

A Lesson for Russian Oligarchs
By Leonid Bershidsky - Dec 26, 2013

As oligarch Mikhail Khodorkovsky enjoyed his first days of freedom in Berlin after spending 10 years in Russian prisons, he struggled to answer questions about his remaining financial resources. "I do not have a full picture of my financial situation yet," he said at a news conference.

The question of Khodorkovsky's remaining wealth isn't academic. President Vladimir Putin's Russia waged an all-out war against him and his partners, and if they managed to hold on to their substantial resources, that is an encouraging sign for other wealthy Russians fearing that the state might confiscate their assets. It is also a strong argument for continued capital flight from Russia: Much of Khodorkovsky's hypothetical remaining wealth would come from the foreign investments of his now-defunct oil company, Yukos, once Russia's biggest oil company.

Forbes magazine first named Khodorkovsky the wealthiest Russian in 2001, estimating his fortune at \$2.4 billion. In 2002, Khodorkovsky -- thinking the estimate was crude -- became the first Russian tycoon to disclose the ownership structure behind his business, mainly by virtue of his stake in a Gibraltar-based company, Group Menatep Ltd. That seemed to value Khodorkovsky's personal fortune at about \$7.8 billion. This later swelled, and in early 2004, while already in jail on charges of tax evasion and grand larceny, Khodorkovsky was ranked as the 15th richest person in the world, with a net worth of about \$15 billion.

The Russian government went after Yukos, initiating bankruptcy proceedings that ended in the sale of most of the oil company's assets to state-owned Rosneft for a fraction of their true value. In 2005, Khodorkovsky's lawyers said their client had less than \$100 million because he had reinvested most of his dividends in Yukos and transferred his Group Menatep shares to a partner, Leonid Nevzlin, who had fled to Israel. Later, a Russian court sentenced Nevzlin to life in prison, in absentia, for his alleged role in several contract killings, but Israel wouldn't extradite him.

Before Yukos's bankruptcy, the company's overseas units sold some valuable assets, the proceeds of which landed in the accounts of Dutch-registered Yukos Finance BV, and a protracted legal battle ensued for them. In January 2011, the Dutch Supreme Court released the proceeds to Yukos International UK BV, a vehicle controlled by former senior Yukos managers, including Chief Financial Officer Bruce Misamore and former interim Chief Executive Officer Steven Theede.

I obtained financial returns filed by Yukos Finance BV and Yukos International UK BV to the Dutch authorities. At the end of 2011, the latest year for which data are available, the former had assets of \$646.9 million and the latter \$925.9 million, almost all attributable to the company's shareholders.

In public statements over the years, such as the ones in this Business Insider article, Misamore has maintained that his goal is to distribute the assets to Yukos's shareholders and creditors. By the end of 2011, that hadn't happened. Exactly how much shareholders and creditors would get, and through what process, remains unclear.

Khodorkovsky told Bloomberg News he was not planning to ask Nevzlin to return the majority stake in Group Menatep, since renamed GML Ltd. Speaking at the news conference, he also said that he wouldn't personally fight for the return of Yukos assets, although he couldn't promise that on behalf of his partners. In terms of calculating Khodorkovsky's remaining fortune, these statements are meaningless. According to accounts filed by GML to Gibraltar authorities and provided to me by Dun & Bradstreet, at the end of 2010 GML had total assets of \$292.3 million, of which \$245.6 million was "owed to members," probably including Khodorkovsky.

The 2002 share distribution would give Khodorkovsky assets of about \$170 million, plus his share of whatever GML may eventually receive from Yukos Finance BV and Yukos International UK BV, at most about \$570 million. Yukos-related litigation is still dragging on in several countries, including the U.S., and there may be other awards and setbacks to former Yukos shareholders. At this point, Khodorkovsky's fortune can be roughly estimated at several hundred million dollars -- certainly enough to live very well on, but too little to finance anti-Putin opposition in Russia.

Khodorkovsky almost certainly isn't going back to Russia anyway, because a local court ruled in 2005 that he owed 17.4 billion rubles (\$532.5 million) in back taxes. Russia's Supreme Court may soon overturn the verdict, but at this point the Russian state considers Khodorkovsky a major tax debtor, and any of his money transferred to Russia may be confiscated.

There is a lesson here for other Russian entrepreneurs: Transfer overseas as much capital as possible, and hide it well. If the wealthiest man in Russia has ended up a mere multimillionaire, they can be wiped out by a state onslaught if they fail to think in advance of ways to place their cash out of Putin's reach.