the advised trust structure. We perfectly understood that by settling our shares in GML into those trusts, we were relinquishing not only ownership of those shares but also any control over GML. From the moment the shares were transferred, it has been the trustee that had all rights to manage the shares in GML, and make all decisions concerning the trusts' assets.

9 THE ATTACK ON YUKOS

77. On 27 October 2003, in the wake of the attacks organised by the Russian authorities on Yukos, and two days after the arrest of Mikhail Khodorkovsky, I was invited to the Kremlin by Vladislav Surkov, the Deputy Chief of Staff of the Russian Presidential Administration. Mr Surkov told me that President Putin himself had personally insisted that my name be taken off the "United Russia" list of candidates for the upcoming elections to the State Duma. This was a blatant violation of the law, because in September 2003 I was approved as a candidate by the "United Russia" party conference. Mr Surkov said that since this had been done at the order of President Putin himself, he could not do anything and had to carry out the orders which he had

been given, although prior to the party conference Mr Surkov gave me his word that there would be no provocations. To some extent, Mr Surkov apologised to me for not being able to keep the promise he made to me.

78. During that meeting Mr Surkov advised me to leave the country. He explained that “Putin had gone absolutely berserk over Khodorkovsky” and that in his opinion the best and the safest solution for me was to leave the country. To my question as to what would become of Yukos, Mr Surkov answered: “Yukos will be taken back”. The same day I left Russia for Israel where I now reside. I have not been to Russia since then.
79. The Russian authorities considered Yukos’ success, coupled with the perception of Mikhail Khodorkovsky as a political rival, as a threat and made a decision to destroy the company and imprison my former colleagues associated with it. Aiming to justify its own illegal actions and the theft of Yukos’ assets, the Russian Federation created dozens of false criminal charges against my former colleagues and me, which also became the basis for sham trials. These same threats of trumped-up criminal charges were one of the reasons that forced me to flee my home and I have not been able to return since. It is not surprising that the Russian authorities still continue to invent and falsify new allegations in their attempt to avoid paying compensation for those unlawful actions.
80. In a way, as the result of Russian authorities’ actions, all who were ever involved with Yukos, including me, will have to spend their whole lives proving their innocence. In particular, when the attack on Yukos had just commenced, many saw criminals in us. The Russian authorities put enormous effort and dedicated very significant resources not only into the destruction of Yukos, but also into their attempts to destroy my former partners and me personally. For example, in February 2005 when I was invited to visit Washington (together with Mikhail Brudno) to take part in the National Prayer Breakfast, I learned from the press that the Russian Federation had requested that an Interpol “red notice” be issued against me. I was made guilty without having been given a chance to prove my innocence.
81. My name was removed from the Interpol list after Interpol had acknowledged that the criminal case against me was politically motivated. Apart from that, the Prosecutor’s Office of Lithuania dismissed the request submitted by the Russian Federation in 2010 that I be extradited, finding the Russian Federation’s allegations against me to be politically motivated and concluding that there was a genuine risk that I would not receive a fair and just trial in Russian courts. The prosecutor’s decision to deny extradition was confirmed by a Lithuanian court.
82. In a way, HVY’s success in the arbitrations helped to clear the names of the persons involved with Yukos. However, I understand that in the proceedings before the Court of Appeal in The Hague, the Russian Federation is again trying to portray me as a criminal. I hope that this witness statement will help the Court to understand that these unfounded allegations are plainly false.

83. To me, this case remains very much personal and political. Exposing the truth and ensuring that the rule of law prevails, as well as refuting clearing the false allegations made against my former partners and colleagues and me, has always been my motivation to provide witness testimony and appear before the courts and tribunals. Over the past decade, I have met with various lawyers of HVY in different countries to which I travelled. Everything I have done to assist the lawyers has been done at the expense of my own money and time.

10 AFFIRMATION

84. This witness statement is truthful and contains description of my recollections. Accordingly, I am prepared to confirm its content under oath.

This statement was given in: */London/*

Date: */29 January 2019/*

Signature: _____*/signature/*