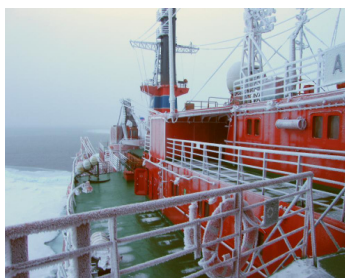


The exclusive right to Russia is breached

The government has suggested BP to break its agreements with AAR

Tags: [Rosneft](#), [BP](#), [shares](#), [shelf](#), [Arctic](#), [TNK-BP](#)



Rosneft together with BP are creating a global strategic alliance. After the meeting with Prime Minister Vladimir Putin, the Rosneft Chairman of the Board of Directors, Deputy Prime Minister for the fuel and energy

complex Igor Sechin and BP President Robert Dudley flew to London, where they signed a package of agreements on exchange of companies shares, establishment of a joint venture for exploration and development of the Russian shelf, and also agreed to consider alternatives on expansion of international cooperation. By this, the Russian company gets a chance to come to global level and to break through the technological field; as for BP, it will be able to offset its problems with the business development in the USA, caused by the incident in the Gulf of Mexico. This alliance may have far-reaching consequences, becoming a starting point of new mergers and takeovers. The other British project in Russia - TNK-BP – may become another object.

The proposal to create an alliance was initiated by the Russian side during the first visit of R. Dudley to Moscow

as BP President last autumn.

As a result of shares exchange, Rosneft will get 5% of BP's common voting shares from additional share issue, in exchange of its 9.53% existing shares. Total value of shares to be exchanged is amounted to approximately \$7.8bn. This deal is to be approved by stock exchanges and is subject to administrative endorsement. It is expected that it will be closed within several weeks. Rosneft will hand over 9.42% of treasury stock obtained during acquisition of the Yukos assets and buy the rest of the shares in the market.

Both companies have taken responsibilities not to sell the obtained shares within two years, beginning from the date of the deal. When the two-year period expires, sales or other use of the exchange share packages will be subject to certain limitations (sales can be performed by small tranches). BP will become the second largest Rosneft's stockholder after the state, and the Russian company will be the largest shareholder of BP. At the same time, partners will not get any leverage over each other (the deal does not anticipate any seats in the boards).

Rosneft will have 67% (two-thirds) in the joint venture, and BP will have 33%. In this joint venture, the Russian company will bring three license blocks ➤ Page 1

Tatneft is leaving

The company gets rid of production projects in non-core regions

Tags: [Tatneft](#), [sale](#)

Tatneft has distributed an offer to sell the Podveryusky, North Khayaginsky and Khosoltinsky license blocks in the Nenets autonomous district with cumulative reserves 11.6

mnt of category C₁ and 26.4 mnt of category C₁+C₂. Answers have to be submitted until January 21, 2011. The company decided to leave the region already divided between the bigger players. Renaissance Capital acts as Tatneft's financial adviser.

The companies most actively operating in the Timan-Pechora region are LUKoil and Rosneft; in addition,

Bashneft has lately obtained the right to develop the large Trebs and Titov fields.

The territory, where the blocks are located, has a well-developed infrastructure. In particular, the pipeline from the Cherpayuskoye field (owned by Rosneft) to Usinsk passes across it, where it is tied to the Transneft trunk pipeline. In addition, according to the existing legislation, oil production from the blocks on sale will be exempted from the MET for seven years, until it reaches the cumulative production level of 15 mnt. Tatneft is also ready to sell its 50% shares in the neighboring Tibeyvisky and Lysatinsky license sections.

Tatneft concentrated on construction of the second stage of the petrochemical complex, which costs \$5 bn and withdraws from several production projects in non-core regions. Earlier, the company tried to sell blocks in Samara region, but failed to agree on the price with Rosneft.

TOP NEWS

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- Inter RAO will obtain the production assets
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- Azerbaijan has found a new market

News brief



Rosneft and **BP** are creating a global strategic alliance. The companies have already signed a package of agreements on exchange of companies shares (of approximate value \$7.8bn) and establishment of a joint venture for exploration and development of the Russian shelf (southern part of the Kara Sea). BP will finance and carry out exploration works, while V. Putin, on behalf of the Russian government, has personally promised to ensure the most-favored status. ➤ Page 1

The **Moscow United Electric Grid Company** (OJSC "MOESK") is going to earn RUR17.6 bn of net profit in 2011. This sum will easily cover the direct loss due to falling of trees on the power transmission lines in the Moscow Region after the ice rains (in the sum of RUR234 mn), but this maybe not enough in case of massive possible claims from the consumers left without power supply. According to the Consumer Rights Protection Society (CRPS) calculations, the total sum may amount to RUR 4 to RUR 30bn. ➤ Page 3

Gas production in Russia grew 11.6% in 2010 YoY, amounting to 650 bcm. This nearly corresponds to the pre-crisis level in 2007 (654 bcm). Gazprom gas production in 2010 amounted to 508.5 bcm, while the pre-crisis level was 550 bcm. Independent producers and the PSA operators made up for Gazprom low production. The main stimulus was FSU countries: deliveries have increased by 23.05 bcm – to 63.6 bcm. ➤ Page 4

The government has introduced a draft law on reduction of the **rate of the oil production tax for small oil fields** (with reserves up to 5 mnt) to the State Duma. According to the calculation of the Ministry of Energy, the additional oil production will amount to 214 mnt during ten years of development. Additional MET returns are evaluated at RUR1.04 trln. ➤ Page 5

Inter RAO and the businessman Farkhad Akhmedov have signed an agreement on intentions to sell the Cyprus company Redi, which owns 49% of **Nortgaz** shares, to the state company for \$1.5 bn. Inter RAO counts to independently dispose half of Nortgaz production. But Gazprom, which owns the controlling stake, has the preemptive right to buy the shares from F. Akhmedov. ➤ Page 5

The new Moscow government has initiated negotiations with **Gazprom neft** on selling its minority stake in **Sibir Energy**, (22.32%)m which costs about \$750-580 mn. ➤ Page 6

Transneft offered **Rosneft** the rail terminal in Kozmino in exchange of the Vankor-Purpe pipeline constructed by the oil company at its own expense. Transneft offers a barter deal as it has no funds to buy it. The deal will not be easy, as the construction costs of the terminal are likely much lower than that of the pipeline. ➤ Page 7

Russneft has approved changes to the credit terms. The debt of Russneft to Glencore amounts to \$1.7 bn, to Sberbank - \$4.5 bn. According to the new terms, the rate will be equal for both creditors – 9%. The period of full debt payment was extended from 2017 to 2020. The company intends to save \$200 mn on interest payment, which will be invested in business development. ➤ Page 7

Last week, **Brent price** in Europe exceeded \$100/bbl for the first time since September 2008. Urals prices reached the level of \$97.12/bbl, Siberian Light - \$99.67/bbl. High fuel prices allowed to reduce significantly the last-year deficit of the Russian budget from 5.3% of GDP to 3.9% of GDP. The budget deficit for the current year is expected at the level of 3.6% of GDP, with average Urals crude price \$80/bbl. ➤ Page 8

SOCAR (state oil company of **Azerbaijan**) and the National gas export company of **Iran** (NIGEC) have signed a 5-year contract on delivery of the Azeri gas to Iran. In 2011 Azerbaijan will deliver to Iran 1 bcm of gas, and this volume is to be increased in future. ➤ Page 8

The exclusive right to Russia is breached

Continued from page 1

(East Prinovozemelskiye-1, 2 & 3) with approximately 125,000 sq.km in the southern part of the Kara Sea, east off the Novaya Zemlya island. The blocks were granted to the state company in 2010. BP will finance and carry out exploration works for up to \$2 bn. In his turn, V. Putin, on behalf of the Russian government, has personally promised to ensure the most-favored status. In addition to BP, the American companies - Chevron and ExxonMobil - were considered as potential partners for the Arctic development. However, their position and proposals were less attractive, compared to BP, which is suffering great pressure in the USA, having no prospects of business development in that country.

Besides, the partners are ready to consider the possibilities of international cooperation, in addition to the existing parity partnership in the German oil-refining joint venture Ruhr Oel GmbH.

BP already has a partner in Russia. In 2003, the company united its assets with the consortium including Alfa Group, Access Industries and Renova (AAR) and created TNK-BP

on the parity basis. At that moment, the \$6.8bn-deal was the biggest one in the industry. BP reported a possible deal with Rosneft to AAR at once. For now, these discussions do not involve TNK-BP. Along with that, AAR has exclusive rights for the partnership with BP, according to the agreement between TNK-BP's stockholders. According to this provision, AAR and BP should implement new Russian projects through TNK-BP only, except for the cases when one of the partners rejects the proposed project. But AAR has no rights (moreover, licenses) for the Arctic shelf development. Nevertheless, BP-Rosneft partnership will evidently infringe the interests of the Russian stakeholders of TNK-BP in third countries. And this is a solid reason to revive the conflict. But even without that, the existence of the private foreign joint venture in the oil industry itself has been displeasing the state for a long time, as it is willing to increase its own influence here. One can suppose that a merger of TNK-BP by the state company may be placed on the political agenda in the short-term future.

ERTA view

Stars came to conjunction

First, BP is entering the Russian oil and gas industry one more time. Without PSA, let us note. There was JV with TNK and attempts with the Kovykta field: with Sidanco, Interros, TNK (and when Gazprom blocked development of this field, the possible acquisition of the License by the parent company - BP was discussed).

Second, the Russian state nevertheless needs such investors, in spite of opposite public statements.

Third, Russia seriously intends to assert its rights to the far Arctic shelf.

Fourth (last, but not the least), the state shares of Rosneft have to be sold, and at a high price. So, it is necessary to restore the tarnished reputation of the "public IPO".

Surely, there are some "fifth" and "sixth". But basic topic, that is the declared investments into development of the Russian shelf reserves, will take its toll in 15 or 20 years. By Russian standards, that means "close to never", while Rosneft and BP share prices are surging now.

Narrow clearings or force majeure

The MOESK budget will not suffer from ice rains or consumers' claims

Tags: [electric power industry](#)



The Moscow United Electric Grid Company (OJSC "MOESK") is going to earn RUR17.6 bn of net profit in 2011. This sum will easily cover the direct loss in the sum of RUR234 mn incurred by the company due to falling of trees on the power transmission lines in the Moscow Region after the ice rains. However, the sum of direct

loss announced by MOESK does not include payments on possible claims from the consumers left without power supply. The company plans to form the finance reserve for the purpose of such payments, though its volume has not yet been determined. The Consumer Rights Protection Society

(CRPS) has already declared that it is going to elaborate a typical claim to energy suppliers for the residents of the Moscow Region. The sum of reimbursements under such claim, according to the CRPS calculations, will range from 10 000 to 100 000 rubles, with the total amount of claimers about 400 thousand of people. The Society has called its calculation "theoretical"; however, according to it, the highest sum of claims may reach RUR40 bn.

The claims will be filed directly against the power sales companies supplying the consumers, including Mosenergosbyt. And the energy sellers will further readdress the claims to grid companies. Note that, while the most part of the power distribution and grid economy of the Moscow Region belongs to MOESK, some part of grids and substations belongs to the territorial grid organizations.

Too narrow clearings in the forests of the Moscow Region were named as one of the basic causes of massive tree fall on the power transmission lines after the

➤ Page 4

Narrow clearings or force majeure

Continued from page 3

ice rains. At the same time, the grid companies can refer to the climatic force majeure and refuse to reimburse the loss to consumers. However, to prove the force majeure will not be an easy task. Open-wire circuits must be protected

from fall of trees and other objects able to break their integrity; in view of the hazard of icing, the personnel of grid companies must perform extra inspections of power transmission lines.

ERTA view

Consequences by ice rains could be seen by everyone. Grid companies and repair teams can hardly be blamed on the natural anomaly, and their response was in fact operative.

But there is a Russian rule saying: "One does believe in wonder when hears a sound of thunder", and it works as reliable as the energy conservation law. Curious, that grid companies had told so much how standards and restriction in the forestry legislation had prevented them from widening the clearings. But now, before completion of all procedures on approval of changes introduced into legislation and regulatory documents, they have been actively doing felling works. The reason must be trivial: the money. Elimination of emergency consequences and causes of possible claims costs so much... And, as it is widely known, a consumer pays for everything.

They in Russia are used to make winter preparations in advance, that is, to form committees, to report on preparation to overcome winter peaks... But every winter something unexpected occurs, which the responsible person, according to further statements, couldn't prevent. In the conditions of vague legal meaning of the term «social responsibility» applied to the state, power suppliers and the population, one has to choose a regular diagnosis within the range from "force majeure" to "disorderliness".

The decision often depends on the management/reporting systems, as well as on the trivial trust to a supplier. For example, in 1988, the capital of Canada, together with the whole Quebec province, were left without electricity (six million people were left without power supply for nine hours). Solar flares had caused a strong geomagnetic storm and led to failure of transformers in electric circuits, and that was admitted the cause of emergency.

However, the consumer pays irrespectively of the verdict.

Gas production in Russia has reached pre-crisis levels

According to the 2010 results, gas production in Russia has exceeded the indicators of 2009 by 11.6%

Tags: [production](#), [forecast](#), [independent](#), [Central Dispatch Office of the Fuel and Energy Complex](#)



According to the data of the Central Dispatch Office of the Fuel and Energy Complex, gas production in Russia in 2010, exceeded the indicators of 2009 for 11.6%, amounting to 650 bcm. This is nearly

corresponds to the level of pre-crisis year of 2007 (654 bcm). Gazprom gas production in 2010, according to the Central Dispatch data, amounted to 508.5 bcm, or 10% as higher as in 2009. This level is still significantly lower than before the crisis (550 bcm).

Independent producers and the PSA operators made up for Gazprom low production (23.8 bcm of gas were produced within the Sakhalin I & Sakhalin II Projects). NOVATEK's production has increased by 7 bcm - to 37.6 bcm. The pre-crisis production level has been achieved mostly due to independent producers, which produced 142 bcm, where oil companies produced about 58 bcm and other independent companies produced only 22 bcm.

Changes in demand in the CIS states was a good stimulus for production growth. According to the data of the Central Dispatch Office of the Fuel and Energy Complex, deliveries to the FSU states have increased by 23.05 bcm – to 63.6 bcm. Also, the domestic market growth, compared to a disastrous 2009, has made its contribution. The level of export to non-CIS countries has not changed.

ERTA view

Evidently, restoration of production volumes means restoration of gas demand in Russia. So, all of us (to begin with Gazprom and Russia energy producers) should recall the pre-crisis problems, including provision of gas to support the growing demand, possibility to pump this gas through to the end consumer, possibility to balance the winter peaks of consumption, etc.

Are there many who know that Gazprom froze the investments into Bovanenkovo in the last two years? Now the company is preparing to start the project, but it will not be possible to produce more than 30 bcm of gas annually at its first stage. All additional volumes will require renewal of active works on the field.

Discount for small oil fields

The government has introduced a draft law on reduction of the mineral extraction tax (MET) rate for small oil fields to the State Duma

Tags: [tax](#)



The government has introduced a draft law on reduction of the rate of the oil production tax for small oil fields to the State Duma. Its aim is to bring into development small oil fields with the help of introduction of

decreasing coefficients for blocks with reserves containing up to 5 mnt. As for now, it is not economically reasonable for the companies to develop such fields with the existing tax rate.

Currently, the basic rate of oil production tax is RUR419/ton. Each month it is multiplied by the coefficient considering the current world oil price and the USD-RUR exchange rate. As a result, in December 2010 the companies paid the MET in the amount of RUR3 440/ton of produced oil. Fulfilling the task received on the results of the meeting of Vladimir Putin and oil producers in February 2009 in Kirishi, the Ministry of Finance offered in its draft document to use the decreasing coefficient with this rate: 0.5 for the fields with oil reserves up to 1 mnt, 0.75 – with reserves from 1 to 3 mnt.

This discount will make the development of small fields economically reasonable, according to the government's opinion. The explanatory note to the draft claims that development of reserves exceeding 5 mnt in the regions with the developed infrastructure is effective even under the existing MET rate, so the incentive is limited just by the mentioned threshold. In total, the State Register of Reserves lists about 1 million of fields with recoverable reserves up to 5 mnt of oil (with depletion less than 5%). Cumulative amount of these reserves is 1 bn ton; so, the average small field contains 1 mnt of reserves only.

The Ministry of Finance agreed on this incentive, since in this case the matter does not concern the shortfall of income, but rather additional income to the federal budget. According to the calculation of the ministry, the additional volume of oil production from the blocks with reserves up to 5 mnt after introduction of the "discount" will amount to 10.2 mnt in the first year and 214 mnt during ten years of development. Additional MET returns are evaluated at RUR1.04 trln, covering abundantly the shortfall income of RUR162 bn by the operating small fields.

Meanwhile, the Ministry of Energy prepared the proposals on changes in the oil industry taxation, titled "The Tax Regime 60-66". According to the Federal Law "On Customs Tariff", the duty is calculated under the following formula: \$29.2/ton plus 65% of the difference between the monitoring price and \$182.5 equivalent of \$25/bbl). The draft of the Ministry of Energy anticipates replacement of 65% in the formula with 60% (the first number in the title of the draft). The second number in the title corresponds to the rate of export duty for the basket of petroleum products in share percentage of oil duty. Today, the rate of duties for the basket of petroleum products amounts to 55% of the oil duty. In December 2010, the government approved the schedule of increasing petroleum products rates to 60% from the oil duty to the year of 2013. To 2013, the Ministry of Energy suggests to increase the export duty to the basket of petroleum products to 66% of the oil duty.

This document has been sent for approval to Minfin, but its realization would reduce tax burden on the oil industry by approximately \$3 bn annually, which will hardly be acceptable for the department of A.Kudrin.

Inter RAO will obtain the production assets

Inter RAO will buy from the businessman Farkhad Akhmedov the Cyprus company Redi which owns 49% of Nortgaz shares. The supposed value of the deal is \$1.5 bn.

Tags: [Inter RAO](#), [Nortgaz](#), [sale](#), [shares](#)

Inter RAO and the businessman Farkhad Akhmedov have signed an agreement on intentions. According to it, Mr. Akhmedov is ready to sell the Cyprus company Redi, which owns 49% of Nortgaz shares, to the state company. The supposed sum of the deal is \$1.5 bn. Though, the buyer is going to pay only a minor sum in cash, while the most part of it will be in the form of Inter RAO's shares issued within the additional offering. On completion of due diligence procedures, the deal is subject to approval by the Inter RAO Board of Directors. In addition, under the agreement between Nortgaz shareholders, Gazprom, which owns the controlling stake, has the preemptive right to buy the shares from F. Akhmedov. This right is valid within 60 days from the moment of notification on achievement of agreements with another buyer. Though, the countdown has not yet started, since Gazprom didn't receive an official offer.

Nortgaz appeared in 1993 as a joint venture created for the purpose of development of the prospective section of the North Urengoyenskoye field in the Yamal Nenets Autonomous district (production started in 2001). Gazprom's affiliate Urengoygazprom and the American construction and engineering company Bechtel Energy became its founders, since the state corporation lacked money for new projects. At that time Akhmedov dealt with the imported equipment deliveries, and Bechtel offered him 5% in Nortgaz. Shortly, the Americans sold him the rest 14%. And in 1999 he eroded the Gazprom's controlling stake to 0.5%, declaring that, as soon as the corporation didn't invest a penny into the company, it had no right to own and manage the business. In a couple of years, when Gazprom changed its management, the corporation launched the campaign for return of the assets. Nortgaz became a centre

M&A

Inter RAO will obtain the production assets

Continued from page 5

of the conflict which ended with a free handover of 51% of Nortgaz shares to the corporation along with signing a shareholders' agreement under the British law.

Nevertheless, Gazprom was purchasing all gas of Nortgaz into his portfolio at the price which was significantly lower than the level stated by the FTS, allocating rather modest sums to dividends.

Inter RAO counts on the access to Nortgaz gas reserves. That is, it will to independently dispose the half of the company's production. Gazprom could hardly be happy with that, as it suffers NOVATEK's pressure on the domestic market, risking to lose other consumers in the electric

generation area.

In 2010, Nortgaz produced 3 bcm of gas; its plan for 2011 is approximately 4 bcm of gas, and to 2015 (after startup of the Eastern dome) the production is to increase to 6.9 bcm of gas and 1.1 mnt of condensate.

The major pressure source of Inter RAO is represented by its Chairman of the Board and Deputy Prime Minister Igor Sechin, who traditionally plays against Gazprom's monopoly. Besides, the company is headed by Boris Kovalchuk, son of co-owner of Bank Rossiya (who, in fact, has drawn away the finance and banking assets from Gazprom) Yury Kovalchuk.

ERTA view

Inter RAO's logic is evident: to build a chain from the fuel for power stations to production of energy. It is not original at all. Not only because Gazprom, having participated in the sale of Russian power industry assets, built the same vertical chain. The Italians are doing the same, participating in Sever Energy and WGC-5. LUKoil has the similar potential with TGC-8 and, to a certain extent, TNK-BP has it (IES stations and construction of a new block of Nizhnevartovsk GRES power plant).

Will E.ON dare to build the similar chain in Russia? Or will the German company, for its own peace and quiet, decide that the traditional partnership relations with Gazprom will be enough?

Moscow sells Sibir

The new Moscow government, seeing no need in being a minority stakeholder of Sibir Energy, has initiated negotiations with Gazprom neft on selling its share (22.32%)

Tags: [Sibir Energy](#), [Moscow NPZ Holdings B.V.](#), [Gazprom neft](#), [sale](#), [Mosgaz](#)



According to the earlier plans, the city planned to buy from the state company the shares required to obtain the blocking stake. In July, the capital government bought the initial 3% for

approximately \$100 mn, planning to buy another 2.7% within the year of 2011.

In 2009, Gazprom neft started the Sibir Energy consolidation with buying back the shares of minority holders (who owned 27.75%). TNK-BP wanted the company as well but Gazprom neft managed to overrun the proposal of its rival. At the same time, one of the company's shareholders, Shalva Ghigirinsky, faced financial problems and tried to solve them by, in particular, selling his developer assets to Sibir Energy. This led to the scandal

and change of the controlling owner. At first, Gazprom bought from Igor Kesaev (Chigirinsky's partner) 23.35% of Sibir Energy shares, and further it bought the very share of the company's founder (25.66%). In total, Gazprom neft spent approximately \$2.4 bn for consolidation of the company's shares.

The stake owned by the Moscow administration costs \$750-780 mn.

The major producing asset of Sibir Energy is Salyem Petroleum Development, owned on the parity basis with Shell. Also, Sibir Energy owns 50% of Moscow NPZ Holdings B.V. (the rest 50% is owned by Gazprom neft), which controls about 95% of the Moscow Refinery. In addition, the company owns more than 130 fuel filling stations in Moscow and the Region, together with eight licenses for subsoil blocks in the Khanty-Mansiisk autonomous district (KhMAO).

ERTA view

We are waiting for decision of the fate of Mosgaz, the largest Russian local gas distributor (LGD) by volumes of gas transported through gas distribution networks. Like Mosoblغاز, the Moscow LGD is owned by the federal entity, having not yet been privatized.

M&A

Natural tr(u/i)ck

Transneft wishes to exchange its rail terminal in Kozmino in exchange of the Vankor-Purpe pipeline

Tags: [Transneft](#), [Rosneft](#), [ESPO](#)



Transneft offered Rosneft the rail terminal in Kozmino in exchange of the Vankor-Purpe pipeline constructed by the oil company at its own expense. Initially, Rosneft asked about RUR70 bn for the pipeline, the sum not

anticipated by the Transneft's investment program. So, the transport monopoly offered a barter deal.

The railway overpass is located in the port of Kozmino. It transfers 15 mnt of oil annually, but it will no longer be needed, when the second stage of ESPO is brought into operation: all oil volumes will go through the pipe. This will be the time to hand the asset over to Rosneft. Transneft is also ready to pay some more for the oil pipeline. However,

the construction costs of the terminal are likely much lower than that of the pipeline. So, the bartering will not be easy.

Rosneft may require the terminal to supply the future oil-refining facility in Nakhodka (supply of 5 mnt of oil from the Rosneft's plants in Komsomolsk-on-Amur and Angarsk).

Rosneft has revised the project of the plant in Primoriye, deciding to build a petrochemical facility there. The facility will consist of the petrochemical and the oil-refining stages. The petrochemical part of the complex will process 3.5 mnt of naphta (straight-run gasoline) and LPG, as well as 1.5 mnt of gas condensate. Its startup is scheduled for 2016/2017. Rosneft will make the decision on the economic viability of the second stage in 2013. It is also looking for a strategic partner.

ERTA view

But what deal between the companies can be considered? Transneft is a fully state-regulated company, and all its additional expenditures are, one way or another, accounted in the tariff. Such decision can be made only by the state. This is the Russian government that Rosneft should negotiate with. Though, it has a strong lobby there.

Russneft equalized its creditors

Under new terms, the credit interest for both creditors will be 9%, the term of full debt payment is extended from 2017 until 2020

Tags: [Russneft](#)



Russneft has approved changes to the terms of agreements with its creditors, Sberbank and the Swiss trader Glencore, in the sum of \$6.2 bn. According to the new terms, the rate

will be equal for both creditors – 9%. Earlier, it has been 12% per annum for the bank and about 9% for Glencore. The period of full debt payment was extended from 2017 to 2020. The debt of Russneft to the trader amounts to \$1.7 bn, to Sberbank - \$4.5 bn.

Russneft is the eighth largest Russian oil company by production volumes. In 2009, it produced 12.7 mnt of oil and processed 7.6 mnt of oil at its facilities. Mikhail Gutseriev and JSFC Sistema own 49% of the company each, another 2% belongs to Sberbank, which has got it as

a main company's creditor.

Mikhail Gutseriev, head and founder of Russneft, borrowed \$2 bn from Glencore as early as in 2003 to establish the company. His debt to Sberbank was accumulated during the period when the company was under control of Oleg Deripaska, to whom Mr. Gutseriev sold it in late 2006 (the year before the deal was cancelled, and Russneft returned back to Mikhail Gutseriev).

Earlier, Russneft tried simply to agree on reduction of interest rates down to 8% and payment to Glencore in installments. But the creditors did not agree on that approach. The agreement with the creditors may open the way to consolidation of Russneft's affiliates and its merger with Bashneft. In addition, the company intends to save \$200 mn on interest payment, which will be invested in business development.

ERTA view

It is likely that Russneft will become another large Russian integrated oil company. This will be possible due to experience and smart actions of its owners. M. Gutseriev and E. Evtushenkov are businessmen with different styles and business qualities, but together they would assure an excellent synergetic effect.

Crude oil candlestick

Last week Brent price in Europe exceeded \$100/bbl for the first time since September 2008

Last week, Brent price in Europe exceeded \$100/bbl for the first time since September 2008. Quotations of the Russian oil grades are also close to three-digit levels. During the trading session, oil price rose to \$100.37/bbl, which is 1.7% as higher as Thursday's closure. Quotations of the Russian oil grades have also reached the long-term maximums: Urals prices reached the level of \$97.12/bbl, Siberian Light - \$99.67/bbl.

Steady growth of oil prices on the world market has been continuing for five months already. Within this period, its quotations in different regions have increased 20-32%. Cold winter in Europe and in the east and north-east of the USA, along with emergencies on the Trans Alaska pipeline and two fields in Norway have led to the speedy growth of oil prices in the last months. It took the price 11 months to rise from \$80/bbl to \$90/bbl, and only a month and a half to go up from \$90/bbl to \$100/bbl, due to weather

conditions to a significant extent.

High fuel prices allowed to reduce significantly the last-year deficit of the Russian budget. Its planned value was 5.3% of GDP, based on the average Urals crude price of \$75/bbl. As a result, the real price was \$3 higher, thus helping to refill the budget by RUR110 bn and to reduce the deficit to 3.9% of GDP.

The budget deficit for the current year is expected at the level of 3.6% of GDP, with average Urals crude price \$80/bbl. Quotations more than \$100 will allow to complete the year without deficit. Though, closer to the spring time, correction on the oil market is quite possible, and it may drive the prices back to the forecast of the Ministry of Finance. Moreover, the danger of a new wave of global crisis is quite real. Extra blowing of the oil bubble may as well become one of the catalysts of a new collapse.

ERTA view

Increased crude prices will automatically lead to growth of gas price under Gazprom's long-term contracts. Will spot market prices and LNG prices follow the same pattern under the growing temperature conditions? This is hardly possible. So, it means that Gazprom's risk to lose its share on the European market will grow.

Azerbaijan has found a new market

Tags: [Azerbaijan](#), [Iran](#)



SOCAR (state oil company of Azerbaijan) and the National gas export company of Iran (NIGEC) have signed a long-term contract on delivery of the Azeri gas

to Iran. In 2011, according to this contract, which was signed for the 5-year period, Azerbaijan will deliver to Iran 1 bcm of gas, and this volume is to be increased further.

To increase gas supplies to Iran, SOCAR will expand the capacity of gas compressing station in Astara. Also, modernization of the Azerbaijan-Iran gas line is planned. On completion of these works, the contract is to be signed for long-term deliveries and increase of the volumes up to 3-3.5 mmcm per day, compared to the current 1.2 mmcm.

At the same time, Azerbaijan gave official promise to the European Union to ensure deliveries of the Caspian gas to Europe by signing the Declaration of realization of the Southern Corridor. This document was signed by the Head of European Commission Jose Manuel Barroso and President of Azerbaijan Ilkham Aliiev.

The Southern Gas Corridor includes such pipeline's routes as Nabucco, ITGI (Interconnect-Turkey, Greece, Italy), Transadriatic Pipeline. Now the EU is picking the most optimal one.

At the press conference devoted to the results of negotiations Mr. Barroso said, that "the routes are not conquering with each other; Nabucco is the main one of

them, and it has already got financial support from a number of international structures and banks, but the final decision depends on the volumes and costs". "The document signed today is a breakthrough, as the agreement confirms the direct European access to the Caspian Basin's gas, and the new gas delivery route will enhance the power security of European consumers and enterprises".

The Azeri President said that the proved gas reserves of Azerbaijan are estimated at 2.2 tcm of gas (and cumulative reserves may amount to 5 tcm). 1.2 tcm of them falls on the Shakh-Deniz field, where export of significant volumes are scheduled for 2017. Aliiev said: "It is important for us, that the Azeri gas markets would be competitive and long-

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Azerbaijan and Iran

Azerbaijan and Iran are connected by the Gazi-Magomed-Astara-Bind-Biand gas pipeline 1,474.5 km long, including 296.5 km on the territory of Azerbaijan. This route represents a branch of the Gazakh-Astara-Iran pipeline, which was brought to operation in 1971. Three compressor stations – in Gazi-Magomed, Agdash and Gazakh – were built on this route. The diameter of the pipeline is 1,200 mm.

Earlier, Iran and Azerbaijan had signed two memorandums on expansion of cooperation in the field of gas and power supplies. These memorandums were signed during the official visit of President Makhmud Akhmadinedzhad to Baku.

Azerbaijan has found a new market

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term. I believe that the Southern Corridor will help us to realize the gas potential and to ensure the power security for Europe”.

Azerbaijan is already exporting gas to Georgia, Turkey and Russia; however, according to Aliev, “it needs new markets as well”.

ERTA view

The preliminary agreements on gas delivery were signed with Turkey in the end of 2010 (the final one is expected to be signed this year), followed by the last-week agreements with Iran. A new major player is slowly, but steadily entering the gas market. By competitive gas volumes on traditional market, this player makes no danger to Gazprom in the medium- or long-term period. It is not Qatar indeed.

However, smart behavior makes a half of victory. The main thing is to get entrance to the market, say, due to reserves. Overcoming the entrance barrier, one could influence the market, even by reselling someone else's gas. The further destiny of a player will be determined by qualification and reasonable decisions.

Europe has its own problems, and Russia has its own ones. Azerbaijan seeks his own interests. For now, it simply needs to sell its available gas volumes.

A charge has been brought to Chief Engineer of Sayano-Shushenskaya HES



The Investigatory Committee of the Procurator's Office has brought a charge to one more person involved in the criminal case in connection with the Sayano-Shushenskaya HES accident. The

former chief engineer of the station Andrey Mitrofanov, who has retired recently, and his ex-deputy Nickolay Nevolko were incriminated violation of safety rules which led to the emergency and death of 75 staff members. Timur Yusupov has already replaced A. Mitrofanov. Earlier he held the post of Director for Operation in RusHydro OJSC.

Last December, the Investigatory Committee of the Procurator's Office submitted a report on the progress in investigation of the causes of the Sayano-Shushenskaya HES accident. It reported on the next extension of the investigation term, which was connected, in particular, with performance of a complex technical expert review by the Independent Forensic Examination centre of the Russian Ecological Foundation TECHECO. According to the data, the elaborated expert opinion filled 26 volumes. According to the conclusions of the investigations and the experts, failure of the HES management to follow the safety rules became the main cause of the accident. In the nearest time, the investigators plan to bring charges to five more officials of the Sayano-Shushenskaya HES.

Weekly analytical comments **Energy News Weekly** prepared Analytical Group ERTA on the basis of materials published in the following publications and information of news agencies: Kommersant, Vedomosti, News Time, Izvestia, Nezavisimaya Gazeta, RIA Novosti, Finmarket, Interfax, PRIME-TASS, Oil and Capital, Oil and Gas Vertical, Oil of Russia, Lawtek, etc.

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