

# TNK-BP Board Offers No Solution in Standoff

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Old wounds at TNK-BP re-opened Sunday as the board of directors' failure to approve the replacement of BP in its landmark \$16 billion deal with Rosneft initiated a mud-slinging match.

Both sides blamed each other for the outcome of Saturday's meeting in Paris.

"We regret that the BP-nominated directors decline to support management's recommendation, which was supported by all the other directors" said Mikhail Fridman, TNK-BP's chief executive.

BP, meanwhile, said in a press release that Alfa, Access and Renova — AAR, the group of billionaires who jointly own 50 percent of TNK-BP — were responsible for rejecting "a proposal by BP's nominated directors that would have allowed TNK-BP to hold initial discussions with Rosneft about pursuing the Arctic opportunity."

The apparent contradiction between the two positions arose because there were two proposals voted on by the board, which has four directors nominated by BP, four by AAR and three independent members, including former German Chancellor Gerhard Schröder.

The proposal submitted by TNK-BP's management called for TNK-BP, instead of BP, to participate in both the share swap and Arctic exploration with Rosneft. It was rejected by the BP directors.

BP's amended proposal was similar, but excluded TNK-BP participation in the share swap. It was rejected by AAR's representatives and two of the independent directors.

In a statement entitled "TNK-BP's Response to BP's Misleading Press Statements," TNK-BP said the elimination of the share swap would have reduced TNK-BP's negotiating leverage with Rosneft.

Stan Polovets, chief executive of AAR, added that having BP as "the largest private shareholder in one of TNK-BP's main competitors would inevitably lead to conflicts of interest."

BP spokesman Vladimir Buyanov said it was common for competitors to cooperate on specific projects in the oil world and cited BP's venture with Rosneft off Sakhalin, which did not prompt TNK-BP or AAR objections.

Buyanov added that "BP is unwilling to issue BP shares to TNK-BP for cash and has genuine concerns about the finance, strategy and technical risks for TNK-BP in pursuing the BP-Rosneft opportunity."

The British-based company said it "continues to act constructively and reasonably."

The deal between BP and Rosneft was blocked by Britain's High Court in February while the dispute between BP and AAR underwent arbitration. A decision by the London-based arbitration tribunal is expected within the coming weeks, TNK-BP said.

TNK-BP also said there are no direct talks under way or planned between TNK-BP, AAR and BP.

However, TNK-BP's replacement of BP in the deal with Rosneft, even if the proposal had received the unanimous support it required Saturday, has never been a likely outcome.

Rosneft fired a warning shot Friday before the TNK-BP meeting when it released a statement affirming its desire for BP as a partner.

"TNK-BP was never considered as a possible participant in the alliance because of the absence of the necessary competencies," Rosneft said, "and it never made any proposal to Rosneft that reflected its interest in working on the [Arctic] shelf."

A Rosneft spokesman refused to comment Sunday on the outcome of the TNK-BP meeting.

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