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To the Chairperson of the Investigative Committee
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Class 1 State Counselor of Justice
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To the Director of the Main Investigation Department of the RF Investigative Committee
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**Report on the crime - theft by the executive officers of Inspectorates of the
Federal Tax Service No. 25 and No. 28 for the city of Moscow of 3 billion rubles
from the Russian treasury on the pretence of refunding the income tax to LLC
Financial Investments and LLC Selen Securities in March 2006 – March 2007.**

We act in the interests of Hermitage Capital Management Limited (hereinafter referred to as Hermitage) – the investment consultant of the Hermitage Fund (hereinafter referred to as the **Hermitage Fund**) and the two investment companies of HSBC Private Bank (Guernsey) Limited (hereinafter referred to as **HSBC**), the Hermitage Fund's trustee - the Cypriot Glendora Holdings Limited (hereinafter referred to as **Glendora Holdings**) and Kone Holdings Limited (hereinafter referred to as **Kone Holdings**), which are the founders of the three Russian investment subsidiaries: LLC Rilend (**Rilend**), LLC Parfenion (**Parfenion**) and LLC Makhaon (**Makhaon**) in various jurisdictions worldwide.

On behalf of our client we inform you about the detected signs of the crime (theft of the budgetary funds on the pretence of the tax refund based on forged documents) committed in 2006 by the same group of tax and law enforcement officers who **a year later**, in 2007, were involved in the illegal re-registration of the Hermitage Fund's Russian companies and the fraudulent theft from the Russian budget of 5.4 billion rubles paid by those companies as taxes.

Our client holds conclusive evidence that at the end of 2006 – beginning of 2007 **2,973,887,269.00 rubles** were stolen from the budget of the Russian Federation through the illegal approval by the executive officers of Inspectorates of the Federal Tax Service No. 25 and No. 28 for the city of Moscow of the tax refund to LLC Financial Investments (hereinafter referred to as Financial Investments) and LLC Selen Securities (hereinafter referred to as Selen Securities). The stolen funds were accumulated by the criminal group in a small Moscow bank – CB Universal Savings Bank.

At the beginning of 2006 at the time of paying the income tax to the Russian budget Financial Investments and Selen Securities were subsidiary Russian investment holding companies owned by Rengaz Holdings Limited (hereinafter referred to as **IF Rengaz**), a foreign

investment fund controlled by Renaissance Capital Investment Management Limited (hereinafter referred to as **Renaissance Capital**)¹. At the end of 2006 at the time of the illegal approval by the executive officers of Inspectorates of the Federal Tax Service No. 25 and No. 28 for the city of Moscow of the refund of the earlier paid taxes to Financial Investments and Selen Securities from the RF treasury these two companies belonged to Russian individuals.

We hold that investigating into this crime is of crucial importance not only because we speak here of another large-scale theft of budgetary funds committed by the executive officers of Inspectorates of the Federal Tax Service No. 25 and No. 28 for the city of Moscow in cooperation with other persons stated in this report as belonging to the criminal group, but also because the arrest, the detention in custody and the very death of the Hermitage Fund's lawyer Sergey Magnitsky in the Matrosskaya Tishina Detention Center proved to be directly rooted to the fact that not long before his illegal arrest (in November 2008) traces of the second, earlier committed crime were found and it was established to have been committed by the same group of persons who were involved in the illegal re-registration of the Hermitage Fund's companies and the theft from the budget of 5.4 rubles of taxes paid by those companies.

In this connection we insist on the immediate, comprehensive and impartial investigation into the facts associated with the possible involvement of the former and active executives of the tax authorities (Inspectorates of the Federal Tax Service No. 25 and No. 28 for the city of Moscow, headed by E.I. Khimina and O.G. Stepanova, respectively) in another crime – the theft of **2,973,887,269.00** rubles of the earlier paid taxes by the two Russian companies, Financial Investments and Selen Securities; we believe that such an investigation ought to be carried by neutral persons who are not in a conflict of interest, which would render the investigation incomplete and biased.

1. Information about the crime

During the period from March 2006 to March 2007 a criminal association allegedly comprising the executive officers of the two Inspectorates of the Federal Tax Service for the city of Moscow No. 25 (headed by E.I. Khimina, hereinafter referred to as **Elena Khimina**) and No. 28 (headed by O.G. Stepanova, hereinafter referred to as **Olga Stepanova**), the actual owner of CB Universal Savings Bank (hereinafter referred to as **Universal Savings Bank**) D.V. Klyuev who had been earlier convicted for fraud (hereinafter referred to as Dmitry Klyuev)², the lawyer A.A. Pavlov (hereinafter referred to as **Andrey Pavlov**) and other persons organized a theft of **2,973,887,269.00** rubles from the budget of the Russian Federation on the pretence of the refund of taxes of two companies – Financial Investments and Selen Securities.

This crime was revealed by the Hermitage Fund's lawyer Sergey Magnitsky during the investigation of a large-scale fraud against Hermitage itself and the Hermitage Fund, committed on the territory of Russia in the second half of 2007, in consequence of which three Russian companies were stolen from the Hermitage Fund (LLC Rilend, Parfenion and Makhaon, hereinafter referred to as **the Hermitage Fund's Russian subsidiaries**), against which fictitious obligations for 30 billion rubles were fabricated in the arbitration courts, on the basis of which 5.4 billion rubles (an equivalent of 230 million US dollars) that had been previously paid by the companies as the income tax were afterwards stolen from the Russian state budget and this illegal tax refund was approved by the same tax inspectorates –Inspectorates of the Federal Tax Service No. 25 and No. 28 for the city of Moscow.

¹Attachment 1. Extract from the IF Rengaz presentation.
Attachment 2. Extract from the annual report for 2004. IF Rengaz.
Attachment 3. Extract from the IF Rengaz Prospectus.
Attachment 4. IF Rengaz – information.

²<http://www.kommersant.ru/doc/690060?isSearch=True>

The two Russian companies, Financial Investments and Selen Securities which used to belong to IF Rengaz, came to Sergey Magnitsky's attention in connection with the analysis of operations of Universal Savings Bank (owned by Dmitry Klyuev, earlier convicted for the fraud with shares of Mikhailovsky GOK), which at the end of December 2007 illegally legalized the 5.4 billion rubles stolen from the Russian budget through the approval of the fraudulent refund of the taxes paid earlier by the Hermitage Fund's companies, and in connection with the analysis of the cases, held in various Russian arbitration courts with the participation of the lawyer Andrey Pavlov, under which it was held that the Hermitage Fund had non-existing debts, which enabled the corrupted tax executives (from Inspectorates of the Federal Tax Service No. 25 and No. 28 for the city of Moscow) to arrange for the illegal tax refund from the Russian budget.

Having inquired through the e-archive of the arbitration courts for the information about other cases held with the participation of the lawyer Andrey Pavlov, Sergey Magnitsky found out that a year before the lawsuits brought against the stolen Hermitage Fund's Russian subsidiaries in the arbitration courts of Moscow and Tatarstan Andrey Pavlov had appeared in the same courts for the defense in the identical fraudulent suits against two companies – Financial Investments and Selen Securities.

From the obtained files of the legal cases with respect to these two companies it followed that in March-April 2006 on behalf of five fly-by-night companies (LLC Prior subsequently assigned to LLC Megasel³, LLC Inter-Forum⁴, LLC Anri-Line⁵, LLC Poleta⁶, LLC Optim-Service⁷) at the Arbitration Court of the Republic of Tatarstan and the Arbitration Court of Moscow five lawsuits were brought against these companies for a total amount above 21.5 billion rubles (around 787 million US dollars), as a result, more than 12.5 billion rubles (around 460 million US dollars) were collected by these courts from the two companies – Financial Investments and Selen Securities.^{8 9}

The founders and directors of the fly-by-night firms that had brought suits in the courts were persons affiliated with Universal Savings Bank¹⁰: Yu.G. Makarov, the owner and a member of the Management Board of the bank, A.N. Sheshenya (see also page 11 of the Report)¹¹ and G.N. Plaksin, the Chairman of the Board of Directors of the bank¹².

The directors of the two defendants, i.e. Financial Investments and Selen securities, were Yu.A. Nesterenko and G.G. Akhmetdshin.

All the suits were held with the participation of the lawyer Andrey Pavlov, Dmitry Klyuev's partner since 2001. Pavlov appeared for the plaintiffs filing with the arbitration courts deliberately false documents.

³http://msk.arbitr.ru/?id_sec=348&id=503876

⁴http://msk.arbitr.ru/?id_sec=348&id=507770

⁵http://msk.arbitr.ru/?id_sec=348&id=503875

⁶<http://docs.pravo.ru/cases/view/3c77308f-d042-41da-b410-a893022d31fa/>

⁷http://msk.arbitr.ru/?id_sec=348&id=507769

⁸ Attachment 5. Decision on case No. A40-12329/06-45-117 by LLC Prior to LLC Selen Securities for recovery of 2,490,723,020 rubles of losses.

⁹ Attachment 6. Decision on case No. A65-6851/2006 by LLC Poleta to LLC Financial Investments for recovery of 10,105,039,188 rubles of losses.

¹⁰<http://www.burocrats.ru/cgi-bin/email.cgi?data=051219154756&rubrica=229>

¹¹ Attachment 7. LLC Poleta is owned by LLC Prioritet-M, Attachment 8. LLC Prioritet-M is owned by A.N. Sheshenya.

¹² Attachment 9. G.N. Plaksin – Director of LLC Optim-Service, the plaintiff under case No. A40-16204/06

In all the suits claims were validated according to one and the same scheme by using one-type forged documents. The fly-by-night companies demanded that the “defendants” compensate losses under allegedly unexecuted contacts on the supply of securities (RAO UES of Russia and JSCB Sberbank) and under agreements on compensation providing for the voluntary payment by the “defendants” – Financial Investments and Selen Securities – of the lost profit in the amount of several billion rubles.

In all the cases it was evident that the documents submitted to the courts and afterwards to the tax authorities (Inspectorates of the Federal Tax Service No. 25 and No. 28 for the city of Moscow) were forged and would stand no test. All the so-called plaintiffs claimed to have concluded multi-billion deals on the purchase of securities submitted zero statements and their “outstanding” operations with securities of Russian issuers were not reflected in their financial statements. At the same time, the “defendants” that were alleged to sell those securities had never held shares of RAO UES of Russia and JSCB Sberbank, which was reflected in their financial statements; moreover, they could not hold such shares because according to the Prospectus of IF Rengaz, which was the owner of Financial Investments and Selen Securities during the periods stated in the claims, the fund was allowed to buy on the Russian market shares of RAO Gazprom only. By a fairly strange coincidence, one of the fictitious contacts was signed on the part of LLC Financial Investments by Director L.V. Anisimova, who was the company’s director when the company belonged to IF Rengaz.

Despite all this, the directors of Financial Investments and Selen Securities (G.G. Akhmetshin, Yu.A. Nesterenko) stated in the arbitration courts that they “*acknowledge and fully agree with the stated claims and have no objections*”¹³. Based on these statements the arbitration justices M.A. Lopukhova (the Arbitration Court of Moscow) and I.I. Valiakhmetov (the Arbitration Court of the Republic of Tatarstan) delivered judgments in favor of the false plaintiffs represented by the lawyer Andrey Pavlov without hearing the cases on the merits, and in this way produced false financial liabilities of Financial Investments and Selen Securities.

Unlike the Hermitage Fund, which submitted to the law enforcement bodies dozens applications to initiate criminal cases immediately after it discovered the illegal re-registration of its companies and learnt about the decisions fabricated against it in the arbitration courts, neither Financial Investments and Selen Securities nor IF Rengaz, which had earlier owned them, nor Renaissance Capital, which controlled the very IF Rengaz, never filed, as far as we know, for the misappropriation of their companies or for fabricated liabilities or theft of the taxes paid by these companies.

Apparently, practically at the same time when they fabricated the court decisions, the directors of Financial Investments and Selen Securities, who had produced “with their own hand” the non-existing financial liabilities, opened new bank accounts for these companies with Universal savings Bank and re-registered the companies at new addresses by transferring them from Smolensk where the companies had been located earlier and registering them in Moscow with Inspectorates of the Federal Tax Service No. 25 and No. 28 for the city of Moscow: one of the companies, namely, Financial Investments was registered with Inspectorate of the Federal Tax Service No. 28 for the city of Moscow, headed by Olga Stepanova, the other company – Selen Securities – was registered with Inspectorate of the Federal Tax Service No. 25¹⁴, headed by Elena Khimina.¹⁵

¹³ Attachment 5. Decision on case No. A40-12329/06-45-117 by LLC Prior to LLC Selen Securities for recovery of 2,490,723,020 rubles of losses, Attachment 6. Decision on case No. A65-6851/2006 by LLC Poleta to LLC Financial Investments for recovery of 10,105,039,188 rubles of losses,

¹⁴ Attachment 10. Extract from the Unified State Register of Legal Entities LLC Financial Investments lines 48-52 registered with Inspectorate of the Federal Tax Service No. 28 on 15.02.2006.

¹⁵ Attachment 11. Extract from the Unified State Register of Legal Entities LLC Selen Securities line 5 registered with Inspectorate of the Federal Tax Service No. 25 on 15.02.2006.

When analyzing reporting forms of Universal Savings Bank, published on the RF Central Bank's web site, Sergey Magnitsky found out an unusual financial activity of the bank from December 2006 to March 2007. This activity was associated solely with operations of the two companies – Financial Investments and Selen Securities, which were far ahead on top of the 10 largest depositors according to the reports disclosed by the bank. That was what made the lawyer carry out a thorough analysis of all available information about financial activities of these companies.

Having analyzed the publicly available financial statements of the Russian companies Financial Investments and Selen Securities for the period from 2005 to 2006, Sergey Magnitsky discovered that the reports prepared according to the Russian standards^{16,17} (for Russian tax authorities) were different from the reports prepared according to the international standards (the consolidated statements of IF Rengaz¹⁸, which owned these two companies in the given reporting period).

For example, in the international consolidated statements IF Rengaz indicated that in 2006 these Russian companies had paid the income tax arising in connection with the sale of RAO Gazprom's shares in the amount nearing 3 billion rubles (\$108 million). Whereas the Russian statements drawn up for the Russian tax authorities contained no information concerning payment of the tax; moreover, they reflected loss.

According to Sergey Magnitsky, this discrepancy in the statements for one and the same period of time might speak only of one thing: Financial Investments and Selen Securities had been deliberately re-registered by the criminal group with Tax Inspectorates No. 25 and No. 28 for the city of Moscow so that by using the fictitious decisions of the arbitration courts of Moscow and the Republic of Tatarstan and the false adjusted tax returns for 2005, prepared on the basis of the false court decisions and submitted for approval to Inspectorates of the Federal Tax Service No. 25 and No. 28 for the city of Moscow, the criminal group could illegally obtain from the treasury of the Russian Federation 2.97 billion rubles, an allegedly overpaid income tax.

This conclusion of S.L. Magnitsky was afterwards supported by the data on the payment by the RF Federal Treasury Department of the income tax refund approved by false pretences by Inspectorate of the Federal Tax Service No. 28 for the city of Moscow (headed by Olga Stepanova). This money was received on the accounts of Financial Investments at two banks by the following tranches:

At CB Universal Savings Bank (account No. 4070281050000000128):

14.11.06 - Payment order 3 – 100,000,000 (one hundred million) rubles;

14.11.06 – payment order 4 – 100,000,000 (one hundred million) rubles;

24.11.06 – payment order 4 – 500,000,000 (five hundred million) rubles;

At CB Stolitsa (ex CB Visavi) (account No. 4070281050001000 7019):

20.12.06 – Payment order 8 – 100,000,000 (one hundred million) rubles;

20.12.06 – payment order 13 – 300,000,000 (three hundred million) rubles;

21.12.06 – payment order 6 – 200,000,000 (two hundred million) rubles;

¹⁶ Attachment 12. Financial statements of LLC Financial Investments for 2006.

¹⁷ Attachment 13. Financial statements of LLC Selen Securities for 2006.

¹⁸ Attachment 14. Financial statements of IF Rengaz for 2006, page 8.

21.12.06 – Payment order 10 – 300,000,000 (three hundred million) rubles;

22.12.06 – payment order 47 – 143,551,562 (one hundred forty three million five hundred fifty one thousand five hundred sixty two) rubles;

22.12.06 – payment order 50 – 232,635,707 (two hundred thirty two million six hundred thirty five thousand seven hundred seven) rubles;

ALL the money received from the Federal Treasury Department at CB Stolitsa was immediately transferred, but in a changed breakdown, to Universal Savings Bank to the account of the same Financial Investments (account No. 40702 810 5 000 000 00128). The money was transferred by the following payments:

27.12.06 – payment order 688 – 476,187,269 (four hundred seventy six million one hundred eighty seven thousand two hundred sixty nine) rubles;

10.01.07 – payment order 1 – 430,000,000 (four hundred thirty million) rubles;

11.01.07 – payment order 2 – 369,998,000 (three hundred sixty nine million nine hundred ninety eight thousand) rubles.

In this way, all the money stolen from the Russian budget at the end of 2006 on the pretence of the income tax refund to Financial Investments, approved by the tax inspectorate headed by Olga Stepanova, was accumulated in CB Universal Savings Bank in the amount of **2,376,187,269 rubles**.

This conclusion of S.L. Magnitsky is also supported by the data on the payment by the RF Federal Treasury Department of the income tax refund in the amount of **597,700,000 rubles**, approved by false pretences by Inspectorate of the Federal Tax Service No. 25 for the city of Moscow (headed by Elena Khimina) with respect to the second company – Selen Securities – to account No. 40702 810 2 000 000 00127 with CB Universal Savings Banks. The money was transferred by the following tranches:

28.03.07 – payment order 8 – 435,877,310 (four hundred thirty five million eight hundred seventy seven thousand three hundred ten) rubles;

28.03.07 – payment order 9 – 161,822,690 (one hundred sixty one million eight hundred twenty two thousand six hundred ninety) rubles.

With respect to these two Russian companies alone the total amount of the state-owned funds stolen from the RF Treasury by decisions of executives approved at the end of 2006 by the tax inspectorates headed by **Olga Stepanova and Elena Khimina amounted to 2,973,887,269.00 rubles.**

So, during the period from March 2006 to March 2007 the criminal group organized a step-by-step theft from the Russian budget of almost 3 billion rubles through the illegal approval of the refund of the income tax paid to the budget earlier by the two companies: Financial Investments and Selen Securities, on the basis of forged documents; specifically, the criminal group successively took the following steps:

1) re-registration of the companies at a new address and tax registration with Inspectorate of the Federal Tax Service No. 28 and No. 25 for the city of Moscow, headed by Olga Stepanova and Elena Khimina, respectively;

2) opening of new settlement accounts with Universal Savings Bank owned by Dmitry Klyuev, earlier convicted for fraud, and one suspense account with CB Stolitsa;

3) acknowledgement by the arbitration courts of the claims based on the falsified documents for the amount of 12,595,762,209 rubles, which produced artificially created liabilities under non-existing obligations;

4) submission of false adjusted tax returns and applications for the illegal income tax refund to Inspectorates of the Federal Tax Service No. 28 and No. 25 for the city of Moscow headed by Olga Stepanova and Elena Khimina;

5) receipt from the RF Treasury on the settlement accounts of Financial Investments and Selen Securities opened with Universal Savings Bank of the entire illegal income tax refund in the amount of 2,973,887,269.00 rubles.

The transfer of a significant part of the stolen money from the RF Treasury was carried out by decision of the executives of Inspectorates of the Federal Tax Service No. 25 and No. 28 for the city of Moscow by nine bank payments from 14 November 2006 to 22 December 2006.

Already by the end of the first working week after the New Year and Christmas holidays, by 12 January 2007 all the money transferred from the RF Treasury by decision of the executives of Inspectorates of the Federal Tax Service No. 25 and No. 28 for the city of Moscow to the accounts of Financial Investments and Selen Securities was accumulated by the criminal group in one bank – CB Universal Savings Bank.

The remainder was transferred from the RF Treasury to the accounts of Selen Securities at CB Universal Savings Bank by two more tranches dated 28 March 2007.

The criminal group resorted to a rather specific tax base zeroing method:

For the purpose of stealing the treasury funds the criminal group first produced fictitious grounds for the tax return by filing in March-April 2006 with the Arbitration Court of the Republic of Tatarstan and the Arbitration Court of Moscow 5 claims for the total amount of 21,595,039,698.00 rubles, of which the stated claims were satisfied for the amount of 12,595,762,209.00 rubles¹⁹. The said amount appeared to be comparable to the tax base of these companies for 2005, out of the income of which the companies accrued and paid the income tax at the beginning of 2006. This allowed the criminal group to submit false “adjusted” tax returns which falsely stated that all the past revenues had been allegedly zeroed towards the expenses for the same period. For this the criminal group re-registered the companies with Tax Inspectorates No. 28 and No. 25 for the city of Moscow headed by Olga Stepanova and Elena Khimina and opened accounts with Universal Savings Bank, to which all the money stolen from the state in the amount of 2,973,887,269.00 rubles was subsequently transferred.

The criminal intent or criminal negligence of the executives of Inspectorates of the Federal Tax Service No. 25 and No. 28:

This theft of the treasury funds would have been impossible but for the deliberate assistance or the criminal negligence of the tax executives who did not provide for the verification of the submitted false applications for the income tax refund for the previous period in accordance with the requirements of the applicable laws. Any audit of the counterparties of Financial Investments and Selen Securities would have shown that the so-called counterparties that allegedly concluded multi-billion deals presented zero financial statements, which reflected none of such deals. Similarly, any in-office audit of Financial Investments and Selen Securities themselves would have revealed that these companies never held shares of RAO UES of Russia and JSCB Sberbank and did not conduct operations with these securities. Any inquiry to the arbitration courts would have revealed that the directors who had signed the false adjusted tax returns voluntarily acknowledged in the court sessions liabilities under non-existing obligations. Only on account of the willful actions of the executives of Inspectorates of the Federal Tax Service No. 25 and No. 28 Elena Khimina and Olga Stepanova, who withdrew from carrying out a real verification of the falsified corrected tax returns and approved **the tax refund for nearly 3 billion rubles**, the criminal group succeeded in putting its plan into practice.

¹⁹ Attachment 5. Decision on case № A40-12329/06-45-117 OOO brought by Prior against Selen Securities to recover 2,490,723,020 rubles in losses. Attachment 6. Decision on case No. A65-6851/2006 brought by Poleta against Financial Investments, Ltd. to recover 10,105,039,188 rubles in losses.

2. Theft in 2006 – beginning of 2007 of 3 billion rubles from the RF treasury by the same criminal group, which a year later (December 2007) stole the taxes paid by the Russian companies stolen from the Hermitage Fund.

From the investigation carried out by Sergey Magnitsky it followed that the same criminal group that had arranged for the theft of the taxes paid by Financial Investments and Selen Securities to the budget organized a year later the illegal misappropriation of the Hermitage Fund's Russian subsidiaries and the subsequent theft of the income taxes paid by the said subsidiaries.

The similar methods used for both thefts testify to the fact they the thefts were organized and carried out by one and the same criminal group, in particular:

- **The group used the same arbitration courts:** In case with the stolen Russian subsidiaries of the Hermitage Fund in 2007 as well as in case with Financial Investments and Selen Securities in 2006 the lawsuits were brought to the same arbitration courts, namely: the Arbitration Court of Moscow^{20, 21}, and the Arbitration Court of the Republic of Tatarstan (Kazan)^{22, 23};
- **The group used the same securities purchase contracts:** The lawsuits (obtained and investigated into from the files of the court cases), which were brought with respect to Financial Investments and Selen Securities and, in the long run, produced fictitious obligations, were structured by using three types of the so-called contracts: “Framework Contract”, “Securities Purchase Contract” and “Termination Contract”^{24, 25}. A similar structuring and the same types of contracts were re-used by the criminal group a year later for the purpose of stealing the taxes paid by the Hermitage Fund's Russian subsidiaries^{26, 27};
- **The group used the same tactics in the arbitration courts:** According to the court files, the lawyers allegedly acting in the interests of the defendants – Financial Investments and Selen Securities – acknowledged the authenticity of the fictitious contracts by fully recognizing all stated obligations and admitting all fictitious claims²⁸. The same tactics were used in the course of the court hearings against the stolen Hermitage Fund's Russian subsidiaries a year later^{29, 30};

²⁰ Lawsuits filed with the arbitration court of Moscow to LLC Financial Investments and LLC Selen Securities in March 2006: <http://www.rostnadzor.ru/arbitr/2006/03/>

²¹ Lawsuits filed with the arbitration court of Moscow to LLC Rilend in March 2006: <http://www.rostnadzor.ru/arbitr/2007/10/>

²² Attachment 6. Decision on case No. A65-6851/2006 by LLC Poleta to LLC Financial Investments for recovery of 10,105,039,188 rubles of losses.

²³ Attachment 15. Decision on case No. A65-26689/2007 by LLC Grand-Aktiv to LLC Parfenion for recovery of 13,880,521,978 rubles of losses.

²⁴ Attachment 16. Falsified contracts between LLC Poleta and LLC Financial Investments, used by the criminals in 2006.

²⁵ Attachment 17. Falsified contracts between LLC Optim-Service and LLC Selen Securities, used by the criminals in 2006.

²⁶ Attachment 18. Falsified contracts between LLC Grand-Aktiv and LLC Parfenion, used by the criminals in 2007.

²⁷ Attachment 19. Falsified contracts between CJSC Logos Plus and LLC Makhaon, used by the criminals in 2007.

²⁸ Attachment 20. Acknowledgement by LLC Financial Investments of the claim for more than 10 billion rubles of the lost profit from case No. A65-6851-2006.

²⁹ Attachment 21. Acknowledgement of the falsified claims in case No. A56-22479/2007 by CJSC Logos Plus to LLC Rilend

³⁰ Attachment 22. Acknowledgement of the falsified claims in case No. A65-26689-2007 by LLC Grand-Aktiv to LLC Parfenion

- **The group resorted to fictitious court decisions with the aim to reduce the tax base for the tax on the income of the previous periods:** In both cases the criminal group secured itself with illegal court decisions for the amounts sufficient to zero all the obtained income of the previous periods and to demand afterwards on false pretences the earlier paid taxes from the Russian budget. For example, in the case with Financial Investments and Selen Securities the Arbitration Courts of Moscow and the Republic of Tatarstan (Kazan) adjudged for an amount of 12,595,762,209.00 rubles³¹, which was sufficient to fully zero all the obtained income of the previous periods.

Besides the similarity in the methods used by the criminals, it is important to take into account the conduct of the persons involved in the fraudulent lawsuits against the stolen Hermitage Fund's Russian subsidiaries in 2007 as well as against Financial Investments and Selen Securities a year before, in 2006, in particular:

- **Aleksey Nikolaevich Sheshenya** – A.N. Sheshenya controlled LLC Poleta³² - the company in whose favor the Arbitration Court of the Republic of Tatarstan (Kazan) adjudged in April 2006 against Financial Investments 10,105,039,188.00 rubles. A.N. Sheshenya is also a founder of LLC Grand Aktiv³³ - the company in whose favor the same Arbitration Court of the Republic of Tatarstan (Kazan) adjudged against LLC Parfenion (one of the stolen Hermitage Fund's subsidiaries), just a year later;
- **Andrey Alekseevich Pavlov** – the lawyer Andrey Pavlov represented interests of the plaintiff LLC Poleta in the fraudulent lawsuit in the Arbitration Court of the Republic of Tatarstan (Kazan) against Financial Investments³⁴ in April 2006. A year later the same lawyer represented interests of the plaintiff LLC Grand Aktiv in the fraudulent lawsuit in the Arbitration Court of the Republic of Tatarstan (Kazan) against LLC Parfenion (one of the stolen Hermitage Fund's Russian subsidiaries)³⁵; in 2007 in another lawsuit against LLC Rilend (the second of the stolen Hermitage Fund's Russian subsidiaries) on the claim of CJSC Logos Plus³⁶ the same lawyer unlawfully represented interests of the defendant, i.e. the adverse party. A similar role was played by his wife, the lawyer Yulia Mikhailovna Maiorova, who unlawfully represented interests of the defendant LLC Makhaon (the third of the stolen Hermitage Fund's Russian subsidiaries)³⁷.

³¹ Attachment 5. Decision on case No. A40-12329/06-45-117 by LLC Prior to LLC Selen Securities for recovery of 2,490,723,020 rubles of losses, Attachment 6. Decision on case No. A65-6851/2006 by LLC Poleta to LLC Financial Investments for recovery of 10,105,039,188 rubles of losses

³² Attachment 7. LLC Poleta is owned by LLC Prioritet-M re-named into LLC Yugspetsmontazh, Attachment 8. LLC Prioritet-M is owned by A.N. Sheshenya.

³³ Attachment 23. Confirmation that LLC Grand-Aktiv is owned by A.N. Sheshenya.

³⁴ Attachment 24. Power of Attorney to the lawyer A.A. Pavlov from case No. A65-6851-2006 and the calculation of the stated claims signed by A.A. Pavlov.

³⁵ Attachment 27. The lawyer A.A. Pavlov represents the plaintiff – LLC Grand-Aktiv with the falsified claims in case No. A65-26689-2007

³⁶ Attachment 25. Power of Attorney to the lawyer A.A. Pavlov from case No. A56-22479/2007 and the acknowledgement of the falsified claims signed by A.A. Pavlov.

³⁷ Attachment 26. Power of Attorney to the lawyer Yu.M. Mayorova, the wife of the lawyer A.A. Pavlov, from case No. A56-22474/2007 and the minutes of the court hearing at which Yu.M. Mayorova acknowledges the falsified claims.

- **Gennadiy Nikolaevich Plaksin** – G.N. Plaksin, the General Director of LLC Optim-Service³⁸, which in 2006 brought suits against Selen Securities in the Arbitration Court of Moscow. The same G.N. Plaksin was the sole founder and the General Director of LLC Instar³⁹, which a year later, in 2007, brought fictitious lawsuits against LLC Rilend (one of the stolen Hermitage Fund's Russian subsidiaries) in the Arbitration Court of Moscow.⁴⁰ The same G.N. Plaksin was also the Chairman of the Management Board of Universal Savings Bank – the bank where the criminal group accumulated all the money stolen by the criminal group through the illegal approval by the executives of Inspectorates of the Federal Tax Service No. 25 and No. 28 for the city of Moscow.⁴¹

3. The direct connection between the discovery by S.L. Magnitsky of the theft of the budgetary funds through the illegal approval of the refund of the income tax of Financial Investments and Selen Securities and Magnitsky's arrest, torturing in the custody and death.

On 7 October 2008 S.L. Magnitsky testified to the investigator of the Investigation Department for the city of Moscow of the Investigative Committee at the RF Prosecutor's Office S.E. Gordievsky about the involvement of the tax officials of Inspectorates of the Federal Tax Service No. 28 and No. 25 for the city of Moscow, headed by Olga Stepanova and Elena Khimina, and the officers of the Main Internal Affairs Department for the city of Moscow P.A. Karpov and A.K. Kuznetsov in the theft from the Russian budget of 5.4 billion rubles of taxes earlier paid by the companies stolen from the Hermitage Fund.

On 6 November 2008 S.L. Magnitsky gave an interview to Business Week magazine, in which he recounted the results of his investigation: that he discovered yet another theft of budgetary funds committed a year earlier by a similar fraudulent approval of the tax refund through the same tax inspectorates, by the same lawyers and with the use of the same bank as in the case with the theft of the taxes paid by the Hermitage Fund's companies a year later. All that time S.L. Magnitsky was sending numerous inquiries collecting information about these two companies – Financial Investments and Selen Securities, and about other companies which he suspected of similar crimes committed by the same criminal group comprising tax and law enforcement officials.

On 12 November 2008 by decision of the Deputy Director of the Investigative Committee at the Russian Interior Ministry Oleg Logunov (afterwards transferred to the RF General Prosecutor's Office) Lieutenant Colonel A.K. Kuznetsov and three of his subordinates were included in the investigation team investigating into criminal case No. 153123 fabricated under the report of the Russian Federal Security Service, headed by O.F. Silchenko. It was no other but A.K. Kuznetsov against whom a month earlier S.L. Magnitsky had delivered incriminating testimony pointing at his direct involvement in the illegal seizure of the title documents of the Hermitage Fund's Russian companies, used for their illegal re-registration, and voicing his suspicions about A.K. Kuznetsov's involvement in the organization of the theft of the taxes paid by the Hermitage Fund's companies.

³⁸ Attachment 9. G.N. Plaksin – Director of LLC Optim-Service, the plaintiff under case No. A40-16204/06

³⁹ Attachment 28. Extract from the Unified State Register of Legal Entities, G.N. Plaksin – General Director and the owner of LLC Instar.

⁴⁰ Attachment 29. Statement of claim from LLC Instar, signed by G.N. Plaksin.

⁴¹ <http://www.burocrats.ru/cgi-bin/email.cgi?data=051219154756&rubrica=229>

On 24 November 2008 Investigator O.F. Silchenko signed the order authorizing Lieutenant Colonel A.K. Kuznetsov to bring S.L. Magnitsky. That very day two of subordinates of Lieutenant Colonel Artyom Kuznetsov – A.O. Drozanov and A.A. Krechetov – came to S.L. Magnitsky's home and arrested him with the participation of false witnesses acting under non-existing passports. During the arrest and search at S.L. Magnitsky's place the officers seized the original documents, which confirmed that the real owner of CB Universal Savings Bank was Dmitry Klyuev and evidenced that Dmitry Klyuev had dealt with the Renaissance Capital structures regarding the organization of the tax refund on the basis of court decisions before the refund of the taxes of Financial Investments and Selen Securities, at least **since 2002**.

On 13 October 2009 S.L. Magnitsky made a statement to Investigator R.A. Gritsay: Magnitsky stated his being held in the pre-trial detention as a hostage of Lieutenant Colonel Artyom Kuznetsov and Major Pavel Karpov, whom he suspected of being involved in the theft of the budgetary funds, and that he was under the strongest psychological and physical pressure exerted to make him retract the testimony against the tax and law enforcement officers.

That very day, 13 October 2009, our law firm representing interests of the Hermitage Fund sent to the RF General Prosecutor Yu.Ya. Chaika and several other Russian authorities a notice reporting on the systematic thefts, revealed by S.L. Magnitsky, of the budgetary funds by Inspectorate of the Federal Tax Service No. 28 and Inspectorate of the Federal Tax Service No. 25 for the city of Moscow, headed by Olga Stepanova and Elena Khimina, for a total amount above 11.2 billion rubles, including nearly 3 billion rubles stolen through the illegal refund of the income tax to Financial Investments and Selen Securities.

A month later, on 16 November 2009, S.L. Magnitsky was found dead, with the body bearing marks of fighting, in the one-man cell of the Matrosskaya Tishina detention center where he had been brought, as it was said, to be provided with medical aid.

After S.L. Magnitsky's death the RF President D.A. Medvedev ordered to investigate into the circumstances of Magnitsky's tragic death. Such an investigation can be carried out only taking into account the entirety of the circumstances of Magnitsky's illegal criminal prosecution and arrest. However, the investigation remains in the hands of the same officers of the Russian Interior Ministry and the supervising officials of the RF Prosecutor's Office, who were accused by S.L. Magnitsky himself of stealing the budgetary funds and who should be the main suspects in the case initiated in connection with S.L. Magnitsky's death. All these officers and officials are in an inadmissible "conflict of interest": acknowledging the illegality of the criminal prosecution of S.L. Magnitsky, they are forced in fact to testify against themselves. As a result, relying on the assistance of the high-ranking officials of the RF Prosecutor's Office, the persons involved in the theft of the budgetary funds cynically charged the crimes they had committed on S.L. Magnitsky, the man who had exposed these crimes. As it follows from the official statement of the RF General Prosecutor's Office, headed by Yu.Ya. Chaika, dated 1 June 2011, in violation of all internationally recognized rules and standards of the criminal proceedings the Russian Interior Ministry and the RF Prosecutor's Office itself declared the knowingly innocent S.L. Magnitsky posthumously guilty of the organization of the thefts of funds from the Russian budget, revealed by Magnitsky.

In this context the investigation of the theft of **3 billion rubles** by the executives of Inspectorates of the Federal Tax Service No. 25 and No. 28 for the city of Moscow through the illegal refund of taxes to Financial Investments and Selen Securities in December 2006 – March 2007 becomes of fundamental importance.

This theft that had taken place a year before the misappropriation of the Hermitage Fund's companies and the stealing of the 5.4 billion rubles of the taxes paid by them, committed with the approval of the top executives of the same tax authorities, with the participation of one and the same bank and with the involvement of the same lawyers, the same courts and the same criminals, is ample evidence of S.L. Magnitsky's innocence and directly points to the real organizers of the theft – the top executives of the tax authorities Olga Stepanova and Elena Khimina, the Russian Interior Ministry officers Artyom Kuznetsov and Pavel Karpov, the actual

owner of Universal Savings Bank Dmitry Klyuev and his partner Andrey Pavlov from Law Technology Legal Firm.

In view of the foregoing, I request you:

1. To consider this report on the crime in accordance with the requirements of Articles 140, 141, 144 and 145 of the Criminal Procedural Code of the Russian Federation, to order for the initiation of a comprehensive, impartial and objective investigation into the event of the theft of nearly 3 billion rubles from the budget of the Russian Federation in 2006-2007 through the illegal approval of the fictitious refund of the income tax of LLC Financial Investments and LLC Selen Securities by the executive officers of the two tax inspectorates – Inspectorates of the Federal Tax Service No. 28 and No. 25 for the city of Moscow headed by Olga Stepanova and Elena Khimina, based on forged documents, and to bring all guilty persons to the criminal responsibility.

2. Please, notify the decision you take regarding our report on the crime.

Neil Micklethwaite
On behalf of Brown Rudnick LLP