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CONFIDENTIAL

RE: Background Investigation and Assessment of Tyumen Oil Company

Summary

Group Security conducted an assessment of Tyumen Oil Company (TNK) and its principal ownership group, Novy Petroleum Financial Limited and ZAO Novy Holdings. The request was predicated on the current BP Amoco strategy to prevent bankruptcy proceedings involving Sidanco and one of its key subsidiaries, Chernogorneft. TNK is involved in a hostile take-over of Chernogorneft, which could jeopardise BP Amoco's investment in Sidanco.

Management prudently raised concerns about TNK's possible use of harassment, intimidation or violence against BP Amoco or Sidanco personnel, in response to our strategy. These possibilities exist given anecdotal allegations of TNK's links to Russian organised crime and purported penchant for violence. However, reliable sources, familiar with TNK and Alpha Group practices, assessed the probability of physical violence against Sidanco/BP Amoco employees as unlikely. We concur. Whilst the other threats do not warrant the cessation of business operations in Russia, or evacuation of personnel, it does require enhanced security measures and practices, which will be addressed with local management.

DETAILS

TNK - Key Players and Relationships

Under the Novy associations, TNK is majority-owned (51%) by the Alpha Group consortium and Renova Access Industries Group. The Russian Federal Property Funds controls the remaining portion of TNK. Reportedly, efforts are underway by TNK to obtain control of the Funds' holdings. Mikhail Friedman leads the Alpha Group consortium. Knowledgeable sources describe him as a young, brilliant financier and businessman. Leonard Blavatnik, who lives in the U.S., is the driving force behind Renova Access Industries Group. Sources describe him as a "wheeler-dealer" and as someone who is very active in lobbying U.S. political and financial interests on TNK's behalf.

Other significant personalities have various roles in TNK. Semyon "Simon" Kukes (a former Amoco employee) is TNK's president, but has only modest influence. Representatives from Alpha and Renova groups exercise TNK's active management. For instance, German Kahn (President of Alpha-Echo, an Alpha Group subsidiary) who serves as Vice Chairman of TNK's Management Board and as a First Vice President, is thought to closely monitor Kukes activities for the Alpha Group. Kahn is described as "young and clever", but with a very mercurial and volatile temperament, including allegations of links to black market and

criminal activity during the former Soviet era. Oversight of the company's strategic development, including the Chernogorneft take-over, is the responsibility of Victor Vekselberg (Chairman of the Board of Renova Access Industries Group) who also serves as Deputy Chairman of the TNK's Management Board and as another First Vice President. (Full profiles of the above individuals are maintained and are available upon request).

Sources speak of considerable tension between prominent individuals in Alpha Group and TNK. Friedman is clearly the most influential and is believed to be responsible for devising TNK's Chernogorneft strategy. Friedman is reportedly very concerned about his reputation and how he is perceived in the West. He craves recognition and credibility and is very sensitive to being marginalised or snubbed. Kukes told our sources that Friedman's priorities are reputation and wealth, in that order of priority. Kahn, on the other hand, is reported to be fiercely loyal to TNK, unlike the others who are only opportunistically interested in the financial rewards. Kahn is closest to daily operations, and Kukes is known to fear him.

TNK's Chernogorneft Strategy

Our sources report that Kukes and TNK have intimate knowledge of BP Amoco's strategies and intentions. Although sources and methods were not revealed, most Russian companies with sufficient funding, motivation, and political connections can be expected to actively collect information against competitors, using a myriad of proven intelligence-gathering methods. Our sources emphasised the need for BP Amoco to significantly improve the security of its information management.

Kukes is described as very confident about TNK's strategies for obtaining Chernogorneft. He estimates that TNK has already invested between \$60 and \$70 million and now holds between 58% and 62% of Chernogorneft's debt. Kukes also believes that "TNK is in a prime position in Nizhnevartovsk and Khanty-Mansyisk." He commented that TNK is perceived as "a local company with local ties." Not surprisingly, Kukes told our sources that Sidanco is viewed as a "thoroughly mismanaged and discredited company."

Kukes claimed that TNK have been assiduously tending to their political strategies and have secured considerable local political support. Although not substantiated, Kukes inferred that TNK also enjoys strong national support at the executive (Minister of Energy) and legislative (Duma, Speaker of the House) levels.

Kukes noted that the battle between TNK and BP Amoco over Chernogorneft is "getting personal." He cited BP Amoco's lobbying efforts to block TNK's loan application with Export-Import Bank (EXIM), wherein, TNK was purportedly characterised by BP Amoco as "crooks and thugs." Kukes indicated that TNK has already secured alternative financing (not further identified). He actually hoped that the EXIM loan would be rejected because it would improve TNK's standing for subsequent (slander/libel) litigation against BP Amoco. Kukes implied that a team of lawyers in the U.S were already devising a legal strategy.

Kukes mused about alternative options to "bidding up the debt" and "paying a lot of money for something that we could have acquired for very little." He suggested, at one point, that BP Amoco - TNK should buy and operate Chernogorneft as a separate alliance company. However, Kukes did not think that such an arrangement would generate much interest because, as he said, BP Amoco does not take TNK seriously. As an example, he cited a BP Amoco approach to TNK to discuss fuel provision to BP Amoco retail outlets in Moscow. Kukes, instead, pushed for a broader alliance, saying TNK had bigger aspirations than being a wholesaler. The BP Amoco representatives were reportedly dismissive of his proposal and the talks concluded. (As an aside, Kukes mentioned that TNK has recently bought a 12%

ownership interest in the Slavneft refinery, which is alleged to be a source of fuel for BP Amoco retail sites in Moscow, and that Friedman is now considering its outright purchase.)

Observation and Conclusion

TNK firmly believes its position will ultimately prevail because of established political alliances, which would almost certainly demand closer scrutiny in a more transparent business and political environment. By all accounts, TNK enjoys excellent relations with the regional authorities of Tyumen Oblast and Khanty-Mansyisk District, especially the with Tyumen Oblast's governor, Leonid Roketsky, who is a TNK board member.

Neither Alfa nor Renova employ the violent resolution methods often seen in commercial conflicts involving the so called "bandits," the most visible part of the Russian organised crime. Instead, both groups are more likely to associate (primarily money laundering) with the more sophisticated and discreet elements of Russian organised crime. **Additionally, both employ private security groups and enjoy the unlimited support of local law enforcement agencies, which they are able to manipulate to achieve desired business objectives.**

A consensus of these factors, along with the need for maintaining international respectability - almost an obsession for Friedman--indicates that direct physical violence against BP Amoco/Sidanco expatriates is unlikely. The risk to Russians affiliated with the company, such as Alexander Putilov (who one source claimed was involved in several questionable business relationships in the past) is slightly higher. Nevertheless, risks against national employees are still more likely to take the form of low-level harassment and intimidation than physical violence. All this presumes, of course, that Friedman is actually the "Captain of his ship" and exercises sufficient organisational control to mitigate the actions of people like Kahn, who is far less predictable and much more reactionary.

Given the present circumstances, we believe that TNK is much more likely to continue to enrol the support of various government officials and agencies, such as local tax police units, governors, deputy prime ministers, etc., in order to substantially pressure BP Amoco to reach a compromise with TNK. As one source noted, **"BP Amoco is playing the game on a Russian pitch, by Russian rules, officiated by corrupt politicians in TNK's pockets."** Nevertheless, indications are that TNK would still be receptive to alternative solutions for settling the Chernogorneft dispute. In that regard, our source is well liked and trusted by Kukes, based on a long term business relationship. The source could easily open a back channel dialogue with Kukes (TNK), should that be desired or deemed beneficial. Also, management should be assured that the source's integrity is beyond reproach and that his linkage to BP Amoco remains entirely confidential.

In conclusion, we believe that continued business operations in Russia are possible and fall within acceptable risk levels but, given this dispute, our presence will require enhanced security measures and increased staff commitment and involvement. A number of measures have already been adopted; others will be discussed during a Group Security visit to Moscow, scheduled for next week.

CONCLUDED HERE

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