

## Appendix II: The top of the pyramid

One of the more interesting articles about Russia, that had been memory-holed is the following one, published in the Sunday Times in 2003, barely a week after the arrest of Mikhail Khodorkovsky. It represents a rare piece of evidence that Russia's young oligarch class of the 1990s were agents representing the interests of Western financiers. The article has been scrubbed from the internet.

### **Rothschild is the new power behind Yukos**

Simon Bell in Moscow, Lucinda Kemeny and Andrew Porter

From The Sunday Times

November 2, 2003

A SENIOR MEMBER of the Rothschild banking family has emerged as the key figure in the battle for control of Yukos, the Russian oil giant.

The Sunday Times can identify **Lord (Jacob) Rothschild** as the secret holder of the large stake in Yukos that was previously controlled by **Mikhail Khodorkovsky**, the oil company's chairman.

Khodorkovsky, reputed to be Russia's richest man, was last week arrested by Russian prosecutors on charges of fraud and tax evasion. His imprisonment has triggered a trustee agreement he put in place with Rothschild a few months ago.

**Rothschild, 67**, now controls the voting rights on a stake in Yukos worth almost £8 billion. This places him at the centre of a dispute with the Russian state. It is widely believed that the charges being brought against Khodorkovsky are a response to his political ambitions to succeed **Vladimir Putin** as Russia's president.

Russian prosecutors tried to freeze a 44% stake in Yukos on Thursday. Their move highlighted the previously unknown arrangement that allowed voting rights to be transferred to an unnamed foreigner — Rothschild — should Khodorkovsky be unable to "act as a beneficiary" of the shares. It is thought that Khodorkovsky, 40, took this precaution when he realised he was facing arrest. The shares are held via the Gibraltar-based Menatep Group.

Khodorkovsky has known Rothschild for years through their mutual love of the arts and their support for Russian development via the Open Russia Foundation. Rothschild is a multi-millionaire in his own right, with a fortune estimated at £400m. He has not been involved with NM Rothschild, the City investment bank, since walking out during a furious row 22 years ago. Rothschild went on to build his own investment empire through firms such as RIT Capital Partners, St James's Place Capital and J Rothshild Assurance.

It is thought that Khodorkovsky could remain in prison until at least the end of the year. He is accused of illegally obtaining \$1 billion through fraud and tax evasion. If convicted, he could face 10 years in jail.

## TOP OF THE PYRAMID

The Yukos affair has provoked a crisis in Russia's fledgling capitalist system. Russian shares fell heavily last week and the value of Yukos slumped by a third as foreign investors fled the market. Khodorkovsy broke an agreement that Putin's government would not investigate the controversial circumstances in which the oligarchs made their money as long as they stayed out of politics. Instead, Khodorkovsky funded opposition parties.

Russia's economic revival has been soured in recent months by disputes over the ownership of leading companies. One of these involves a disputed 25% stake in Megafon, Russia's third-largest mobile-phone network operator, which was planning a flotation in London early next year. **Mikhail Fridman**, a Russian billionaire oil tycoon who has just completed a \$7 billion joint venture with BP, will this week step up his efforts to prevent IPOC, an obscure Bermudan investment company, blocking the flotation.

Fridman's Alfa Group bought a 25.1% stake in Megafon in August from LV Finance, a company registered in the British Virgin Islands. The transaction was made through a number of offshore companies set up by LV Finance and by Alfa.

IPOC, the investment company, says this deal should not have been allowed to take place since it had already paid the money needed to exercise an option over the same block of shares. IPOC already held a 6.5% stake in Megafon.

In the latest of a series of court hearings, IPOC will next week present its case in the British Virgin Islands. Fridman, through Alfa's telecoms subsidiary, will contest IPOC's claims. He will argue that IPOC has presented itself as an independent company with some western interests that invests in publicly quoted vehicles. But Fridman will say its only major stake is in Megafon and, rather than being backed by western investors, it is a vehicle for unnamed Russian interests.

Other shareholders in Megafon include TeliaSonera, the Scandinavian telecoms group with a 44% stake, and Telecominvest, one of the founders of Megafon set up with the help of **Leonid Reiman**, Russia's minister for telecommunications.

Separately, this week there are plans for the listing of Irkut, one of Russia's largest manufacturers of military aircraft, on the London Stock Exchange.

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