The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

How Russia's Rosneft Sued RBC Media Company for $49 Million

Rosneft claims RBC story sets higher risks for BP exiting the company and lowering its value.

By Alina Fadeyeva and Ksenia Boletskaya

October 10, 2016

Maxim Stulov / Vedomosti

Last September, Russia's Rosneft filed an unprecedented 3.1 billion ruble ($49 million) ☒lawsuit against the RBC media holding company, as well as three of its ☒journalists, for allegedly causing damage via an article they published.

The RBC article, which was published in April 2016, stated that one of ☒the terms of the privatization of the Rosneft stake was that the buyer ☒does not sign a shareholder agreement with BP, a company which itself ☒owns a 19.75 percent stake in Rosneft.

How did Rosneft calculate this enormous compensation claim? ☒☒According to a summary

published by the Professional Appraisal Center ⊠(PAC), Rosneft might have based its estimate on "the potential loss of ⊠its largest business partner." The only business partner mentioned in ⊠the document is British Petroleum (BP).

In order to calculate the damages to Rosneft from the loss of BP as a ⊠partner, PAC experts assessed the impact of the potential risk to the ⊠discount rate (used to calculate the company's future cash flows). Here ⊠they used such standard indicators for analysis as the investment risk ⊠premium, country risk, and so on, but raised the "specific risk premium" due to the "additional risk" of losing the business partner.

To ⊠calculate that "additional risk," PAC used two rates – 0.0007 percent ⊠and 0.045 percent. ⊠⊠ ⊠⊠Applying these rates to the value of the invested capital and equity, ⊠and also to the goodwill of the company, the experts concluded that the ⊠"goodwill would decrease by at least 3.12 billion rubles," and by as ⊠much as 20.2 billion rubles.

Rosneft's reports, however, show no change ⊠in the company's goodwill before and after the RBC article – listing it ⊠as 227 billion rubles in both late 2015 and June 30, 2016. ⊠⊠ ⊠⊠The document does not explain why these particular values were used for ⊠the discount rate.

Berkshire Advisory Group's CEO, Irina Vishnevskaya, ⊠said that no standard method exists for measuring that factor and it is ⊠therefore impossible to know exactly why the evaluators decided to ⊠discount Rosneft's cash flows by 0.007 percent over the risk of a ⊠partner's exit. ⊠⊠ ⊠⊠PAC also considered how the RBC publication might decrease Rosneft's ⊠capitalization.

It drew no conclusions as to whether the article ⊠negatively affected Rosneft's share prices, its reputation, or its ⊠relations with business partners, including BP. It only assessed the oil giant's "potential losses." ⊠⊠ ⊠⊠The demand for 3.1 billion rubles for loss of goodwill is a record high ⊠in Russian practice.

According to IFRS, RBC had unaudited revenue of 2.4⊠ billion rubles for the first half of 2016 and an operating profit of 56⊠ million rubles. ⊠⊠ ⊠⊠The understanding of "losses" consists of actual damage and lost ⊠profits. According to Mark Karetin, partner at Yukov and Partners, the ⊠Rosneft claims fit neither category: the company is trying to gain ⊠compensation merely for what it alleges is the newly-emerged risk of ⊠future damages.

It is highly unlikely that the court will grant Rosneft's demand for ⊠compensation, according to Vyacheslav Losev, managing partner at Losev ⊠and Partners. The court might order compensation for actual losses, but ⊠probably in the millions, not billions of rubles, according to BGP litigation advisor Sergei Lisin.

The views expressed in opinion pieces do not necessarily reflect the position of The Moscow Times.

Original url:
https://www.themoscowtimes.com/2016/10/10/how-russias-rosneft-sued-rbc-for-49-million-a55665