

Tyumen Court Hands BP \$3.1Bln Fine

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A regional arbitration court in Tyumen ordered BP to pay \$3.1 billion in damages in another sign of the mounting pressure on the international oil major as it negotiates with bidders seeking a stake in its lucrative Russian joint venture, TNK-BP.

The payout was awarded Friday to minority shareholder Andrei Prokhorov, who alleges that BP's failure to inform the TNK-BP board about a \$16 billion deal with state-owned Rosneft last year was in contravention of the company's shareholder agreement. The deal later collapsed.

The court's decision comes three days after Rosneft said it was interested in buying BP's stake in TNK-BP with an estimated price tag of \$20 billion. The announcement weakened the position of the only other public contender, BP's billionaire partners in TNK-BP.

Tycoons Mikhail Fridman, Len Blavatnik, Viktor Vekselberg and German Khan, represented

through Alfa Group, Access Industries and Renova, or AAR, are known for their uncompromising business practice. While it has been lubricated by enormous cash flows, their relationship with BP has been plagued with acrimony.

Prokhorov originally sought \$13.6 billion from BP, but the Tyumen court reduced the figure to \$3.1 billion, Interfax reported. BP will appeal the decision, said Vladimir Buyanov, a Moscow-based spokesman for the company.

The Siberian litigation initiated by Prokhorov, who, according to BP, owns about 0.00001 percent of TNK-BP, began in fall last year. TNK-BP's equity is 96.5 percent held by AAR and BP's Cyprus-based company, Novy Investments.

Some experts have criticized the huge scale of the damages awarded by the Tyumen court and suggested that such rulings harm Russia's business environment.

The country's courts are already routinely avoided by big business, with many contracts involving Russian companies including clauses that refer legal disputes to London or Scandinavian courts.

"In Russia, it is known that courts can be manipulated ... but this is beyond corruption, [the court] is a laughingstock," said Vsevolod Miller, a lawyer at Moscow-based law firm Yukov, Khrenov and Partners. "The judge who made this decision should immediately leave his judgeship. ... How can we expect foreign companies to invest in Russia?"

BP was forthright in rejecting the legitimacy of the claims against it and hinted that legal weapons were being deployed in a corporate battle.

"The lawsuit was based on absurd assumptions," said Konstantin Lukoyanov, BP's lawyer in the case, Interfax reported. "We consider this lawsuit an attempt at corporate blackmail."

BP spokesman Buyanov denied that it was even possible that any minority shareholders in TNK-BP could have been damaged by BP's failed attempt to form a strategic alliance with Rosneft. "TNK-BP did not and could not suffer any losses," he said.

The international oil major's tie-up with Rosneft was torpedoed by AAR, whose claims that BP had violated the secret TNK-BP shareholder agreement were upheld by a Stockholm arbitration court last year.

"We are satisfied with the decision of the court," said Liniya Prava lawyer Dmitry Chepurenko, who represents Prokhorov, in a statement. "We are now seeing the active development of the practice ... [whereby] parent companies should be held responsible for their wrongful actions."

But the legal wrangle is unlikely to be settled soon. BP's appeal will not be ruled on for at least two months, a spokeswoman for Liniya Prava said.

There are no time constraints if BP agrees to sell its stake in TNK-BP to AAR, but contractual obligations mean that a deal with Rosneft cannot be announced before mid-October.

There is also little chance of a \$3.1 billion payout being forced on BP, however, according

to experts. A smaller settlement or an overturning of the case altogether are more probable outcomes.

The ruling was more akin to "psychological pressure" on BP, said Valery Nesterov, an oil and gas analyst at Troika Dialog.

It would not be the first time that events initiated in Tyumen have struck BP at a sensitive moment.

Just days after BP saw its shattered strategic partnership with Rosneft awarded to international competitor ExxonMobil last August, BP's Moscow office was raided by armed officers seeking documents relating to the case filed by Prokhorov.

"It's pressure on BP to sell its stake in TNK-BP," Nesterov said about Friday's decision. "But it's almost not about BP, rather the investment climate in Russia."

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