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Deal places Alfa atop Russian mobile industry - The Financial Times

By Catherine Belton

Alfa Group's latest deal puts it at the top of the Russian mobile industry after more than five years of bruising corporate battles that saw it take on Scandinavian telecoms, a Turkish billionaire and even the Russian telecoms minister.

In court cases that stretched from New York, Bermuda, the British Virgin Islands to Siberia and Ukraine, oligarch Mikhail Fridman's group fought "extraordinary hardball", according to one industry insider, standoffs that in some cases have raised concerns about Russia's investment climate.

Thursday's deal to pool Alfa and TeliaSonera's stakes in Megafon, the number three mobile operator in Russia, and in Turkcell, the Turkish mobile operator, into a new company, comes on top of a deal last month in which Telenor, the Norwegian company, agreed to merge its assets in Vimpelcom, the number two mobile operator, and Ukraine's Kyivstar with Alfa to create a new joint entity, in a deal aimed at ending a five-year vicious corporate war.

"This has been a banner year for Alfa. They should win oligarch of the year awards," the insider said.

Even though the deals spell out that Alfa and its partners will operate each company on a 50:50 basis with independent directors on the boards to decide deadlock situations, the Russian reality is that Alfa will most likely control both companies.

The deals raise parallels with a similar peace agreement between Alfa's oil arm, TNK, and BP of the UK over their joint oil venture last year which has the same 50:50 governance mechanisms but has left Alfa with effective control.

"There are technological and marketing skills that Telia can bring to the JV, but Alfa is in a position to better navigate the business environment in Russia and in that sense they will dominate it," said Roland Nash, head of research at Renaissance Capital, the Moscow investment bank. "Alfa helped write the rules of doing business here."

"We really are expert in difficult complicated sophisticated business and legal situations," Alexei Reznikovich, chief executive of Altimo, telecoms subsidiary of Alfa, told the Financial Times. "That's why we get involved in these situations on a constant basis and often enough we resolve them and create shareholder value."

Critics, however, say Alfa's specialty is using its power to abuse the Russian court system to come out on top, a charge which Mr Reznikovich denies.

“We are trying to use all possible ways within the framework of the legal system ... to defend our shareholder interests,” he said.

In the case of Telenor, a five-year corporate battle escalated in March this year when a Siberian court ruled in favour of an obscure minority shareholder to fine Telenor \$1.7bn, or the value of its stake in Vimpelcom, for blocking Vimpelcom’s entry to the Ukrainian market. Telenor alleged Alfa had helped engineer the suit filed by Farimex to “steal” its stake in Vimpelcom. Alfa denied any connection to the suit.

One insider said bailiff threats to sell the stake to pay off the fine were the final straw for Telenor. “Telenor blinked,” he said.

Telenor, however, has said it never believed Russia would go so far as to sell the stake because it would be too damaging for the investment climate.

Mr Reznikovich said he did not think the threat was a deciding factor. “Everyone is tired of all these legal battles ... this is not what business is supposed to do: to spend the money and energy of their organisations to feed the law firm industry ... When it goes on for a long time ... people start thinking why are we doing this: maybe it is better to try and agree something.”

The same courtroom fatigue goes for the deal with TeliaSonera, he said. In this case, the two companies – although they have had much better relations than Alfa had with Telenor – have been at loggerheads over a stake in Turkcell.

The standoff stems from a deal in 2005 when Turkish conglomerate Çukurova, owned by Mehmet Emin Karamehmet, a flamboyant Turkish billionaire, reneged on a deal to sell shares in Turkcell to TeliaSonera, and decided instead to form a venture with Alfa.

An arbitration court in August ruled that Çukurova should sell its remaining stake in Turkcell Holding to TeliaSonera for \$3.1bn. Altimo meanwhile, had charged it was owed the same stake as collateral for a loan Çukurova had not paid. “We decided to join forces to make sure that whoever prevails will prevail not to start a new legal battle between us and Telia but rather to actually get the shares and put them in a new company and start a new life with that,” Mr Reznikovich said.

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