



## Independent Gas Industry

The only thing NOVATEK needs now is its own gas transport system

Tags: [NOVATEK](#), [Mikhelson](#), [SIBUR](#)



Events involving NOVATEK and the business of its main shareholder Gennady Timchenko (one of the businessmen close to Vladimir Putin) became a blockbuster of not only this week, but of this year as well. Last Monday,

it became known that Gazprom sold 9.4% of NOVATEK's shares to Gazprombank (which is controlled by another powerful businessman and banker Yury Kovalchuk). The day after, the bank issued an option for those shares to offshore company Hibridge Ventures Limited, owned, on parity basis, by Gennady Timchenko and Leonid Mikhelson (Chairman of the Board and former main shareholder of NOVATEK). This became the first evident sign of their actual business partnership. Until those times, it had been seen only in the fact that the share of L. Mikhelson was gradually reducing, and participation of G. Timchenko was gradually increasing. In addition, NOVATEK's head was an independent Chairman of the Board of Directors of Stroytransgaz controlled by Timchenko's structures. Now, however, it really looks like a full-scale partnership.

Moreover, it was announced in the end of last week that some Miracle CJSC fully owned by L. Mikhelson was going to purchase SIBUR Holding (valued at \$7.5 bn) from Gazprombank. Until now, the assets gained by the bank during its participation in Gazprom Group, have been finally got by G. Timchenko's structures. This was true for Yamal LNG (later, last summer, he sold its control stake to NOVATEK and started increasing his participation in the gas company, becoming the largest shareholder in spring). He still controls 40% of Yamal LNG shares. This helped to lobby an unprecedented package of state support for a private project. He was also the one to buy Stroytransgaz from Gazprombank. The control stake of Sibneftegaz (taken from Itera in 2006 as part of the Gazprom's assets returning campaign) was sold by the bank to NOVATEK after the moment when G. Timchenko had become the largest shareholder.

L. Mikhelson declares that this was his personal deal. It is evident, though, that SIBUR, which could also become the next subject of federal support (V. Putin is continuously saying on the intent to develop downstream industries, petrochemistry first of all), is going to be sold to G. Timchenko's partner, not to NOVATEK's head. ➤ Page 3

## Manual sunset of the empire

Unified Industrial Corporation is looking for a purchaser of its key asset

Senator Sergei Pugachev can lose his last major asset. The bankruptcy manager of Mezhprombank, the ACB company, sent a letter to the law-enforcement authorities with the request to seize the stock package of the Yenisei Industrial Company (YIC), as provisional measures. The YIC control stock package was in pledge of Mezhprombank as security of credits for the sum of RU 60bn. The security had been withdrawn not long before the license was revoked from S. Pugachev's bank.

Now, the Unified Industrial Corporation (UIC) is searching for a purchaser of YIC (the mandate was issued to Credit Suisse), saying that this is UIC's most valuable asset (\$5 bn). The company owns the license for development of the Elegest coal deposit with reserves of 950 mnt. The Japanese Mitsui and

Russian smelting companies – Severstal, NLMK, Evraz are named among the bidders.

Asset withdrawal from the pledge can be contested, as a deal made to the prejudice of property interest of the creditors. ACB has already made one such claim to the Arbitration Court of Moscow towards Mezhprombank, UIC and its subsidiary UIC development, requesting to declare the deal void. The case is credit repayment by the UIC structure, with returning it a similar deposit, the sum of claim is approximately RUR 250mn.

When the central Bank revoked the license issued to Mezhprombank and filed an action on its bankruptcy last October, the Chairman of the Central Bank Sergei Ignatiev has sent two letters to the General Prosecutor's Office, where he wrote that he identified «the signs of criminally punishable acts» in the actions of the bank managers. However, according to his opinion, the bank owner – UIC – has the sufficient properties to return the debts to its creditors. Likely, the ship-building plants owned by S. Pugachev, which have been given to the pledge to the Central Bank, do not seem enough to the state authorities, and they plan to take the whole business from the Senator.

### TOP NEWS

- Common Free Market Zone against the gas wars
- The Indian meat is the Chinese poison
- Non-market auction
- Dry cleaning of assets
- Competitive sport assets
- How money was stolen from the Transneft

## News brief



Gazprom sold 9.4% of NOVATEK's shares to Gazprombank, which immediately issued an option for those shares to offshore company Hibridge Ventures Limited, owned, on parity basis, by Gennady Timchenko and Leonid Mikhelson. Miracle CJSC fully owned by **L. Mikhelson** is going to purchase SIBUR Holding (valued at \$7.5 bn) from Gazprombank. Probably the final owner will be again Timchenko and SIBUR could also become the next subject of federal support.

➤ Page 1

Russia lost the first international proceedings within the **YUKOS case**. On September 17 the Arbitration Institute of the Stockholm Chamber of Commerce adjudged to collect \$3.5 bn of loss from the Russian Federation for the benefit of RosinvestCo. This evidences that the arbiters considered the state to contribute to loss of YUKOS investments. On December 10, the decision of the arbitration was appealed against by the Russian side in the Stockholm Court of Appeal.

➤ Page 3

The Russian Ministry of Internal Affairs performed in Moscow and Oblast searches and seizures of documents on the criminal case initiated against unknown former top managers of **JSC Transneft**, who are suspected in fraudulent misappropriation of more than RUR2.6 bn from the Company.

➤ Page 4

The **Gazprom** Board of Directors examined the development of production parameters for the period to the year of 2015. Gazprom production to this period will total 570-580 bcm, or 5.6-6.5% less than the previous estimates. The plan for 2020 remained unchanged (670 bcm). In 2010, the expected production level of the corporation will be 515 bcm (+11.6% YoY).

➤ Page 6

The struggle for the right to buy WGC-3 from Nor Nickel is continuing. Inter RAO offers to exchange 79.24% of **OGK-3** shares for the share in Inter RAO, valued at \$2.27 bn. Evrosibenergo offers real money for WGC-3 shares - \$2.1 bn. The Evrosibenergo's offer is valid through December 31.

➤ Page 6

All property of **RUSIA Petroleum** is listed for sale as a single lot. The initial price is RUR 15.1bn. The assets are necessary and assigned for the Kovykta field development. The buyer will be able to apply for re-issuing in its behalf the license for the development of Kovykta field. The assets would be probably purchased by TNK-BP structures at the initial price, for the purpose of clearing the property from debts and minority shareholders, and then re-sold to the state company Rosneftegaz.

➤ Page 6

Prime Minister Vladimir Putin signed an order which stated the initial price of the auction sale of 25.1% of the shares of the **TGC-5** generating company. This price is significantly higher than the previous evaluations and current stock-exchange quotations of TGC-5 shares. IES-Holding and Inter RAO are the most possible participants.

➤ Page 7

According to the Gazprom sources of information gas price for **Belarus** may decrease in 2012, when the current 5-year gas contract is revised. Average European gas price minus customs duties and transit costs will be taken as basis. The pricing principles identified in the package of documents related with creation of the Common Free Market Zone.

➤ Page 8

Maxim Barsky will not take the post of the President of **TNK-BP** from January 1, 2011. According to the official version the Company's shareholders have not yet approved the three-year plan, which comprises approval of the call premium program for the management. The real problem is most likely the fact that the current management (German Khan and Mikhail Fridman) are not going to leave the company.

➤ Page 8

## Independent Gas Industry

Continued from page 1

This scheme just allows avoiding too many explanations at this stage, not diverting G. Timchenko's money for budgeting of this deal. Supposedly, it will be Gazprombank to finance the purchase of 100% shares of SIBUR, but L. Mikhelson will have to put up the SIBUR stake, as well as other own assets (likely, it will be NOVATEK's stake).

It should also be noted that the effort of Gazprom's financier to sell all NOVATEK's shares has not been successful. Upon the pretext of preservation of 10% of shares, the gas corporation will continue sharing the business with G. Timchenko (as well as markets, assets, and the most-favored status, up to the access to export profits).

### ERTA view

NOVATEK founding fathers have managed to go their way, not passing the point of no return. The strictest analysis of the gas industry after appointment of A. Miller to Gazprom (the famous assets return story) has not revealed any criminalities.

The modern history of Russian has not yet seen "dynastic companies" with transparent origin of the capital. As for NOVATEK, though, its history can be called to a sufficient extent transparent. Since the major owners of the company are known, names of the other stockholders are not of great importance. Important is the role played by L. Mikhelson personally in the development of the company. It is not a stretch of imagination if we say that he is one of the major businessmen and industrialists in Russia.

NOVATEK, as it is for today, is NOVATEK of Mikhelson. Not in terms of ownership, but rather in terms of management style, development dynamics, etc. On the other hand, the key risk of the company is represented now by L. Mikhelson himself. If he is not able to manage the company personally, it will be some different NOVATEK. And the company has no other managers of similar rank.

Mikhelson takes in his hands new tasks and projects, wised to him not only by fortune, but by the state government as well.

Yamal LNG project is one of the examples. The project which is definitely a breakthrough for Russia. Of course, we do not believe in possibility of its implementation within the declared schedule. But we understand the importance of all reasonable state support for this type of projects.

Another example is SIBUR. Long-suffering project, long-suffering company, which need support and development. Remains just of the first phase of the grand Soviet gas processing...

This country lacks of managers with successfully proven skills and knowledge of project implementation of this level. Will Mikhelson be going far?

## The other YUKOS case

### European Arbitration Courts assess investment losses after YUKOS "nationalization"

Tags: [YUKOS](#), [ECT](#)

Russia lost the first international proceedings within the YUKOS case. The prospectus of sovereign Eurobonds placed by the Ministry of Finance says that, as early as September 17, the Arbitration Institute of the Stockholm Chamber of Commerce adjudged to collect \$3.5 bn from the Russian Federation for the benefit of RosinvestCo UK Ltd, which owned YUKOS shares, as a loss under the Russian-British agreement on mutual protection of investments.

RosinvestCo is affiliated with the American hedge fund Elliott Associates with \$17 bn of assets. Since 2007, the British have been trying to collect \$75 mn at first, and then more than \$200 mn on the account of loss of investments after the "nationalization" of YUKOS. Russia tried to contest jurisdiction of the Stockholm arbitration in the Swedish state courts, assuming that the arbiters could judge the compensation size and payment procedure only, not the matter of its occurrence. The Supreme Court of Sweden finally dismissed this complaint on November 12.

It is not known for certain, why the arbiters agreed to adjudge the compensation. However, this evidences that they considered the state to contribute to loss of YUKOS investments. Significant reduction of the sum of compensation by the arbiters may be related to the fact, that RosinvestCo bought the shares in the moment when

substantial tax claims were urged against YUKOS, and its collapse could be expected.

On December 10, the decision of the arbitration was appealed against by the Russian side in the Stockholm Court of Appeal (which examines the claims on arbiters' decisions, according to the rules of original jurisdiction). In particular, Russia claims that the arbiters have gone beyond their authorities, as they couldn't examine the matters of YUKOS taxation in Russia. Also, the judges have made a procedural error, ordering the Russian Federation to prove its position.

Not surprisingly, Russia continues contesting this decision, regardless of significant reduction of the compensation. The same Stockholm arbitration is now examining the claim of seven Spanish investment funds – YUKOS ADR holders. Their interests are represented by Renta 4 S.V.S.A., and the size of claims is not disclosed. Earlier, the attorneys at law Covington & Burling have valued the losses of YUKOS investors in the states which signed bilateral agreements with Russia on protection of investments in more than \$10 bn. Though the decision of one group of arbiters has no decisional meaning for the others, it may be of importance in practice. And not only for the disputes on bilateral investment protection agreements, ➤ Page 4

## The other YUKOS case

Continued from page 3

but, say, for the Energy Charter as well. As everybody knows, GML, former main shareholder of YUKOS, has made a claim towards Russia in the Permanent Court of Arbitration in Hague, seeking compensations from Russia in the amount of \$50 bn for appropriation of the assets, according to the Energy Charter Treaty (ECT), which protects investments

to the energy industries of the signing states. This fact has even forced Moscow, who used the ECT on temporary basis (signing the Treaty in 1998, Russia has not ratified it, due to controversies on transit provisions), to leave the ECT officially last autumn.

## How money was stolen from the Transneft system

IP Net Spb got an advance in RUR 2.3mn and went bankrupt

Tags: [Transneft](#)



The Russian Ministry of Internal Affairs performed in Moscow and Oblast searches and seizures of documents on the criminal case initiated against unknown former top managers of JSC Transneft, who are suspected in fraudulent misappropriation of more than RUR2.6 bn from the Company. The case comprises only one episode related with construction of 2.45 thousand km of modern communication lines along the ESPO pipeline, but the investigators have at their disposal the information on other large misappropriations. The yesterday's seizures of documents were performed in order to check these data.

The mentioned episodes deal with the period when Semen Vainshtock was the CEO of Transneft. Some time ago, the attorney Alexei Navalny published the opinion of the Chamber of Accounts on the ESPO construction, based on the materials submitted by new management of the oil transportation company headed by Nikolay Tokarev in 2008.

This publication had broad resonance and, likely, forced the law-enforcement authorities to demonstrate the appearance of heavy activity (and, at the same time, to press on certain players of that construction). Searches and documents seizures took place in the Krasnaya Presnya office of Stroycreditbank and in the elite single-home housing development on the Rublevo-Uspenskoye road, where lives the former owner of that bank Andrey Gorbatsky. Until lately, according to the investigators, he has been one of the minions of ex-President of Transneft S. Vainshtock. As early as in 1990s, the future banker was Semen Vainshtock's subordinate in LUKoil.

According to the investigators, "the unknown top managers" of Transneft, "for the purpose of misappropriation of money" from their own company, purchased via mediators the IP Net Spb Ltd. company, which history met all the bid requirements. This company won the bid and became one of general contractors for the ESPO construction. In fact, according to the investigators, not the company able to perform the contract was purchased, but its legal face with the history only. When the company was sold, all its CEOs and engineering personnel left for the other legal entity, continuing their old activities. The investigators identified that after that, in violation of the terms of the bid, IP Net SPb, while having no guarantees, received an advance payment from Transneft in the sum of RUR 2.3bn. According to the preliminary information of the investigators, RUR 850mn of this sum were deposited to Stroycreditbank for preparation of the bank guarantee, and then IP Net SPb deposited a bill of collection for the alleged sum of RUR350 mn to the same bank. According to the investigating committee of the Ministry of Internal Affairs, the rest of the money of the advance was transferred to the offshore accounts. IP Net Spb, in its turn, granted the bank guarantee in the total sum of RUR 1.2bn to Transneft from Transneft's money. Under this guarantee, the company received from Transneft one more payment, this time for RUR 1.2bn, which was also transferred to offshore companies. In September 2007, when the management changes took place in Transneft, the company managed to receive from Stroycreditbank only RUR 850mn: the RUR350 mn bill of collection found to be non-secured, and IP Net Spb started the bankruptcy procedure. April 6 of this year, by decision of the Court of Arbitration of Saint-Petersburg and Leningrad Oblast, bankruptcy administration was introduced in the company.

### ERTA view

It should be noted that all so-called "documents of the Accounts Chamber" were signed by Transneft officials. So, it is not quite clear, where is the cause, and where is the effect.



*Government and Infrastructures***Pay on the nail**

**Gazprom's gas for Sakhalin-Khabarovsk-Vladivostok pipe was taken away**

Tags: [Eastern Gas Program](#), [Sakhalin I](#) [Sakhalin II](#)



The Government has once again changed the royalty payment procedure for two PSA projects, those are Sakhalin I and Sakhalin II. By order of Prime Minister Vladimir Putin, since 2011, operators of these projects will pay royalty in monetary form, not in gas.

Initially, the companies had been paying money for royalty, but, last May, the government obliged the

Sakhalin PSAs to pay royalty in gas, beginning with 2011. It was planned that that fuel would be assigned to Gazprom for the purpose of gasification of Sakhalin and the Far East. However, the Ministry of Finance announced later that such scheme conflicted with the Fiscal Code: according to it, the treasury revenues should be collected in monetary, not natural form. The same provision is stated by the Sakhalin I agreement. The last-year resolution, lobbied by Gazprom (who needed gas to fill the Sakhalin – Khabarovsk – Vladivostok pipeline constructed under the order of the government), was not finally endorsed by dedicated ministries, thus creating a casus.

Negotiations between Gazprom and Sakhalin I Operator Exxon Neftegas have reached a stalemate. Now, the government decided that, at the first stage, the corporation would buy gas for gasification of the Far Eastern regions from Sakhalin Energy – Sakhalin II Operator. However, according to the PSA, cost of this fuel is connected with the export gas price for Western Europe, and the federal government had to make a decision on the social price of gas for Kamchatka, the Khabarovsk and Primorye regions. The Ministry of finance suggested to reimburse Gazprom the price differential between gas purchase and sales to end consumers. The draft budget of 2011 includes RUR 1.9bn for these purposes, i.e. for gas transportation through the pipe to Vladivostok (this pipe should be brought into operation in the third quarter of 2011). The order of reimbursement of price differential for the Sakhalin HES (600 mmcm annually is required), which is to be gasified this winter, it is not yet clear. Gazprom intended to deliver gas there from the royalty, functioning as the operator. Now, it will have to sign contracts. If the Sakhalin price is stated at the level of 50 \$/mcm (as it is planned for Vladivostok), then, provided that the gas purchased from Sakhalin Energy will cost approximately 320 \$/mcm (estimated export price for 2011), the supposed sum of subsidies will be approximately \$160 mn. In total, the planned subsidies for three years will be RUR 24.5bn (\$800 mn).

**ERTA view**

Who subsidizes whom? No illusions. The Russian consumers subsidize Gazprom's business. Sometimes, this is done due to reduction of the state's share in the profits from holding the company's stock (expansion of the investment program); sometimes, due to reduction (not increase) of gas business taxes (tax benefits are repaid by other tax payers); sometimes, even due to direct redistribution of taxes through federal programs.

This time, a reasonable decision has been made, that cash payments are more transparent than those of gas. But the essence is still the same. Gazprom will still gain profits from gas sales in the Far East. Success of such projects depends only on the scale of consideration. If the assumption is that the money invested belong to the state, and the profits gained are private (a good half of the company's stockholders have no relation to the state), then a commercial project can be considered successful. More than that, if there are additional payments.

**The price of gas for Kamchatka**

Tags: [FTS](#) [Kamchatka](#)

The Federal Tariff Service of the Russian Federation (FTS RF) has made a new decision on gas price for the Kamchatka consumers. This was declared by Governor A. Kuzmitsky. As it was required by the political power of the state, the consumer price will be 4 500 RUR/mcm. FTS has insisted on economically fair price of RUR 8 000.

FTS is a body designed to realize the state police, and sayings of one hundred percents of economical fairness of FTS decisions are not actually reasonable for long.

**Kioto Protocol**

Tags: [Kioto Protocol](#)

The first Russian Kioto-specific project has reached the quota realization stage (actual real startup). A whole line of Kioto scandals is still before us.

Actually, this is not a national-specific feature. This is specific to organization of the Kioto process itself. "Problems of this mechanism have their origin in constructional errors. Mechanism cannot be repaired, replaced only".

**Fuel crisis expands**

Tags: [FAS](#)

Fuel crisis expands. At last, state authorities paid attention at this. The White House has held a meeting, FAS has started gathering information, barks have been heard from above. Yet, the New Year holidays have started.

The tool kit currently used by the state, including high penalties, has already proved to be ineffective. In future, something new - and principally different - is required to prevent such situation.

## Long-term longings

### Significant number of corrections reduces confidence in Gazprom forecasts

Tags: [production](#)

The Gazprom Board of Directors examined the development of production parameters for the period to the year of 2015. Based on the final results, the company reported that, according to the existing assessment of domestic and external gas markets, Gazprom production to this period will total 570-580 bcm, or 5.6-6.5% less than the estimates made early in this year. In 2010, the expected production level of the corporation will be 515 bcm. In 2009, it amounted to 461.5 bcm.

This is not the first time when the monopoly corrects

its production estimates. For now, only the plan for 2020 has been unchanged (670 bcm). The 2010 estimate was 519 mcm, but, based on successful indicators of the first quarter, Gazprom has raised it to 529 bcm. However, in the third-quarter report, the monopoly announced the drop of the demand, so, due to that, the new production plan was changed to 515 bcm. Most probably, the unusually cold and snowy European December will help to meet the planned levels.

## Dry cleaning of assets

### TNK-BP will buy RUSIA Petroleum assets for the purpose of their cleaning from debts and minority stockholders

Tags: [RUSIA Petroleum](#), [TNK-BP](#), [Kovykta](#)

All property of RUSIA Petroleum (which owns the license on the Kovykta gas field with reserves 2 tcm) is listed for sale as a single lot. The auction sale will take place on February 15, initial price is RUR 15.1bn. Application with the price and downpayment (20% of the initial price) are accepted until February 10.

The assets are necessary and assigned for the Kovykta field development. The buyer will be able to apply for re-issuing in its behalf the license for the development of Kovykta field (the license itself cannot be sold within the bankruptcy procedure, since this is prohibited by law). However, the government may grant the license to a new assets owner without holding a bid.

It was supposed that the assets would be purchased by TNK-BP structures (which control RUSIA) for the initial price, for the purpose of clearing the property from debts and minority shareholders, and then re-sold to the state company Rosneftegaz for the market price which would help to return the investments into the asset (\$700-900 mn). And then it would be for the government to look for a new investor for development of Kovykta.

However, it is possible that the asset could become interesting for Gennady Timchenko, who is building a large gas holding company on the base of NOVATEK. In this case, however, TNK-BP shareholder will not have the chance to return the project expenditures.

## Competitive sport assets

### Inter RAO and Evrosibenergo continue their competition for the right to buy OGC-3 from Nor Nickel

Inter RAO and Evrosibenergo continue competing for the right to buy OGC-3 from Nor Nickel. The Chairman of the Board of the state company Boris Kovalchuk officially offered to the members of the Nor Nickel Board of Directors to exchange 79.24% of WGC-3 shares for the share in Inter RAO, valued by the state company in \$2.1 bn. According to B. Kovalchuk, this deal will allow the Nor Nickel shareholders to benefit from the growth of Inter RAO value in future. As soon as to the middle of the next year, Inter RAO will accumulate 25 GWt under its control (now – about 18 GWt), due to consolidation of power assets (43 companies with total value \$6-10 bn, including 21 state companies). Within 10 years, it is planning to enter the top ten of the largest power companies of the world by fiscal indicators.

Evrosibenergo offers real money for OGC-3, not non-core assets. The structure of Nor Nickel co-owner Oleg Deripaska, who is now fighting bitterly with another major co-owner of the ore mining and smelting company Vladimir Potanin and top managers, is ready to pay \$2 bn for its share in OGC-3. It has already come to finance agreement with banks. The Evrosibenergo's offer is valid through December 31. If the Nor Nickel Board of Directors

does not approve this deal by the end of the year, then, with regard to the Inter RAO consolidation schedule, the exchange will not take place.

For the first time, the Nor Nickel Board considered the proposals of both pretenders and advised to the buyers to improve the offers. The companies have done that. Evrosibenergo raised the asset value by \$100 mn. The closing date is stated not later than June 31, 2011, in case the deal will require approval of the state committee on foreign investments. If case of violation of the term, Evrosibenergo will be obliged to pay the forfeit in the sum of \$50 mn to Nor Nickel (only if the terms will not be followed due to the fault of the officials).

Inter RAO has corrected the value as well. Now, the company offers 350 000 of its shares for 1 share of OGC-3, instead of 322 835 shares. Based on that, the stock value has been increased to \$2.27 bn. Inter RAO reduced the terms of the deal to 90 days, until May 1, and made a commitment to arrange the listing on foreign stock exchanges within two years.

Meanwhile, Nor Nickel decided to sell its sports shares to OGC-3. The FAS has already approved the

## Competitive assets

Continued from page 6

power company's application to buy 100% of shares of the CSKA Hockey Club Ltd. from the parent company. Boards of the Directors of Nor Nickel and the power company have not yet made any decisions on that deal.

Earlier, Interros and Nor Nickel have already used WGK-3 as a buyer of non-core assets. In 2008, WGK-3 bought from Vladimir Potanin's structures 25% minus 1 share of Russia petroleum (which owns the Kovykta license) for \$576 mn (significantly more than the market price of this highly problematic asset); and 34.9% of Plug Power shares from Nor Nickel for \$33 mn. Also, it spent RUR1.25 to buy out

0.41% of Nor Nickel shares and RUR8.1 bn more to buy out 4.23% of its own shares. The company financed all those deals on the account of the money obtained from the follow-on offering performed in 2007 for the benefit of Nor Nickel (for the sum of RUR 81.7bn), though these money could be spent to the investment purposes only. The state was not very happy with that and ordered WGK-3 to return the money on the accounts.

It is entirely possible that the story of the new non-core deal is a part of the campaign against the offer initiated by Evrosibenergo.

## Non-market auction

V. Putin stated the initial price of OGC-3 blocking set of shares 30% higher than Rosimushchestvo's valuation result

On December 18, Prime Minister Vladimir Putin signed an order which stated the initial price of the auction sale of 25.1% of the shares of the TGC-5 generating company at the level of RUR6.43 bn, or RUR0.02 per one share. This sum is 30.2% higher than the previous evaluations of the Federal Agency for State Property Management (Rosimushchestvo), significantly exceeding the stock-exchange quotations of TGC-5 shares.

The strategic shareholder of TGC-5 is IES Holding of Viktor Vekselberg, which controls 46.5% of the general company's shares. Also, IES actually runs the operations of TGC-5 now. The federal share was included into the privatization plan of 2010.

The TGC-5 blocking set of shares is the only asset owned by the state in the generating company. The decision was made to sell it on the auction sale. By the President's Order, the other state shares in generating companies (OGCs and TGCs) will be included into the capital of the federal

energy holding company Inter RAO UES, as part of the "large follow-on offering" of the company in early 2011.

IES and Inter RAO are the most possible participant of the auction sale. However, the excessive price indicates that the state is either putting off private investors from the auction on purpose, or trying to get from them a premium over the market price.

The thing is that, buying the shares for the mentioned price, IES will have to make a mandatory offer to other minority stakeholders and to buy out almost 30% more by the same price. I.e., total expenditures of V. Vekselberg's holding company may exceed RUR 14bn, and this is a serious financial load for it.

Inter RAO will not have to make an offer, and the block shareholding in TGC-5 owned by the state company may bring serious difficulties to IES, which has been going to carry out consolidation of generating assets (to introduce a unified share for TGC-5, TGC-6, and TGC-9).

## The Indian meat is the Chinese poison

During the visit of the Russian President Dmitry Medvedev to India, energy ministries of two countries signed the interstate agreement on mutual cooperation in the field of exploration, production, transportation, processing, treatment, storage, sales, and use of oil and natural gas. This document does not yet comprise particular plans of cooperation, but it officially supports post factum the possibilities for such interaction, since Delhi participates in Sakhalin I Project (it bought 20% from Rosneft) and owns a small oil company Imperial Energy (the sum of the deal on this company amounted to \$2.2 bn, which is more than twice as high as market quotations of the company).

It is much more surprising that the Joint Stock Financial Corporation (JSFC) Sistema, which, with blessing of the state power, is building a new oil holding company on the base of Bashneft and Russneft, has signed an agreement on cooperation with the Indian ONGC Videsh, which anticipates consideration of possible consolidation of all

or "some available assets in the field of oil production and refining". Sistema may offer the stock package of Bashneft (JSFC owns 73% of Bashneft stock) and 49% of Russneft shares, and ONGC can offer 100% of Imperial Energy, which owns assets in Russia. Within this consolidation, it will be possible to use other oil and gas assets, which will be purchased before signing of legally binding agreements, as well as monetary assets. The parties have also agreed to consider possibilities of mutual investments into the existing and potential assets of both companies on the territories of states of major importance for JSFC Sistema and ONGC Videsh. This, evidently, presumes development of major Trebs and Titov fields in the Nenets Autonomous District, which Bashneft should obtain from the Russian government without a bid after all. The project requires huge financial resources, which India is ready to offer, in order to compensate to some extent its lag from China in terms of global competition for access to hydrocarbons.

## Common Free Market Zone against the gas wars

Agreement on the rules of access in the field of gas transportation was signed

Tags: [access](#), [equal profitability](#) , [Belarus](#)



Gas price for Belarus may decrease by 15%, beginning with 2012. This was declared by Deputy Chairman of the Board of Gazprom Valery Golubev. The pricing principle for the Russian gas deliveries to

Belarus will be revised beginning with 2012, on expiration of the existing five-year contract. Regarding the fact that Belarus is a member of the Customs Union, the contract for 2012 will be signed according to the principles identified in the package of documents related with creation of the Common Free Market Zone. Average European gas price minus customs duties and transit costs will be taken as basis.

As Vice Prime Minister of Belarus Andrei Kobyakov has declared earlier, Beltransgaz and Gazprom should in 2011 prepare a contract anticipating gas pricing for Belarus for the period of 2012-2014 with regard to gradual Russian procedure of equally profitable gas prices, starting from January 1 of 2015.

On December 9 of this year, member states of the Customs Union signed an agreement on the rules of access to the services of natural monopoly holders in the field of gas transportation by gas transport systems, including the

basics of pricing and tariff policy. Two days before, on December 7 of 2010, V. Putin signed an order 2178-r in relation with that, which will come into force on January 1, 2012.

According to this agreement, access to the services of natural monopoly holders in the field of gas transportation by gas transport systems of the member states of the Common Free Market Zone will be rendered based on the condition that the Parties will perform a set of the following activities:

- a) until January 1, 2012 - creation of the information exchange system on the base of information including the data on domestic gas consumption;
- b) until January 1, 2012 – creation of mechanisms for preparation of indicative forecast balances, according to the Agreement;
- c) until July 1, 2013 – unification of gas rules and standards of the member states of the Common Free Market Zone;
- d) transition to market (equally profitable) gas prices on the territories of the member states of the Common Free Market Zone.

According to this Agreement, the CFMZ states will transit to market equally profitable gas prices not later than January 1 of 2015.

### ERTA view

The content of the Agreement is a good reason to smile, as a one-step Gazprom-style combination: desired terms are introduced into regulatory documents of different level and destination. However, this trick has proven its hazard for Gazprom itself for a lot of times.

Transition to equally profitable prices, which seems doubtful even to the period of January 1 of 2015, will lead to lots of problems and burdens for Gazprom as it is. If gas prices in Russia become of equal profitability with those of export, then the gas industry will look different from what it is now.

## Deferred call

Appointment of the new TNK-BP President postponed

Tags: [TNK-BP](#)

The announced assignment of Maxim Barsky to the post of fully legitimate President of TNK-BP from January 1, 2011 has not taken place. Last week, the Company's Board of Directors did not make a final decision on this matter, according to the official version, due to uncompleted "technical procedures". According to mass media, the Company's shareholders have not yet approved the three-year plan, which comprises approval of the call premium program for the management. Also, they have not finished working over the contract of M. Barsky himself, including his call premium.

At the same time, it is entirely possible that controversies on the Company's management style have risen again between BP and the AAR consortium. As is well known, the amicable agreement between shareholders assumed that

the Russian co-owners – Mikhail Fridman (who had been Acting President for a year on temporary basis), German Khan (Executive Vice President on oil business) and Viktor Vekselberg (Executive Vice President on gas business) would leave the Company, and M. Barsky, on expiration of his probation period, would form the management team which would operate on equidistant basis from both shareholders. In fact, however, only V. Vekselberg leaves the top management (and even this only because he has got a socially-political order from the state), introducing his successor, former head of IES Holding Mikhail Slobodin, to the Company. G. Khan faces the biggest difficulties with meeting his promises to leave the Company. Unlike M. Fridman, he was more deeply immersed into operational activities of the Company and, in all ➤ Page 9



*Personalities and Meetings*

## Deferred call

Continued from page 8

appearances, had no initial intentions to leave it. But his presence evidently leaves with no sense the concept of equidistant management and relative independency of M. Barsky as the Company's President.

BP faces even more difficult situation, since the Company, having lost the corporate war with AAR, found itself later on the brink of survival, due to incident in the Gulf of

Mexico. Now it is really weak to support its interests in the Russian joint venture, facing new exacerbation of relations with the Russian shareholders. Anyway, the scenario of conflict may not be totally excluded. For M. Barsky himself, his presidential appointment in the conditions of still high degree of disturbance in his work will represent an additional risk factor.

## Gulchatay, open your face

Inzer, Agidel, Uruzan, and Urals are charitable foundations holding the money paid for Bashneft

Bashkiria viewed a conflict between old and new Presidents. The formal reason for exacerbation of relations was represented by a wish of the new leader Rustem Khamitov to control the revenues of the Urals Foundation accumulating RUR 63bn, obtained from sales of the Bashkir fuel and energy assets to JSFC Sistema. According to the agreement with federal authorities, ex-President Murtaza Rakhimov got the post of the head of this foundation after his retirement.

Money paid by Sistema in 2009 for the control stock packages of Bashneft, Ufa refineries and Bashnefteproduct were deposited in four non-commercial foundations, namely Urals, Inzer, Agidel, and Uruzan. When M. Rakhimov voluntarily retired, this money was transferred to Urals, and M. Rakhimov headed its Board. The head of information service of the Urals Foundations Sergei Lavrentiev said last week that "according to existing legislation, the state authorities have no right to bring pressure on the activities of the foundation". The resulting conclusion can be made, that such pressure takes place. Annual dividends from placing the money on deposit accounts may amount to

RUR 4.5bn, including about RUR 2.5bn should be assigned to "development of sports", and the rest – "to the social infrastructure". The key question is: who will make decisions and control them. The council of governors, participated by representatives of the Bashkir authorities and public organizations, should have to control effective spending of the foundation. However, M. Rakhimov opposes this order and refuses to get the majority of places in the council of governors to the official authorities.

Meanwhile, in spring of 2010, the General Prosecutor's Office of the Russian Federation for the Privolzhsky federal district resumed investigation of the closed criminal case on the fact of misappropriation of budget funds during sales of the Bashkir oil assets, which represents a risk factor and additional lever of pressure on M. Rakhimov.

Actions of R. Khamitov are absolutely clear and, probably, supported on the federal level. Understandably, there should not be two centers, including financial center, influencing the political situation in Bashkiria. That is, the exchange made during the change of power, had tactical character and will be reconsidered.

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