



PBN

www.pbnco.com

THE PBN COMPANY is an international strategic communications, government relations and public affairs consultancy serving clients worldwide from offices in Washington, DC, London, Moscow, Kyiv, Riga, Almaty and Chisinau.

Thursday, April 24, 2003

Volume 1 Issue 11

BP's \$6.75 Billion Investment - Russia's Largest Ever!



(From left to right) Robert Dudley, BP Group Vice President, Viktor Vekselberg, Chairman of the TNK Management Board, and Mikhail Fridman, Chairman of the Alfa Group at the press conference announcing the deal at Interfax.

"A vote of confidence..."

"A landmark event that puts Russia onto a new stage..."

"A pivotal event that could open the floodgates to further investment across the economic spectrum..."

"The largest single direct investment in Russia's post-Soviet history..."

From the *Wall Street Journal* to the most respected analysts and economists, these are but a few of the commentaries on the February

A Look at the Deal

BP Makes a \$6.75 Billion Investment in Russia
[\[click here for full story\]](#)

Foreign Investment in Russia, the CIS and Baltics

An Overview
[\[click here for full story\]](#)

PBN's 15-Year History with BP

A Look Back as PBN Celebrates Two Decades in Business
[\[click here for full story\]](#)

News from PBN Worldwide

PBN Locks in Three Major New Business Wins
[\[click here for full story\]](#)

[Email PBN](#)

[Visit our Website](#)

[Access PBN Staff Worldwide](#)

[Access PBN Archive](#)

[Issue 10](#)

January 31, 2003

[Issue 9](#)

December 2, 2002

[Issue 8](#)

October 31, 2002

[Issue 7](#)

September 26, 2002

11th announcement that BP was making a new \$6.75 billion commitment to Russia - an amount equal to the total foreign direct investment in Russia in the past three years.

BP's decision to take a 50 percent stake in a new Russian oil company, which is called TNK-BP, changed almost overnight the global perception of Russia's investment climate, as well as the structure of its huge oil and gas sector.

Within days of the announcement, the Russian stock exchange spiked 10 percent and the country's sovereign bonds reached record highs. Stocks of other Russian oil companies also rose 5.2 percent.

The impact of the TNK-BP decision can be seen in this week's announcement of another major Russian oil merger. Yukos and Sibneft announced that they have agreed in principle to combine the two businesses and create one of the world's biggest oil concerns.

The PBN Company was chosen to help BP and its partners in the venture, the Alfa Group and Access-Renova (AAR), manage this landmark historic announcement. We handled all media activities in Russia, including the press conference to announce the deal and one-on-one media interviews.

"The PBN Company's relationship with BP dates back to 15 years ago," says PBN Chairman and CEO Peter B. Necarsulmer. "Our assignments have ranged from managing oil spills off the California coast to helping BP protect its first investments in Russia."

PBN is now working with BP, AAR, TNK and SIDANCO to assist in the integration and creation of TNK-BP, which will be Russia's third largest oil company. We have already developed, launched and now manage "TNK-BP Inform," the extranet site for the integration team to help keep the more than 100,000 affected employees of BP, TNK and SIDANCO in Russia up-to-date on the creation of TNK-BP.

[Issue 6](#)

September 4, 2002

[Issue 5](#)

July 8, 2002

[Issue 4](#)

April 25, 2002

[Issue 3](#)

March 25, 2002

[Issue 2](#)

February 19, 2002

[Issue 1](#)

December 6, 2001



www.pbnco.com

THE PBN COMPANY is an international strategic communications, government relations and public affairs consultancy serving clients worldwide from offices in Washington, DC, London, Moscow, Kyiv, Riga, Almaty and Chisinau.

PBN

Thursday, April 24, 2003

Volume 1 Issue 11

A Look at the Deal

No one would have predicted in early 1999 that almost exactly four years later BP and the Alfa Group and Access-Renova (AAR) would announce an historic deal to create Russia's third largest oil company. That's because BP and AAR were locked in a bitter shareholder battle over the assets of SIDANCO, a Russian oil company in which BP owned a 10 percent stake.

The dispute was resolved later that year and, by 2001, the two main shareholders in SIDANCO were AAR and BP. In addition to its investment in SIDANCO, AAR was also the primary shareholder in TNK, Russia's fifth largest oil company.

In 2002, BP, with a renewed sense of confidence, increased its stake in SIDANCO to 25 percent and began a dialogue with AAR for greater cooperation.

The Creation of TNK-BP

The result of these negotiations was the decision to create a new oil company, TNK-BP, made up of assets owned in Russia by both BP and AAR. AAR is contributing its holdings in TNK and SIDANCO, its share of RUSIA Petroleum, its stake in the Rospan gas field in West Siberia and its interest in the Sakhalin exploration licenses. The assets being contributed by BP to the new company include its holding in SIDANCO, its stake in RUSIA Petroleum, its interest in the Sakhalin V exploration license and its holding in the BP Moscow retail network.

"From BP's perspective, it was vitally important to make the deal a

[Return to Front Page](#)



Robert Dudley, Group Vice President, will serve as the first TNK-BP Chief Executive Officer.



Reporters covering the announcement of the creation of TNK-BP at a Moscow news conference on 11 February 2003.

true 50-50 partnership in Russia. The agreement recognizes the obvious importance, when working in Russia (and many other places in the world), of having a partner whose interests are aligned with your own," stated BP Group Vice President Robert Dudley, who will serve as TNK-BP's first President and Chief Executive Officer, in a speech on April 14th at the Russian Economic Forum in London.

In return for its \$6.75 billion investment, BP will own 50 percent of TNK-BP and AAR will own the other half. Once fully integrated, TNK-BP will become Russia's third largest oil company with oil and gas reserves estimated at 5.2 billion barrels. It will produce 1.2 million barrels of oil a day.

A Boon to Foreign Investment

Immediately, the financial venture was heralded as a boon to foreign investment in Russia. BP's \$6.75 billion investment is equal to 1.5 percent of Russia's gross domestic product and matches all of Russia's foreign investment over the past three years.

"The deal is testimony to the transformation that Russia has undergone in the past several years," explains Peter Necarsulmer, PBN's CEO. "Normalcy in business arrangements have, to a large degree, replaced the business environment of the 1990s where asset grabs, shareholder violations and chaos dominated." The shareholders of TNK-BP have already announced that the new company will adopt and adhere to rigorous western principles of corporate governance.

For BP, the deal increases its worldwide reserves on par with global rivals, ExxonMobil and Royal Dutch/Shell. BP's chief executive, Lord Browne, called Russia "a very important element in the long-term renewal of BP."

In his recent London speech, Dudley also stated, "The basis of a good deal is, of course, to create benefits for all the parties, and this deal appears to be a rare combination of being good for all parties - the shareholders, the market in which it will operate, the country itself, and the employees of what will be a larger and stronger company with good growth prospects."

Now BP is heading up the team that will create the new company and integrate the assets of TNK and SIDANCO. This is no small task, given that TNK and SIDANCO have tens of thousands of employees,

five refineries, oil fields in Siberia and the Volga Urals region, and 2,100 retail outlets in Russia and Ukraine.

TNK-BP will be governed by a 10-person Board of Directors, with members nominated equally by BP and AAR. Alfa Group Chairman Mikhail Fridman will serve as the new company's chairman.

<http://www.bp.com/>

<http://www.sidanco.ru/>

<http://www.tnk.com/>

<http://www.alfagroup.org/>

[Return to Front Page](#)



P B N

www.pbnco.com

THE PBN COMPANY is an international strategic communications, government relations and public affairs consultancy serving clients worldwide from offices in Washington, DC, London, Moscow, Kyiv, Riga, Almaty and Chisinau.

Thursday, April 24, 2003

Volume 1 Issue 11

Foreign Investment in Russia, the CIS and Baltics

Foreign direct investment (FDI) in Russia, the CIS and Baltic States have not met the expectations that many predicted when the Soviet Union fell nearly 12 years ago. Economic dislocation, political uncertainties, corruption, underdeveloped markets and inadequate protections for foreign investors are the major barriers that have kept Western companies away from the newly independent countries of the former Soviet Union and Baltic States.

But now the investment environment in many of these countries is rapidly changing, and for the better. The Baltic States have just entered the European Union, which will undoubtedly encourage greater foreign investment. Russia's President Vladimir Putin is pursuing an aggressive strategy of reform, which is garnering praise by foreign and domestic investors alike and is already paying dividends.

In announcing the creation of Russia's third largest oil company, BP Chief Executive Lord Browne pointed to "Russia's greatly improved economic stability, improved legal system and increasing commitment to international rules of trade and business" as one of the reasons for BP's record-breaking investment in the newly created Russian oil company, TNK-BP.

An analyst from Troika Dialog, Russia's leading investment bank, also believes that the time is right for foreign investment. "First there was the era of privatization conducted mostly with the use of domestic capital," he said. "Now it is time for Western companies and money to enter the scene."

[Return to Front Page](#)



But other countries are still lagging behind. Ukraine's political turmoil and stalled reforms have dampened many potential investors' interest in that country. The FDI picture in Central Asia varies, with those countries with abundant oil and gas resources enjoying relatively high levels of FDI, while those without are having problems attracting foreign investment.

Country and Regional Overview

Here is a quick overview of status and outlook of FDI in key countries and regions:

Russia. Russia is still making up ground in FDI since the ruble devaluation and financial crisis of 1998. Today, FDI is still lower than it was prior to the crisis. Russia has less than half of the FDI going to Hungary and less than one fifth going to Poland. In 2002, accumulated foreign investment in Russia was \$42.9 billion, primarily concentrated in two industries: oil/gas and mining, which combined, account for 61.2 percent of FDI.

Ukraine. Ukraine still has one of the lowest levels of FDI in Europe, notwithstanding a 32.1 percent increase between 2001 and 2002. In 2002, FDI totalled \$1.075 billion (or \$111 per capita), compared to \$814 million in 2001. Deficient investment instruments, inadequate corporate governance, high tax rates, and a lack of transparency in the privatization process are some of the reasons cited for Ukraine's inability to attract foreign investment.

Central Asia. Only Tajikistan, Uzbekistan and the Kyrgyz Republic trail Ukraine in per-capita FDI levels. In comparison, Kazakhstan, which is rich in oil and gas reserves, receives about \$1.5 billion in FDI per year.

Baltic States. FDI reached the \$2 billion mark in 1999 and continues to grow steadily. At the end of 2000, FDI was \$2.6 billion in Estonia, \$2.3 billion in Lithuania and \$2.1 billion in Latvia. These are relatively substantial levels in all three of these small countries. Estonia ranks third in FDI per capita in Eastern Europe, after Hungary and the Czech Republic.



www.pbnco.com

THE PBN COMPANY is an international strategic communications, government relations and public affairs consultancy serving clients worldwide from offices in Washington, DC, London, Moscow, Kyiv, Riga, Almaty and Chisinau.

Thursday, April 24, 2003

Volume 1 Issue 11

PBN's 15-Year History with BP

The PBN Company's relationship with BP dates back to a few short years after the firm opened its doors two decades ago. Throughout our long relationship with one of the world's largest oil companies, PBN's assignments for BP have always been challenging, rewarding and successful.

PBN first started working with BP in the mid-1980s to support the company's legislative objectives in the Western United States. Retail divorcement proposals -- legislation requiring major oil companies to divest themselves from company-owned filling stations and only market through dealer-owned stations -- were defeated by The PBN Company's and BP's lobbyists in California, Nevada and Washington. Taxation, air quality, oil spill laws and reduced emissions gasoline were among the many issues that The PBN Company helped BP and other oil companies manage over a period of ten years.

PBN Helps BP with California Oil Spill

One evening in February 1990, PBN Founders Peter B. Necarsulmer and Susan Thurman received a call at their home from Pat Presley, BP's Government Representative in Sacramento, the California state capital. The hull of a ship carrying a load of BP crude ruptured off the coast of Huntington Beach, California, spewing nearly 400,000 gallons of crude into the sea.

The spill -- the first major oil spill since Exxon Valdez -- threatened a 20-mile stretch of coastline, wildlife and the economy of one of Southern California's most popular recreational beach areas. Although the ship was not owned by BP, the company took control of the response effort

[Return to Front Page](#)



TNK-BP INFORM

and, within hours of the accident, senior management from BP and The PBN Company were en route to the scene of the spill. At 1:30 A.M., the team met in a Long Beach hotel lobby to begin implementing BP's emergency response communications plan, dealing almost immediately with national and local news cameras hungry for first details of the incident.

For six weeks, The PBN Company team helped BP "24-7" handle the onslaught of attention by national news media, federal and state government officials, environmental organizations, community groups and residents as the oil was contained and cleaned up. The effort was, and continues to be, widely regarded as a textbook case in crisis response and communications. The *Los Angeles Times* noted the success of BP's crisis communications response in a major article: "BP Soaked Up Oil and Good Press."

"This oil spill response effort started The PBN Company's long history in providing crisis communications services to BP and dozens of other clients in the United States and around the world," says Susan Thurman, PBN's President. "Since then, we have participated in oil spill drills and provided crisis training to dozens of BP executives and on-scene personnel. We have also helped BP respond to refinery fires, environmental releases and other accidents throughout the United States."

PBN Announces Shipment of Colombian Crude

In 1995, BP asked The PBN Company to manage the announcement that the first shipment of oil from Colombia's famous Cusiana field would soon be available for sale to the United States. BP, Total (the French oil company), Dallas-based Triton and Ecopetrol of Columbia were investors in the Cusiana field, which was one of the largest discoveries in the Western Hemisphere since Alaska's Prudhoe Bay.

"We were successful in arranging extensive coverage in major daily newspapers in the United States, including *The New York Times* and *Wall Street Journal*, as well as in Colombia's most influential daily newspaper," recalls Thurman.

PBN's first assignment for BP in Russia was related to the company's ultimately successful effort to defend a \$500 million investment, fending off attempts by the Alfa Group and Access Renova (AAR) to gain control of SIDANCO, a Russian oil company in which BP owned a 10 percent stake. After the dispute was resolved, PBN worked with SIDANCO's BP-

led management team to create and manage a communications department within the Russian oil company, then the country's sixth largest.

Now The PBN Company is pleased to be working with BP and AAR as the two equal shareholders integrate TNK and SIDANCO into Russia's third largest oil company.

Email Peter: peter.necarsulmer@pbnco.com

Email Sue: susan.thurman@pbnco.com

[Return to Front Page](#)



PBN

www.pbnco.com

THE PBN COMPANY is an international strategic communications, government relations and public affairs consultancy serving clients worldwide from offices in Washington, DC, London, Moscow, Kyiv, Riga, Almaty and Chisinau.

Thursday, April 24, 2003

Volume 1 Issue 11

News from PBN Worldwide

The PBN Company is proud to announce that we have secured three major new client assignments:

Currency. The PBN Company is assisting the U.S. Department of the Treasury Bureau of Engraving and Printing to ensure that the newly designed U.S. currency notes, which are being introduced into circulation worldwide in the fall of this year, are recognized and accepted by the Russian public and business community. The three year assignment is being undertaken under the guidance of Burson Marsteller, which is the global communications consultant to the Treasury Department for this important program. The PBN project team is being led by Mikhail Goncharov and Mark Dillen in Moscow, and Paul Nathanson in D.C.

Email Mikhail: mikhail.goncharov@pbnco.com

Email Mark: mark.dillen@pbnco.com

Email Paul: paul.nathanson@pbnco.com

Security. The PBN Company has also won the tender to serve as communications consultant to the Russian Federal Commission on the Securities Market, Russia's watchdog agency for securities markets. Funded by The World Bank, the 18-month project will help the Commission highlight its roles in corporate governance, shareholder rights and a properly functioning securities market. PBN's account team will be led by Peter B. Necarsulmer, Tom Thomson and Tatiana Nikulshina in Moscow.

Email Peter: peter.necarsulmer@pbnco.com

Email Tom: tom.thomson@pbnco.com

[Return to Front Page](#)



The PBN Company was recently awarded a contract by the Library of Congress OPEN WORLD Russian Leadership Program. Ambassador James Collins, a Trustee of the program, speaks at a reception in May 2002 co-hosted by The PBN Company. Duma Member and OPEN WORLD delegate Adrian Puzanovskiy (right) and Russian Agency for Patents and Trademarks General Director Alexander Korchagin, stand behind Ambassador Collins.

Email Tanya: tatiana.nikulshina@pbnco.com

Leadership. The PBN Company has also been selected by the Center for Russian Leadership Development at the U.S. Library of Congress to manage domestic and international public relations for the OPEN WORLD Program, which brings more than 2,500 Russian political and civic leaders to the U.S. every year to exchange views and create professional ties with their American counterparts. The program will expand to additional pilot countries later this year. Paul Nathanson and Katya Sedova in D.C. are the project managers.

Email Paul: paul.nathanson@pbnco.com

Email Katya: katya.sedova@pbnco.com

Assistance, Please! PBN•London has a new assistant account manager, Julia Kalcheva who joined the firm on 3 February, while PBN•Moscow has a new assistant, Anna Averianova, for its media monitoring and translation department. Welcome Julia and Anna!

Email Julia: julia.kalcheva@pbnco.com

Email Anna: anna.averianova@pbnco.com

Spring Term. Also, welcome to PBN•DC's new spring intern, Eugene Okladnikovs. Originally from Riga, Eugene is a senior at George Washington University in Washington D.C.

Email Eugene: eugene.okladnikovs@pbnco.com

[Return to Front Page](#)

Published by [The PBN Company](#)

Copyright © 2003 The PBN Company. All rights reserved.