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## Ukraine must pay \$1.45 bln in 2013 debt to resume gas shipments - Gazprom

Russian Energy Minister Alexander Novak and European Energy Commissioner Gunther Oettinger met in Moscow on Friday for talks on gas for the first time in weeks. The sides agreed on the need for Ukraine to start servicing its debt for gas received in 2013, with Novak stating Kyiv needs to pay nearly \$1.5 billion up front with an installment plan to clear the rest of its more than \$5 billion debt in order for Russian gas giant Gazprom to resume shipments. Novak cited an expected IMF loan as means for Ukraine to pay as winter approaches.

## Gazprom begins building Power of Siberia gas pipeline

Russian gas giant Gazprom has begun building the Power of Siberia gas pipeline, the key infrastructure project which will form the base for Russian gas exports to China along the Eastern Route. Welding the first joint took place near the Us Khatyn suburb at kilometer 18 of the Namsky tract near Yakutsk and Russian President Vladimir Putin took part in the ceremony. Construction of the Chinese segment of the pipeline will begin soon and Gazprom expects supplies to start in 2019. Putin said the beginning of construction of the pipeline will give impetus to development of Russian industry nationwide.

## Sechin says Rosneft can meet financial obligations on its own, supports two-tranche privatization

Russia's state-controlled oil major Rosneft can meet its financial obligations on its own, company president Igor Sechin has said. Rosneft earned a record profit last year and it posted a profit of \$5 billion in H1 2014 on revenue of \$80 billion, Sechin said in an interview with Germany's Der Spiegel when asked how the company intends to carry out its investment plan in the face of sanctions. Net profit for this year will total \$13.5 billion, even though no other company pays so much tax, Sechin said, adding that the company will pay more than \$80 billion into the treasury in 2014.

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## TOP STORIES

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### Ukraine must pay \$1.45 bln in 2013 debt to resume gas shipments - Gazprom

MOSCOW. Sept 3 (Interfax) – Russian Energy Minister Alexander Novak and European Energy Commissioner Gunther Oettinger met in Moscow on Friday for talks on gas for the first time in weeks. The sides agreed on the need for Ukraine to start servicing its debt for gas received in 2013, with Novak stating Kyiv needs to pay nearly \$1.5 billion up front with an installment plan to clear the rest of its more than \$5 billion debt in order for Russian gas giant Gazprom to restore shipments. Novak cited an expected IMF loan as means for Ukraine to pay as winter approaches. He also said Russia is suggesting that a price of \$385-\$386 per thousand cubic meters of gas be set for Ukraine before Stockholm arbitration court makes a decision on pricing. A date on tripartite talks moving forward with the participation of Ukraine will be decided next week.

#### Debt repayment

Ukraine must pay \$1.45 billion in debt for 2013 and then agree on installments for repaying its remaining debt in order to resume gas shipments, Gazprom CEO Alexei Miller told journalists.

Novak said the International Monetary Fund (IMF) was supposed transfer another \$1.3 billion tranche soon. Russia is expecting this to go towards debt settlement.

Novak added that Russia was ready to recalculate Ukraine's gas debt retroactively for April-June of this year.

The European Commission will propose a gas debt repayment schedule to Ukraine in the near future, Oettinger said.

Ukraine should begin repaying its debt for gas in the next few months, he said. The gas sector must not be used as of instrument of escalation in political crisis conditions, he said.

The Russian partners must confirm that the reliability of gas supplies will be ensures, Oettinger said. Ukraine must ensure its transit, he said.

Novak said the repayment issue includes indebtedness for gas deliveries in November and December 2013 and partial payment for deliveries in April, May and June with restructuring of the remainder.

Oettinger has made clear to the Russian government that the current aggravation of the conflict in eastern Ukraine will negatively affect his planned talks in Moscow on Russian natural gas exports to Ukraine and the European Union, his office said.

The situation in eastern Ukraine runs against Oettinger's expectations after a recent summit in Minsk, the office said in a statement.

The EU can see no reason for the conflict in eastern Ukraine to prevent any of the parties to the current natural gas agreements from complying with them, an EU diplomatic source told Interfax on Thursday.

## Temporary price

Russia is suggesting that a price of \$385-\$386 per thousand cubic meters of gas be set for Ukraine before Stockholm arbitration court makes its decision, Novak said following talks with Oettinger.

He said the price changes depending on parts of the formula and that now it is at the level of \$385-\$386.

Novak said Russia had suggested this before. This concerns the possibility of giving a discount of \$100 per thousand cubic meters in the current contract using the customs duty.

"In civilized practice, the calculation is made in accordance with the contract. Then depending on the court's decision, a recalculation takes place. Now the consumer, even without waiting for the court's decision, considers this price unreasonable," Novak said.

The Russian minister said that now the parties are in court, which complicates negotiations on the price. And according to business practice, the Russian party should have continued to keep the price at \$485.5.

Russia has not received any proposals about non-cash payments for gas and has not discussed it, he said.

Oettinger added that the parties must determine an interim price for Ukraine while the court is making its decision. This is to guarantee stable gas supplies for European consumers.

Novak repeated Ukraine's estimate. He said that Ukraine, before the beginning of the heating season, must pump another 10 billion cubic meters of gas into its storage units. He said this volume could "theoretically" be pumped before the cold, "if this is started tomorrow."

According to Russia's estimate, during the winter, Ukraine will need 140 million-220 million cubic meters of gas.

Russia, the European Commission and Ukraine will agree on a date for a trilateral meeting on gas at the beginning of next week.

## Price unacceptable

Ukrainian Minister of Energy and Coal Industry Yuriy Prodan said Kyiv disagrees with Russia's proposal to set temporary gas price of \$385.5 per 1,000 cubic meters.

"We hear again the price of \$385 [per 1,000 cubic meters] over the application of the so-called \$100 discount from the price of \$485 due to duty cancelation. So, in Russia's opinion, the price of \$485 is fair and is market value. We think that this price is discriminatory," he said.

Ukraine has presented Russia with several proposals, including those consolidated with the European Commission, on the market mechanisms for setting the price, Prodan said.

"Our latest proposal is to calculate the price assuming the price level existing in European gas hubs and to decrease it by the volume of the expenses for transporting gas from the Russian border to the EU countries. What price could be more market value than the bourse price?" the minister said.

Naftogaz has proposed that Gazprom set the price of gas at the level of quotations on European gas exchanges (net of transit costs) pending a ruling on their dispute over prices in Stockholm arbitration.

"Pending the arbitration ruling, the price of gas will be equal to the price at the European gas hubs less the cost of transportation from the Russian border to those hubs," Naftogaz said in

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a statement published ahead of talks on gas - with the potential participation of the European Commission - scheduled for September 6.

Doing so would significantly simplify the discussion aimed at setting a fair market price for Ukraine, Naftogaz said.

Commodity exchange prices accord with the principles of a fair and market-oriented approach, as provided for in the current gas contract with Gazprom, which allows for reviewing the gas price given changes in the market situation.

Use of exchange-based prices predominates in Gazprom's contracts with European companies, Naftogaz said.

"The Ukrainian side is ready to discuss the technical aspects of implementing this proposal in accordance with European practice," the statement says.

Naftogaz also proposes using that methodology to pay Ukraine's gas debt, before the arbitration court ruling.

Naftogaz Ukrainy has not received any proposals from Gazprom regarding the settlement of existing disputes between the two companies, including those concerning gas prices for Ukraine, Naftogaz CEO Andrei Kobolev said.

"I am learning about a proposal concerning the price of Russian gas for the very first time via Facebook. The world has seriously changed," Kobolev said on his Facebook.

Starting in April 2014, Russia raised the price of gas for Ukraine from \$268.5 to \$485.5 for 1,000 cubic meters. Ukraine said it would not pay such a high price.

Since the beginning of May, Russia and Ukraine along with the European Commission have held trilateral talks, which were not successful. Gazprom complete cut off gas supplies to Ukraine on June 16.

Naftogaz Ukrainy filed suit in the Arbitration Institute of the Stockholm Chamber of Commerce on June 16, 2014, demanding that a fair and market price be set on the gas that Gazprom supplies to Ukraine. The suit also contains a requirement that overpayment be recovered from Gazprom for gas that the Russian monopoly supplied to Naftogaz since 2010. According to the Ukrainian company, such overpayment amounts to \$6 billion.

On the same day Gazprom filed a suit with the court against Naftogaz for the recovery of debt amounting to \$4.5 billion for gas that was supplied but not paid for.

The lawsuits that Naftogaz Ukrainy and Gazprom filed against each other in Stockholm arbitration court were combined into one case. Kyiv is expecting an interim decision from the court on the gas contracts before the end of this year.

## GTS modernization

Modernizing Ukraine's gas transportation system would cost an estimated \$19.5 billion at a minimum and would do nothing to reduce risks to transit of Russian gas to Europe, according to an article in the Financial Times authored by Gazprom spokesman Sergei Kupriyanov.

South Stream, which has "the commercial backing of leading European companies and the support of participating countries," will solve this problem at a lower cost, Kupriyanov said.

The European Commission is trying to delay the project out of strictly political considerations, Kupriyanov said in the FT, adding that "the EU seems ready to shoot itself in the foot by blocking a project that will increase its energy security and help Europe satisfy increasing energy import needs."

South Stream with capacity to ship 63 billion cubic meters of gas a year will cost 15.5 billion euro to build. The pipeline will be laid under the Black Sea from Anapa in Russia to Varna in Bulgaria, and onward to Austria's Baumgarten gas hub.

Meanwhile, utilization of capacity on the Opal gas pipeline will be discussed in the near future by a special working group, Novak told journalists.

Novak said the decision was put off until September 15, citing information from Oettinger. "Now they will revisit this issue in order to have a solution worked out by September 15. We have tried to convince Oettinger that this is an absolutely correct decision and in the interests of both European consumers and the European Commission, to genuinely provide for full utilization of the pipeline's capacity. This reduces existing transit risks," Novak said.

"Questions concerning Opal will be discussed by a working group that will be at work in coming days and perform a final reconciliation of all the figures and calculate consumption volumes by European consumers, gas transmission volumes, underground storage withdrawals, in order to ensure reliable passage through the winter period," Novak said.

Fully utilizing Opal capacity was one of the four issues Novak and Oettinger discussed at the meeting in Moscow.

Novak added that issue with the construction of the South Stream gas pipeline were not discussed on Friday.

## Slovak supplies

Elsewhere, natural gas supplies from Slovakia to Ukraine began on Tuesday, Kobolev said on his Facebook page after taking part in the opening ceremony for the Voyany-Uzhgorod pipeline.

"Here we go. We need much more than this, but this is an important step," he said.

Earlier, Kobolev announced the successful completion of tests for pumping gas from Slovakia to Ukraine along the Voyany-Uzhgorod pipeline. "Vojany-Uzhgorod: test transmission of gas at scheduled volumes of 27 mcm/day [27 million cubic meters per day] have been successfully completed," Kobolev said, adding his thanks to everyone who took part in the process.

The Ukrainian operator of Ukrtransgaz transport system and the Slovakian operator of Eustream system signed a memorandum on mutual understanding concerning the provision of reverse gas supplies from Slovakia to Ukraine.

Minimum guaranteed capacity of the Voyany-Uzhgorod gas pipeline, which pumps gas from the EU to Ukraine, is 6.4 billion cubic meters (bcm) per year, Slovakia's gas pipeline operator Eustream a.s. said on its website.

This volume is equal to 17.5 million cubic meters of gas per day. The pipeline's design capacity is 10 bcm per year, or 27 million cubic meters per day.

The price Ukraine is paying for reverse supplies of gas from Europe via Slovakia is below \$385 per 1,000 cubic meters, Kobolev told journalists.

"Concerning Slovakia: a gas pipeline has been launched with capacity for roughly 10 billion cubic meters a year. If fully utilized, it will substitute for approximately 40% of our imports. We are not disclosing the price, but it is below \$385 per 1,000 cubic meters. I won't tell the exact price. That's a commercial secret," Kobolev said.

Ukraine imported around 250 million cubic meters of natural gas from Europe in August 2014, up 13% month-on-month.

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According to monitoring data from the gas transportation system (GTS) operators of Hungary and Poland, namely FGSZ Ltd, Gaz-System S.A., Ukraine imported 128 million cubic meters of gas from Hungary in August and around 121 million cubic meters from Poland.

In April-August 2014, gas imports from Europe to Ukraine totaled around 1.1 billion cubic meters.

According to data from gas transport operator Ukrtransgaz, natural gas reserves at Ukraine's underground gas storage facilities were 15.69 billion cubic meters as of August 30.

### Trilateral meeting

Trilateral talks between Russia, Ukraine and the EU on gas can take place in the middle of September, EU Commissioner for Energy Gunther Oettinger's press service said in a statement.

The EU commissioner said that, for a start, Russia and the European Commission will hold a working meeting based on bilateral negotiations between Oettinger and Russian Energy Minister Alexander Novak on September 4. These technical meetings are focused on the further analysis of the security of gas supplies next winter.

"On September 8 my meeting with Ukrainian Energy Minister Yury Prodan will take place in Baku [Azerbaijan]. After this meeting we will agree on a date and place for the next trilateral negotiations. They may take place in the middle of September," the EU commissioner said.

Earlier Novak said that Russia and Ukraine agreed upon a date for a trilateral meeting on September 6, but did not yet agree upon it with the European Commission.

"September 6 - we are waiting for an answer from the European Commission. This is convenient for Prodan and me. All depends on what plans the European Commission has. We agreed upon this date with Ukraine already in Minsk," Novak said.

### Gazprom begins building Power of Siberia gas pipeline

YAKUTIA. Sept 1 (Interfax) - Russian gas giant Gazprom has begun building the Power of Siberia gas pipeline, the key infrastructure project which will for the base for Russian gas exports to China along the Eastern Route. Welding the first joint took place near the Us Khatyn suburb at kilometer 18 of the Namsky tract near Yakutsk and Russian President Vladimir Putin took part in the ceremony. Construction of the Chinese segment of the pipeline will begin soon and Gazprom expects supplies to start in 2019. Putin said the beginning of construction of the pipeline will give impetus to development of Russian industry nationwide. "It will not just enlarge export supplies and expand the geography of our hydrocarbon exports but will also help us make another important step towards the development of gas grids in our own country. This is especially significant for the eastern part," Putin said. The approximate cost of building the pipeline will be 770 billion rubles.

### Project

"We are beginning the largest construction project in the world. And there will not be anything larger in the world anytime soon. But it's not about records. It's about the fact that this is an extremely important project for Russia and for the People's Republic of China," Putin said.

Construction of the Chinese segment of the Power of Siberia gas pipeline will begin in the first half of 2015, Chinese Vice Premier of State Council Zhang Gaoli said at the ceremony.

Putin said Russia will support China's plans to take a stake in the Vankor oil field.

"Sechin said he invited [Zhang] to join one of our biggest [enterprises] for oil production in northern Russia. The state will support these plans. We will welcome your participation," Putin said.

Zhang said strategic cooperation between Russia and China was long-term, durable and stable and that the sides "must bear any hardship."

"That is how it will be. Today Vankor is one of our biggest production enterprises. With a good outlook. Overall we take a very careful approach to access by our foreign partners, but of course for our Chinese friends, there are no restrictions," Putin said.

Gazprom has set the start of gas supplies to China for 2019, Gazprom said after a meeting between its CEO Alexei Miller and Zhang.

"The beginning of natural gas production at the Chayanda field has been scheduled for the end of 2018, by which time we should have seen the launch of the first-line section of the Power of Siberia gas transportation system between the Chayanda field and the city of Blagoveshchensk, and the of first-line gas-processing facilities. This will enable us to start direct gas supplies to China in 2019 in line with the obligations stipulated in the signed contract," Gazprom said.

The 30-year contract for the supply of up to 38 billion cubic meters of natural gas per year was signed with China's CNPC in May 2014. Under the contract, deliveries are due to begin in four to six years' time.

### Eastern, western routes

Russia and China are planning to sign an intergovernmental agreement in October on gas shipments to China via the eastern route, Zhang said.

"We can expect the intergovernmental agreement for the eastern route to be signed in the month of October. Miller and I have already become good friends," he said.

"This is very good," Putin said.

Gazprom is also ready to sign a contract with China National Petroleum Corporation (CNPC) in November to ship gas to China via the western route, Miller said.

"If Gazprom works closely with CNPC - and Gazprom is ready to do this - then we will be able to sign a contract during the meeting between our heads of state in the month of November," he said.

Putin said Russia would focus on China's proposals concerning increasing gas shipments to the country. "We will focus on your offers and your applications," he told Zhang.

"It goes without saying that we have looked at Gazprom. It is of course in the position to carry out this project relatively quickly, even more quickly than the eastern [project]," Putin said.

Zhang said the western route had more reserves from an infrastructural point of view.

### Industry

Construction of the Power of Siberia gas pipeline will give impetus to development of Russian industry nationwide, Putin said.

"This gives us the opportunity to give impetus to development in this region, for the entire country: equipment manufacturing, metallurgy, pipe manufacturing, the chemical industry," Putin said.

The pipeline will foster the development of gas grids in Siberia and the Russian Far East, which will eventually merge national gas networks into a single whole and regulate resource flows consistent with global market conditions, Putin said.

"It will not just enlarge export supplies and expand the geography of our hydrocarbon exports but will also help us make another important step towards the development of gas grids in our own country. This is especially significant for the eastern part," Putin said.

"Once we create a pipeline network here, in the Far East and Siberia, we will be able to connect the European part of the gas pipeline system to the Eastern one. And this, from the point of view of export opportunities, from the point of view of broadening the geography of gas grids in our own country, will give us a great advantage of regulating the flows consistent with the situation on global markets - either to the West, in larger quantities and more efficiently, or to the East," he said.

The president also said that putting Power of Siberia into operation will give Russia the opportunity to not only export gas but also to gasify the eastern regions of the country.

China will develop relations with Russia regardless of changes in the international situation, Zhang Gaoli said.

"However the international situation may change, we will bear any hardship together with you and will exert maximum effort in order to develop a comprehensive, stable, long-term, reliable all-encompassing strategic partnership," he said

## Costs

The approximate cost of building the pipeline will be 770 billion rubles.

This includes 283 billion rubles of investment in the construction of the pipeline in the Republic of Sakha (Yakutia).

The Chayanda-Blagoveschensk section of the pipeline will be built first and is scheduled to come on stream at the end of 2018. The second phase will involve connecting the Irkutsk production center with the Yakutia center.

The construction of the first phase of the pipeline will employ about 12,000 specialists and the pipeline's operation will employ about 3,000 people, including more than 1,600 in Yakutia.

The project is being carried out by LLC Gazprom Transgaz Tomsk.

United Metallurgical Company (OMK) shipped more than 30,000 tonnes of large-diameter pipes in July and August for the construction of the pipeline system, the company said in.

OMK has therefore met all contractual obligations for pipe supplies to build the system. The contract was signed in 2013 between Vyksa Steel Works, which is part of OMK, and Gazprom.

## Launch

The launch of the pipeline was significantly moved about 2,000 kilometers from the route of the mainline.

Gazprom initially wanted to hold the event at Blagoveshchensk on the Chinese border and Miller held two meetings with Chinese Ambassador to Russia Li Hui in anticipation of the ceremony. However, the leadership of Yakutia managed to have the event held in its capital [Yakutsk], a source close to Gazprom said. Formally, this will look like a sign of respect to the region where the Chayandinskoye oil and gas field is located, which is the primary base for gas supply to the pipe. But this event of federal and international importance will end up supporting the upcoming elections in two weeks of acting head of Yakutia Yegor Borisov, the source said.

In May of this year, after ten years of difficult negotiations, Gazprom signed a contract on gas supplies to China via the eastern route: for 30 years, at 38 billion cubic meters a year. The total

value of the contract is estimated at \$400 billion. Expenses on the organization of gas supplies - the construction of the pipeline and the construction of production facilities at the Kovyktinskoye and Chayandinskoye fields - are estimated at \$55 billion.

The Power of Siberia pipeline system will stretch 3,968 km, including about 2,000 km from the Chayanda oil and gas condensate field to Blagoveschensk (including 1,350 km through Yakutia) and the 791-km Kovykta - Chayanda section that will connect the Irkutsk and Yakutia gas production centers.

## Mongolia

Concerning potential supply routes, Mongolia is willing to transport Russian natural gas, Mongolian President Tsakhiagiin Elbegdorj said.

"I also touched upon the advantages of building a gas pipeline across our country's territory," Elbegdorj said at a joint press conference with Russian President Vladimir Putin on Wednesday.

Among these advantages, the Mongol leader mentioned "security, convenient short route, and steppe conditions."

So Mongolia is already the second contender for having the right to transport Russian gas to China along the western route. Earlier Kazakhstan expressed such an interest.

Mongolia has only two neighbors - Russia and China, which have for several years discussed the possibility of gas supplies by two routes - the western and eastern. Recently, in May, a contract was signed between Gazprom and China's CNPC about the supply of up to 38 billion cubic meters (bcm) of gas a year along the eastern route - the Power of Siberia gas pipeline from fields of Eastern Siberia (Irkutsk region and Yakutia) through the Amur region to the eastern part of China, where its main industry is concentrated.

Several years ago, the initial option for supplies to China that was reviewed was the western route - the Altai gas pipeline project. It was expected that this gas pipeline with a capacity of 30 bcm of gas a year would transport gas from fields in Western Siberia across the Altai straight to the Russian-Chinese border, sandwiched between Kazakhstan and Mongolia. Ecologists were against the construction of a gas pipeline through the Altai.

At the end of August the first prime minister of Kazakhstan, Uzakbai Karabalin, said that the Kazakh authorities had suggested that Russia build a pipeline to China through Kazakhstan - "in particular through Astana and the Khorgos district or even Alashankou to China." Karabalin said: "The Russian side expressed definite interest."

## GAS

### **Gazprom gas exports drop 15% in Aug, output falls 19% as Europe fully stocked**

MOSCOW. Aug 29 (Interfax) - The suspension of Russian gas shipments to Ukraine and full European gas storage facilities continue to put pressure on the production of Gazprom, which fell 19% to 26.5 billion cubic meters in August, Interfax estimates based on the latest data from the Central Dispatching Department of the Fuel and Energy Complex (CDU TEK) show.

The Russian gas giant reduced production by 6.5%, or 20 bcm, to 288.6 bcm in the first eight months of 2014.

Meanwhile, Russia's third largest gas producer, Rosneft achieved its highest ever gas use of 160 mcm on August 28. The state oil major's gas extraction, at 177 mcm per day, already allows it to move into second place. Recovery of associated petroleum gas at the company's newest gas project, Vankorneft, reached 75.6% in July, according to the latest available figures, and across Rosneft it reached 81%.

Gas production in Russia overall fell 11% to 42.4 bcm in August, and slumped 3.5% to 418.7 bcm in the first eight months of 2014.

Gas production has fallen because gas supplies to Ukraine have been suspended and European underground storage facilities are full. Following a very warm winter, they are currently filled to 87.6% of full capacity. Last year, reserves did not even go this high and began to drop at a level of 84.46% in early November.

Nonetheless, Europe is continuing to pump gas into storage, although at a much slower pace. In the middle of August, daily pumping into storage was 70 mcm lower than last year, and in the last week of the month it was down by more than 150 mcm per day.

As a result, exports of Russian gas to countries outside the CIS fell 15% to about 11 bcm in August, Interfax estimates based on the statistics of gas transport operators show. Exports slumped 1.7% or by 1.8 bcm to 104 bcm in the first eight months of 2014.

However, despite the current seemingly dire situation with European demand for gas, it should be noted that the current slump is in large part the effect of the high base of 13 bcm last year, when storage facilities were empty after a long winter. And exports in August 2014 are considerably higher than they were in August 2012 or 2011, when they totalled 9.7 bcm and 9.1 bcm respectively.

### **Draft decree for Gazprom to offer discount of up to 15% of tariff service's price**

MOSCOW. Sept 2 (Interfax) - The Federal Tariff Service has submitted a draft decree to the government allowing Gazprom to offer discounted prices of up to 15% of the regulated gas price to certain categories of consumers, a representative from the tariff service told Interfax.

The representative said the draft decree had been sent along with the minutes of a meeting with the Federal Anti-Monopoly Service (FAS) and the Economic Development Ministry, which

noted the need to expand the list of consumers able to receive discounts, as well as the need to develop regulations on giving the discounts.

"These notes were partially factored into the draft decree and included in the minutes. The size of the deals has remained the same as before - up to 15%," the tariff service said.

The Economic Development Ministry, meanwhile, believes the list of consumers eligible to receive discounts should be expanded to include all consumers, not just those that annually consume more than 100 million cubic meters of gas, as proposed by the FTS, a ministry representative told Interfax.

## European Commission's investigation of Gazprom still underway, no news yet - Almunia

BRUSSELS. Sept 3 (Interfax) - The antimonopoly investigation on Russian gas giant Gazprom is still underway, European Commissioner for Competition Joaquin Almunia said at a press conference in Brussels on Wednesday.

"The official investigation on this issue has been going on since 2012. I don't yet have anything new to tell you, but the investigation is still underway," he said.

## Gazprom, Kyrgyzstan to choose between gas pipeline, coal gasification plant to supply south

BIHSKEK. Sept 1 (Interfax) - Gazprom may build a trunk gas pipeline in Kyrgyzstan for 45 billion rubles or a coal gasification plant in southern Kyrgyzstan, President Almazbek Atambayev said on Sunday during a speech marking the 23rd anniversary of independence.

The Kyrgyz authorities, together with Russian Gazprom which acquired 100% control of Kyrgyzstan's gas transmission network earlier this year, are currently working to resolve the problem of supplying gas to Kyrgyzstan's southern regions, which have gone without gas since Uzbekistan shut off exports in April. Two projects are currently being drawn up. It is expected that the sides will announce the most acceptable option by year-end.

If construction of a gas pipeline is deemed optimal, construction could begin next spring, Atambayev said. However, he said, construction of the coal gasification plant may make more sense, since it would provide Kyrgyzstan with its own supply of gas. The plant could also be built in just 18 months and would produce gas at a cost of \$200 per 1,000 cubic meters, compared with the \$290 per 1,000 cubic meters that was being paid for gas from Uzbekistan.

"If we decide to build the plant, there would no longer be a need to build the North-South pipeline, which would produce over \$1 billion in savings. I think Gazprom would begin investing these savings in operations in Kyrgyzstan before the end of the year. I think that we and Gazprom will select one of the options and as earlier as 2016, we will supply gas, uninterrupted supplies, to southern Kyrgyzstan," he said.

Gazprom will provide money for the project over and above the 20 billion rubles it has already pledged for modernization of the national gas pipeline system. It has already allocated 262 million rubles for maintenance of gas distribution networks.

The options for ensuring gas supplies to southern Kyrgyzstan were laid out during Gazprom CEO Alexei Miller's visit to Kyrgyzstan on August 28. The sides reached agreement that from

October 1, 2014 Gazprom would deliver gas to northern Kyrgyzstan at \$165 per 1,000 cubic meters. The region currently receives gas from KazTransGaz at \$224 per 1,000 cubic meters. Thus, gas prices for consumers in Bishkek and other northern Kyrgyz cities are poised to fall nearly 33%, Atambayev said.

In addition, Gazprom will begin intensive development of the Maili-Suu-4 and Kugart fields in southern Kyrgyzstan's Jalal-Abad region in November this year. Forecast reserves in the license territory total about 2.5 billion cubic meters.

## Azerbaijan again stops gas supplies to Russia

BAKU. Sept 3 (Interfax) - Azerbaijan has again completely stopped gas supplies to Russia, the State Oil Company of Azerbaijani Republic (SOCAR) told Interfax.

The supplies were stopped due to renovation work. The company did not specify from what period the stop occurred, nor did they say how long it would last.

This is already the second stop in gas supplies to Russia from Azerbaijan in a year - from the beginning of this year until the beginning of June, gas was also not supplied due to road repairs.

The daily plan for gas supplies before the stop was 2 million cubic meters of gas a day.

## Gas round-up

\*\*\* Gazprom spokesman Sergei Kupriyanov denied media reports that the Russian natural gas company is likely to buy Serbian soccer club Red Star Belgrade. (28/8)

\*\*\* The board of directors of Novatek has recommended interim dividends for the first half of 2014 at 5.1 rubles per share. Overall dividends could therefore total 15.485 billion rubles. (1/9)

\*\*\* The Cabinet of Ministers of Ukraine has created an interagency working group for the collection of debts of natural gas consumers and the improvement of the financial state of national joint-stock company Naftogaz Ukrainy. The group is created as a part of cooperation of the Cabinet of Ministers, the National Bank of Ukraine and the IMF. (1/9)

\*\*\* The Ukrainian Security Service, the prosecution service and police investigators this week conducted searches at the headquarters of natural gas producer Ukgasvydobuvannya, a company whose output makes up 75% of Ukraine's total gas production. (28/8)

\*\*\* Latvijas Gaze, Latvia's gas distribution company, saw its net profit slump 1.4% year-on-year to 10.69 million euros in H1 2014. Sales dropped 20% to 266.378 million euro, which the company attributes to a 17.2% drop in the volume of natural gas sales, to 689.6 million cubic meters, decrease in prices for oil products and exchange rate changes. (29/8)

## OIL

### Russian oil production may grow 0.7% in 2014 - Molodtsov

KAZAN. Sept 3 (Interfax) - Oil production in Russia may grow 0.7% in 2014, Deputy Energy Minister Kirill Molodtsov said at a scientific conference on tight and unconventional oil reserves.

"Current performance figures for all companies of the oil and gas sector allow us to say that we currently have a stable production volume, producing 523 million tonnes with around 0.7% growth in oil production this year," he said.

Molodtsov added that the main task for the industry and government was engaging in tight deposits.

He said that during discussions on the tax maneuver, parameters were actually agreed upon by the economic and industrial blocks, which allows for rules to be implemented in the industry for a fairly long period of time. "This allows us to discuss the increased involvement of Bazhenov, Apalatovskoye, [and] Khanumsky suite, and possibly resolve issues at the Tyumen suite," Molodtsov said.

At the beginning of the year, Molodtsov said that oil production in Russia was expected at 525 million tonnes in 2014 versus 523 tonnes in 2013.

Last week Lukoil Vice President Leonid Fedun said that oil production in Russia may face zero growth as early as this year. He said production may even fall in 2015.

Oil production in Russia was 523.3 million tonnes in 2013, up 5.2 million tonnes year-on-year.

### Sechin says Rosneft can meet financial obligations on its own, supports two-tranche privatization

MOSCOW. Sept 1 (Interfax) - Rosneft can meet its financial obligations on its own, the Russian state oil major's president, Igor Sechin said in an interview with Der Spiegel.

Rosneft can easily meet its obligations with its own resources, he said. Rosneft earned a record profit last year and it posted a profit of \$5 billion in the first half of 2014 on revenue of \$80 billion, Sechin said when asked how the company intends to carry out its investment plan in the face of sanctions.

Net profit for this year will total \$13.5 billion, even though no other company pays so much tax, Sechin said, adding that the company will pay more than \$80 billion into the treasury in 2014.

It was reported earlier that Rosneft's capital expenditures could total 730 billion rubles in 2014 (\$19.7 billion at the current rate). As for long-term investments, Rosneft plans to invest \$400 billion over 20 years in Arctic projects alone.

## Support reasonable

Economic Development Minister Alexei Ulyukayev said he believes a number of requests to support Rosneft are reasonable and that these are now under discussion.

"There is no aid plan. There are requests [from Rosneft], part of which seem entirely reasonable to me," he told journalists, adding that these requests were currently being discussed.

Ulyukayev refrained from saying which types of requests could be granted.

Answering the question of whether funds from the National Welfare Fund would go towards supporting Rosneft, he said: "There are other forms of support that are not at all connected with spending funds - for example, customs and tariff regulations for components."

"But as concerns financial support, discussion is also possible," Ulyukayev said.

Sechin earlier asked the government to provide financial assistance to the state oil major, the Vedomosti newspaper reported previously.

Sechin said this assistance is necessary because of the U.S. sanctions against the company.

The most costly option for the state is the purchase of new Rosneft bonds with money from the National Welfare Fund (NWF) for 1.5 trillion rubles.

Among the proposed measures, Sechin suggested that Rosneft be provided directly with licenses for offshore and onshore sections. He also thinks it is possible to lift restrictions on the timeframe for the zero export duty rate for shelf projects, which is applied to the third (projects with a high level of complexity) and fourth (Arctic projects) categories of complexity. These concessions are valid until April 12, 2037 and March 31, 2042, respectively. The Economic Development Ministry said it is too soon to abolish this timeframe. But this issue could be returned to after additional geological exploration results have been obtained. Rosneft had 25 sections on the Arctic shelf at the end of 2013.

Rosneft's president also asked that the construction of the Far East Petrochemical Company (FEPCO) be supported. According to the Economic Development Ministry, the government's draft order for the FEPCO project is ready, which envisages that the external first and second stage infrastructure facilities and non-public facilities will cost 103.7 billion rubles to be financed by the federal target program for the Economic and Social Development of the Far East and Baikal Region in the period to 2025.

Rosneft has also asked the state for financial assistance for the tight gas extraction program in Eastern Siberia.

"We want to extract tight gas in Eastern Siberia and we plan to build a petrochemical plant there. If the state provides a bond-secured loan to us, I reiterate, a loan, it will be very good," Sechin said.

Sechin added that the company will begin working on the project later if it does not get state support for it.

"If we don't get it, it won't be a catastrophe to us. We will just begin working on the project later. Rosneft has no problem with the financing of current projects," Sechin said.

## Two tranche privatization

Sechin told journalists he supported the idea of privatizing the oil company in two tranches.

Russia's Economic Development Ministry has said the government's stake in Rosneft could be privatized in two tranches. The ministry also said privatization was still set for 2015.

Ulyukayev said it is possible that the state's shares package in Rosneft will be privatized in two tranches, and the ministry is still planning to privatize the oil company in 2015.

"The minister's position is that plans to privatize the [19.5%] package remain, and privatization is possible in two tranches," the ministry's press secretary, Yelena Lashkina told Interfax said.

The Russian Federal Property Agency (Rosimuschestvo) continues preparations to privatize Rosneft according to approved plans, despite the sanctions, Olga Dergunova, head of the Russian Federal Property Agency (Rosimuschestvo), told reporters in late July.

"We aren't changing our plans as of today. The situation [in the economy] is changing but the asset must be ready [for sale]," Dergunova said.

As for Rosneft's privatization, she pointed out that OJSC Rosneftegaz is the principal owner. "Any Rosneft privatization action will be prepared by Rosneftegaz and then agreed with the government. We have commenced with Rosneftegaz - in essence today is the starting point - on how to move ahead on the 19.5% stake," she said.

The structure of the deal may incorporate a mechanism for ensuring that the privatization proceeds go to the budget, Dergunova said. "But for now we have not had a discussion with Rosneftegaz. We initiated the process, so that Rosneftegaz prepares proposals and after that we will discuss it," she said.

The government plans to sell the 19.5% Rosneft stake in 2015.

### Investment in up- and downstream

Rosneft is planning to invest over 112 billion rubles on geological exploration work at the shelf of the Okhotsk Sea and Chukchi Sea in 2014-2018, Sechin said.

"Between 2014 and 2018 we are increasing spending on geological exploration several fold at the shelf of the Okhotsk Sea towards Magadan and the Chukchi Sea. These costs will total over 112 billion rubles," he said at a meeting with Russian President Vladimir Putin to discuss the development of the Far East Monday.

Sechin added that the company was already producing 34 million tonnes of oil per year at current fields in the region. As a result of developing prospective sections, production can increase by more than 30 million tonnes.

Rosneft also plans to create capacity to refine 30 million tonnes of oil a year, Sechin said.

"We agreed approval of a first stage of the project with investment in the neighborhood of 560 billion [rubles], that will provide for construction of a first line with capacity for 12 million tonnes a year at Far East Petrochemical Company. Transneft gives us a connection to the trunk pipeline," Sechin said.

"In all the refining will total 30 million tonnes: a second stage with another 12 million tonnes and 6.7 million tonnes in petrochemicals," Sechin said.

The Far East Petrochemical Company project involves the building of a petrochemical complex in the area of Elizarov valley in the Partizansky region of Primorye Territory with overall processing capacity of 30 million tonnes, of which oil will account for 24 million tonnes and naphtha for 6 million tonnes. The first line may involve the building of a complex with 12 million tonnes of annual processing capacity, a second line the launch of a petrochemical block for 3.4 million tonnes of product per year, and a third line for increasing oil refining by 12 million annual tonnes and petrochemical output by 2.6 million annual tonnes.

In addition, Deputy Prime Minister Arkady Dvorkovich said at an energy commission meeting in early summer that he did not find third phase construction to be worthwhile.

## Rosneft, ExxonMobil begin seismic surveying at two sections in Laptev Sea

MOSCOW. Sept 2 (Interfax) - Russia's Rosneft and American ExxonMobil have begun carrying out 2D seismic surveying at the Anisinsko-Novosibirsk and Ust-Oleneksky licensed areas in the Laptev Sea, Rosneft said.

Overall 2D seismic work will cover 6,000 linear kilometers and be carried out until the end of October.

In 2013, Rosneft received the license to explore and produce hydrocarbons at the sections, which cover over 250,000 square kilometers.

Rosneft also owns the Ust-Lensky section, which is also located in the Laptev Sea and has been included in plans for cooperation with ExxonMobil. The one-time payment for the three licenses was 1.2 billion rubles.

## Lukoil sees net profit fall 12% in H1 to \$4.1 bln, up 13.5% in Q2

MOSCOW. Aug 29 (Interfax) - Russian oil giant Lukoil saw net profit to GAAP fall 12% in the first half of 2014 to \$4.1 billion, the company said in a report.

In the second quarter, net profit advanced 13.5% to \$2.4 billion.

Analysts told Interfax in a consensus forecast that they had expected H1 net profit of \$4.4 billion and Q2 net profit of \$2.7 billion. Of the financial institutions surveyed, Uralsib Capital and Gazprombank were closest with \$4.08 billion and \$2.42 billion, respectively.

Earnings before taxes, depreciation, and amortization (EBITDA) increased 24.7% year-on-year in Q2 2014 to \$5.4 billion. Sales revenue increased 9% to \$38.2 billion. Revenue and EBITDA grew largely because of increased oil production in Russia. In addition, Lukoil began receiving compensation for the West Qurna 2 project in Iraq, the company said.

H1 revenue was \$73.9 billion versus \$68.8 billion in the same period of last year.

### West Qurna

Lukoil received over \$1 billion in compensation in the first half of 2014 for the West Qurna 2 project in Iraq, the company said in its US GAAP report.

"Positive impact of cost compensation on Group's EBITDA for the second quarter and the first half of 2014 amounted to \$1.017 billion," the company said.

"[...] in the second quarter of 2014, the Group accrued revenue from the West Qurna-2 project in total amount of \$1.179 billion consisting of cost recovery of \$1.163 billion and remuneration fee of \$16 million," Lukoil said.

The Group launched the "Mishrif Early Oil" stage at the West Qurna-2 field and reached the planned production of 120,000 barrels per day in March 2014. According to the service agreement, costs are compensated after this level of production is achieved and maintained during any 90 days within a 120-day period. "In June 2014, we met this term," Lukoil said.

Attributable amount of 1.781 million tonnes of crude oil (12.218 million barrels) was included in Lukoil's production for the period, which represents approximately 65% of total production from the field of 2.757 million tonnes (18.913 million barrels).

The project's target production level is 1.2 million barrels per day and the total term of the contract is 25 years.

"The Group is exposed to political, economic and legal risks due to its operations in Iraq. Management monitors the risks associated with the projects in Iraq and believes that there is no adverse effect on the Group's financial condition that can be reasonably estimated at present," it says.

## Capex

The Lukoil group increased capex 11% year-on-year in the first half of 2014 to \$7.7 billion.

Capex, including noncash operations, totaled \$4.5 billion in the second quarter.

"Lukoil Group organizations have contributed 592 billion rubles in taxes and customs fees to the RF budget, which is 13% more than last year's figure. The growth in the tax payments can be accounted for by the increased profit tax payments, MET payments and petroleum product excise duty," the statement says.

Lukoil saw net debt increase to \$9.3 billion in the first half of 2014 from \$9.1 at the beginning of the year, the company said.

Lukoil Vice President Leonid Fedun said during a conference call that despite the situation on foreign markets, the oil company was not yet resorting to foreign loans. He added that Lukoil was financing its investment program using its own cash flow.

Fedun did not rule out the possibility of raising foreign loans if the need arises.

Fedun said he believes it would be expedient to reduce capex and that no spending on major new acquisitions is planned.

The economic and political situation remains difficult to forecast more than three months ahead, prompting him to support a more conservative position. "I will recommend to my colleagues that the investment program be reduced, in order to have more cash," he said.

The extreme uncertainty stems from the oil market too, not just sanctions, he said.

"The capex plan has not been reduced so far. We spent practically 50% of capex in the first half of the year. But there is the goal of reducing it by \$2 billion," Fedun said.

He added that in his opinion oil prices were not going to grow in the near future. "We are not expecting the price of oil to fall. But we do not see the potential for growth in this period of the year," Fedun said.

Lukoil's senior vice president for finance, Alexander Matytsyn, told journalists that a \$2-billion reduction in the oil company's investment programs is planned for next year.

He said that earlier the company approved an investment program for three years - 2014-2016 - amounting to \$55 billion. According to the decision of the board of directors, the part of the investment program for 2014 is \$20.5 billion.

In H1, capex was \$7.8 billion.

"The company is focusing on reducing the investment program, which it had initially planned on reaching these same results," he said.

Lukoil's Senior Vice President for Finance Alexander Matytsyn said that the investment program would be optimized with due account of the macroeconomic situation. "Large scale work is being planned on optimizing extraction projects. We are planning on concentrating on the most efficient fields," the vice president said.

## Production

Lukoil boosted average daily oil production 4.5% in the first half of 2014 to 1.9 million barrels of oil equivalent (boe) per day, the company said.

"Commercial hydrocarbon production by Lukoil Group over the first six months of 2014 rose by 3.2% as compared to the similar period of 2013 thus totaling 410 million BOE. The liquid hydrocarbon production grew by 4.5% up to 352 million barrels," the report says.

Lukoil boosted oil production in Russia 1.3% to 314 million barrels. Oil production abroad totaled 31 million barrels, reflecting the start of production at West Qurna-2 in Iraq.

Commercial gas production amounted to 9.8 billion cubic meters.

The associated petroleum gas utilization rate rose 1.5 percentage points to 89.2%.

Five oil fields were discovered in the course of geological exploration work: Svetloozerskoye, Razdolnoye, Kulikovskoye and Novokrasinskoye in the Volga region; and Yuzhno-Bayandyskoye in Komi.

Oil refining, including mini-refineries and the stake in the Zeeland project, rose 0.8% to 32.26 million tonnes, including 22.52 million tonnes at Russian refineries.

Commercial hydrocarbon production in Q2 2014 was 2.313 million boe per day, 5.5% more than in Q2 2013. Liquid hydrocarbon production in the quarter totaled 2 million barrels per day, 7.2% more year-on-year.

## Drilling

Lukoil and Austrian oilfield services company C.A.T. Oil signed a \$314 million three-year contract to drill wells, Lukoil said.

"In January 2014, the Group signed an agreement for drilling services with C.A.T. oil group company for the years 2014-2016. As of June 30, 2014, the amount of capital commitment under this agreement is \$314 million," the report says.

C.A.T. Oil provides gas and oilfield services at fields in Russia and the CIS. The company has five subsidiaries in Russia and one in Vienna. C.A.T.'s largest clients include Rosneft, Lukoil, Gazprom Neft, Tomskneft VNK, Slavneft, Russneft, and Kazakh National Company KazMunaiGas.

## Downstream

Lukoil was unable to buy a refining asset in Russia, the company said.

"Moreover, in the second quarter of 2014, we received back an advance payment in amount of \$367 million, related to planned acquisition in 'Refining, marketing and distribution' segment in Russia," the report says.

Lukoil meanwhile plans to sell a filling station chain in the Czech Republic, Slovakia and Hungary for over 100 million euro, the company said.

The sale price will have two components: a fixed sum equal to nearly 100 million euro and a variable sum based on the working capital of assets on the closing date.

Lukoil earlier signed an agreement with MOL Plc and Norm Benzinkut Kft on sale of assets in those three countries.

The sale might close before the end of 2014, but a number of preliminary terms must be met first, the report says.

## Sanctions

Sanctions are not affecting Lukoil's operating activity, but there is uncertainty for future borrowing, Matytsyn told journalists.

"We are not feeling the impact of sanctions at the operational level. We have uncertainty relating to possible future borrowing," he said.

Matytsyn added that every specific lending case had to be approved by higher levels of bank executives.

In addition, he said the company had received offers on the possibility of raising loans in yuan. Matytsyn noted that the company did not have a particular interest in such loans.

## Gazprom Neft begins commercial production at Badra field in Iraq

MOSCOW. Sept 1 (Interfax) - Gazprom Neft has begun commercial production and oil deliveries from the Badra field in Iraq, the oil major said in a press release.

Gazprom Neft is delivering over 15,000 barrels of oil per day to Iraq's pipeline system for transfer to the export terminal in Basra.

According to the conditions of the service contract on the development of the field that was concluded with the government of Iraq, 90 days after the start of commercial supplies, the consortium of companies and investors will begin to receive a portion of the oil produced at Badra field.

"All of the oil produced in southern Iraq, including at Badra, is Basrah Light oil. The Iraqi State Oil Marketing Organization (SOMO) is responsible for oil sales and each quarter will be delivering a share of oil to the investor companies to reimburse their initial project costs. Once these project costs have been covered, the investor companies will receive remuneration in kind for ongoing development at the rate of \$5.5 of oil per barrel produced. Each investor company will be selling their share of oil independently," the press release said.

The Iraqi authorities are content with the work of Russian oil companies and do not rule out signing new contracts with them in the very near future, said Iraqi Ambassador to Russia Shafiq Muhsin.

"The Russian companies have passed all necessary approvals concerning their operations in Iraq. Besides, the Russian companies are notable for their quality and fast performance of all contractual obligations," he said in an interview with Interfax.

"A fine example of this is the success of the Lukoil company in completing the first stage in developing the largest oil field in Iraq, West Qurna-2, starting oil production within the set time framework, and going over to the second stage - that of increasing the output," the ambassador added.

"This is why we are highly appreciative of the work of Russian oil companies and I am certain that no change in politics will affect either the completion of the signed contracts, nor the sign-

ing of new ones, as long as these companies pass all these stages and all rounds of licensing established by the Iraqi Ministry of Oil," he said.

"I am convinced that Russian companies have very good chances of getting new contracts in the very near future," Muhsin said.

Speaking of the differences between the central Iraqi authorities and the leaders of Iraqi Kurdistan, the ambassador said that they concern those who are authorized to sign contracts for oil production in this region.

"The Iraqi constitution has declared all of the country's oil the property of the entire Iraqi people. Thus, the dispute between Baghdad and Erbil is not about how to distribute the wealth but who will have the right to sign contracts with companies for well-drilling and oil production in Kurdistan," he said.

"I am certain the oil and gas bill that will be discussed at the next parliamentary session will positively reflect on how soon all problematic legal aspects are resolved," the diplomat added.

## **Surgutneftegas sees IFRS net profit fall 19% in H1 to 134 bln rubles**

MOSCOW. Aug 29 (Interfax) - Surgutneftegas saw net profit to International Financial Reporting Standards (IFRS) fall 19% year-on-year in the first half of 2014 to 134.077 billion rubles, the company said in a report.

Revenue advanced 20% to 470.12 billion rubles.

Earnings before taxes, depreciation, and amortization (EBITDA) increased 14% to 139.488 billion rubles.

Revenue from exchange rate differences resulting from the devaluation of the ruble were down 61.5% at 29.7 billion rubles, which drove down net profit.

Free cash flow was 49.642 billion rubles versus 22.686 billion rubles the year before.

## **Deal to acquire Bashneft shares 'transparent, fair' - Sistema's Shamolin**

MOSCOW. Aug 28 (Interfax) - The process by which Sistema acquired shares in Bashneft was open, transparent and fair, Sistema President Mikhail Shamolin said during a conference call for analysts and investors on Thursday.

"Sistema is a public company with the highest level of openness, not only among Russian companies, but among international ones as well," Shamolin said. "We have put a lot of effort into making the company [Bashneft] a powerful and respected player in the oil and gas sector and creating value for the region [Bashkortostan] and the country overall," he said.

"We have no prediction on how the situation will develop, but we are cooperating fully with the investigation and doing everything we can to resolve the situation," he said.

The situation is not having any effect on Sistema operations, nor has it impacted business processes at Bashneft itself, Shamolin said.

Moscow's Basmany Court ordered a freeze on the Bashneft stake owned by Sistema in connection with an investigation into embezzlement and money laundering targeting Armenian businessman Levon Hayrapetyan and Ural Rakhimov, who was the former head of Bashneft. A Moscow appeals court upheld the freeze in a ruling on August 27.

Investigator Alexei Veselye said that a new money laundering case had been opened on August 26 concerning sale of the Bashneft shares. "I have filed a criminal case on suspicion of legalizing ill-gotten gains. The investigation will show who made the decision on acquisition of the shares," he said. The "markdown" in the sale price was \$500 million, he said.

## **Belorusneft expects to sign contract on new project in Ecuador soon**

MINSK. Aug 29 (Interfax) - Belarusian oil producer Belorusneft expects to sign a contract on exploration and production of at an oil field in Ecuador in the near future, a company spokesman told Interfax.

An agreement on the technical and economic terms of geological exploration at Block N28 was signed in Quito on August 27 by a consortium of oil companies from Belarus, Ecuador and Chile - Belorusneft, Petroamazonas and ENAP - and the hydrocarbon department of Ecuador's Non-renewable Natural Resources Ministry.

The agreement signing follows the consortium's victory in the tender on Block N28. The tender offered licenses to four oil sections. The consortium only bid for N28.

The contract being concluded with the winner authorizes exploration work in the license territory for four years. If commercial reserves of oil are detected, the license automatically converts into a 20-year production license.

The agreement signed on August 27 is the final step on the path to commencing geological exploration of N28. "In the coming two months all of its facets will be examined: from the legal component to the detailed technical and economic appendices," the Belorusneft spokesman said.

Block N28, which is 1,879 square kilometers in area, is adjacent to the Andes. There are promising structures and traps in the license territory, but its location in the Amazon rain forest makes operations challenging.

Belorusneft is also cooperating with Edinpetrol under a recently signed contract on development of the Armadillo field. Oil production at the field is expected to commence before year-end. Preparatory work is now underway.

Belorusneft, founded in 1966, produced 1.65 million tonnes of oil in 2013, up from roughly 1.6 million tonnes in 2012. The company plans to maintain production in 2014 at last year's level.

Belorusneft produces oil in Belarus and is developing oil and gas fields in Venezuela and Russia. It carries out a wide range of oilfield services and seismic surveying in Russia, Ukraine, Ecuador, Venezuela and Argentina.

## Oil round-up

\*\*\* RN Holding, the former TNK-BP Holding, boosted net profit to IFRS 50% year-on-year in the first half of 2014 to 182 billion rubles. (3/9)

\*\*\* Tatneft invested 24.1 billion rubles in development in the first half of 2014. Investments in the oil production sphere totaled 13.8 billion rubles. (28/8)

\*\*\* Eurasia Drilling Company saw net profit fall 7% year-on-year in the first half of 2014 to \$201 million. The share of orders from Russian state oil major Rosneft in its portfolio shrank to 11% in the first half of 2014 from 24% a year earlier. The company said sanctions imposed against Russia by the EU and the United States, are currently not affecting Eurasian Drilling Company's oilfield service business, but they may do so in the future. (28/8)

\*\*\* Great Britain's Exillon increased oil production 14% year-on-year in the first half of 2014 to 3.22 million barrels. (1/9)

\*\*\* UK-based Ruspetro plc, an independent oil company with assets in Khanty-Mansii autonomous district in Russia, reduced oil production 34% in the first half of 2014 year-on-year to 3.4 million barrels.

\*\*\* Georgian Oil and Gas Corporation (GOGC), which is wholly owned by state-owned Partnership Fund, posted net profit of 52.2 million lari [\$30.1 million] in January-June 2014, which is 11.8% less year-on-year. (3/9)

## DOWNSTREAM

### **Sibur begins to supply liquefied petroleum gas to China**

MOSCOW. Aug 28 (Interfax) - Sibur delivered a test consignment of liquefied petroleum gas (LPG) to China in July and at the end of August signed a long-term contract with one of the Chinese consumers for regular supplies of this product to the growing Chinese market.

"The product will be shipped by rail from Nyagan GPP (gas processing plant), a subsidiary of SIBUR. Initial supply volumes will total around 20,000 tonnes a year with further increase outlook," Sibur said in a statement.

"SIBUR will be the first Russian company to supply LPG to China. When planning the transportation route, it was important to take into account that there are no LPG transshipment facilities on the Russian-Chinese border. It was therefore decided to supply the product in tank containers and further transport them through China by low loaders. A test shipment of LPG to China was made in July, and this proved the efficiency of this approach," Sibur said.

"LPG consumption in China is growing rapidly. According to IHS, it amounted to 27.6 million tonnes in 2013, up 9% year-on-year, with 3 million tonnes imported annually," the statement said.

### **Gazprom to build at least 60 motor fuel filling stations in Southern Federal District by 2023**

KRASNODAR. Sept 3 (Interfax) - LLC Gazprom Gas-Motor Fuel is planning to build at least 60 motor fuel filling stations in the Southern Federal District by 2023, the company's press service said.

A program for the development of the district's gas motor infrastructure calls for the construction of NGV fueling stations and compressed natural gas filling units at liquid-fuel filling stations.

The company did not tell Interfax which regions would receive the new NGV stations.

### **Energy Ministry expects launch of Achinsk Oil Refinery in November**

MOSCOW. Aug 29 (Interfax) - Achinsk Oil Refinery, part of the Rosneft group, which was shut down due to an accident, might be relaunched in November 2014, the Energy Ministry said in a statement.

"It is expected that Rosneft will launch Achinsk Oil Refinery in November this year," the statement says.

Achinsk Oil Refinery this week restarted primary oil refinery following the accident that closed the plant on June 15.

The Achinsk refinery resumed production of basic oil products on September 1: straight-run gasoline and diesel fuel, marine and aviation fuel and natural gas liquids. In addition to the primary refining unit, the BT-Bitumen unit has resumed operation. The Achinsk refinery is expected to produce over 400,000 tonnes of commercial product in September, 70% more than pre-accident volumes. Output is slated to increase in subsequent months.

## Refining round-up

\*\*\* Russian oil giant Rosneft and PetroVietnam have discussed the delivery of Russian oil to the Dung Quat oil refinery in Vietnam, as well as possible cooperation in modernizing the refinery. (3/9)

\*\*\* Rosneft President Igor Sechin and Avtovaz CEO Bo Andersson signed an agreement to strengthen strategic cooperation envisages the development, testing and introduction of lubricant materials and other Rosneft oil products required by Avtovaz businesses; and the possibility of closing of long-term contracts for the supply of Avtovaz production facilities with high-quality lubricant materials and oil products. (28/9)

\*\*\* Nizhnekamskneftekhim saw net profit to IFRS fall 37.1% year-on-year in the first half of 2014 to 3.746 billion rubles. (29/8)

\*\*\* KazMunayGas Onimderi (KMGO) plans to buy extra 210,000 of oil products from Russia in August-September this year in order to avoid fuel shortages in the domestic market. (29/8)

\*\*\* SOCAR exported 1.364 million tonnes of petroleum productions in January-August 2014, 40.4% more than in the same period of last year. Meanwhile, SOCAR's Turkish subsidiary, SOCAR Turkey Enerji, is expecting to post annual pretax profit from operations at the Petkim petrochemical holding amounting to \$1 billion starting in 2019, Turkey's Zaman newspaper reported. (2/9)

## PIPELINES

### Dvorkovich orders work maintaining crude oil quality in pipeline system

MOSCOW. Sept 1 (Interfax) - The issue of regulating technological flows on Russia's oil transportation system in order to maintain the quality of oil accepted and delivered will be worked up under an instruction from Deputy Prime Minister Arkady Dvorkovich to the Energy and Economic Development ministries, the Federal Tariff Service, and Rosstandart jointly with Transneft and the oil companies, a source at one of the government bodies told Interfax.

Lukoil President Vagit Alekperov expressed concern over the issue in a letter to Dvorkovich, the text of which has been viewed by Interfax. The Lukoil chief maintaining the sulfur content and specific gravity parameters affirmed in a 2010 Energy Ministry resolution only applies to exports to the CIS and elsewhere, while the quality of oil delivered to domestic refineries has steadily declined.

Guarantees concerning the sulfur content and specific gravity are critical when decisions are made about what equipment to buy for a refinery undergoing a modernization pursuant to the terms of four-party agreements. The oil flows need to be regulated in order to provide those quality guarantees, Alekperov said in the letter.

Dvorkovich gave the ministries and other bodies and organizations until September 16 to work up the issue, which will then be discussed at the governmental level, the source said.

In recent years, sulfur content in export blends has increased from 1.3%-1.4% to 1.5%, according to Transneft data, including increases to 1.56% from 1.4% on the Druzhba pipeline system, to 1.45% from 1.35% on pipelines to the Baltic port of Primorsk and to 1.4% from less than 1.3% on pipelines to Novorossiysk, and the latter is seeing sulfur content rising to 1.45%. Most domestic refineries receive crude oil with sulfur content of 1.7%.

Transneft forecasts that transportation of high-sulfur crude may increase by 2 million tonnes-3.5 million tonnes in 2014.

### Gazprom begins building Eastern Route of Southern Corridor

MOSCOW. Aug 29 (Interfax) - Russian gas giant Gazprom is beginning the construction of the Eastern Route of the Southern Corridor gas pipeline system, the press service of the Republic of Mordovia's chief said following a meeting on the project in Saransk Thursday.

The Eastern Route is the second stage of Southern Corridor's construction. The corridor is a system of pipelines that will allow for additional natural gas to be sent to the regions of the central and southern parts of Russia to supply South Stream.

"Now we are beginning the construction of the Eastern Corridor, which begins in Pochinki and ends in Anapa. It includes more than 1,500 miles (1,625.6 km) of trunk pipelines, which need to be built and commissioned in just 2 years. Ambitious plans, so it is necessary to organize work so that we are able to complete the task of commissioning the pipeline by 2017. A specialized staff has been created, which includes the heads of Gazprom, the heads of construction compa-

nies and regional representatives. We are hoping the Eastern Corridor will be built without delay, and we will complete the task with no problems," the statement quoted Gazprom's Deputy CEO Vitaly Markelov as saying.

Cooperation between the company and regional administrations was discussed at the meeting. A total of 72 kilometers of gas pipelines will run throughout three regions of Mordovia.

Meeting participants noted that Mordovia was well prepared to carry out the construction of the Southern Corridor. The head of the republic, Vladimir Volkov, tasked the government with finishing all land surveying and cadastral works by October 30 of this year.

"We will without a doubt do everything so the contractor and customer have no problems in building the Eastern Corridor of South Stream in Mordovia. The person who built the Pochinki-Saransk gas pipeline knows how we work as a team and promptly resolve bureaucratic obstacles," he said.

## Crimean parliament nationalizes gas pipelines managed by Krymgaz

SIMFEROPOL. Sept 3 (Interfax) - The State Council of Crimea on Wednesday confirmed the earlier decision made by the region's government and declared the gas supply system that was managed by the public joint stock company Krymgaz in the period when Crimea was part of Ukraine property of the republic, an Interfax correspondent has reported.

Krymgaz managed the gas pipeline system on the basis of contracts with the Ukrainian Energy Ministry and the company Naftogaz Ukrainy, the State Council of Crimea said in its decision.

The republic's parliament has also nationalized the gas supply facilities that were not mentioned in the contracts between Krymgaz, the Ukrainian Energy Ministry and Naftogaz Ukrainy, but were built at the expense of Naftogaz Ukrainy or were operated by Krymgaz without property rights.

The State Council of Crimea earlier made a decision to put the Crimean state unitary enterprise Krymgazset in charge of managing the gas distribution system operated by Krymgaz. On September 2, the republic's government also decided on mandatory buyout of the Krymgaz property.

Sergei Aksionov, acting head of Crimea, said the amount to be paid for the Krymgaz property will be determined by a special commission and that amount will not be more than the money paid by the current owners when the property was privatized.

## Transneft boosts IFRS net profit 22% in Q2 to 50.8 bln rubles, 5% in H1

MOSCOW. Aug 29 (Interfax) - Russia's Transneft boosted net profit to International Financial Reporting Standards (IFRS) 22% in the second quarter of 2014 to 50.8 billion rubles.

Net profit was up 6% in the first half of 2014 at 91 billion rubles.

Analysts told Interfax in a consensus forecast that they had expected Transneft to have net profit of 42.8 billion rubles for Q2 and 60.8 billion rubles for H1. Gazprombank was closest with a forecast of 47.2 billion rubles and 87.9 billion rubles, respectively.

Transneft increased revenue 2.3% in the second quarter and the first half of 2014 to 189.8 billion rubles and 377.9 billion rubles, respectively.

The company had operating profit of 59.3 billion rubles in the second quarter and 124.4 billion rubles in the first half of 2014. Depreciation and amortization expenses were 26.9 billion rubles in Q2 and 54.2 billion rubles in H1. Considering these expenses, earnings before taxes, depreciation, and amortization (EBITDA) was 80.8 billion rubles in Q2, down 8%, and 178.3 billion rubles in the first half of 2014, down 0.8%.

## CPC pipeline boosts oil shipment 20% to 26 mln tonnes in 8M

MOSCOW. Sept 1 (Interfax) - The Caspian Pipeline Consortium (CPC) pipeline shipped 26.076 million tonnes of oil for export in January-August 2014, 20.4% more than in the same period last year, CPC reported.

The pipeline shipped 3.528 million tonnes of oil in August alone, 21.6% more year-on-year and 0.3% more than in July 2014.

CPC plans to ship 35.8 million tonnes of oil in the full year, 7% more than the 32.7 million tonnes shipped in 2013.

Capacity on the pipeline will gradually rise to 67 million tonnes a year under the expansion program.

## Transportation round-up

\*\*\* The Globaltrans group has extended its contract with Rosneft until the end of March 2016, the railway operator announced this week. (2/9)

\*\*\* Sovcomflot posted net profit to IFRS of \$63.6 million in the first half of 2014 versus net loss of \$14.5 million a year before. (28/9)

\*\*\* SOCAR exported 677,785 tonnes of oil, down 41.8%, from the Novorossiysk port via the Baku-Novorossiysk pipeline in the first eight months of 2014. (2/9)

\*\*\* The construction of an LNG terminal in Klaipeda will finish on time - in November 2014, Lithuanian Prime Minister Algirdas Butkevicius said. (2/9)

\*\*\* The transport of oil products via pipelines managed by the Latvian-Russian joint venture LatRosTrans fell by 7.3% year-on-year in H1 2014 to 3.334 million tonnes. (1/9)

## LAWS

### **Russia to act in Arctic solely within intl law framework - Putin**

SELIGER, Tver region. Aug 29 (Interfax) - Russia intends to develop and enhance its positions in the Arctic, including restoring defense infrastructure, but is ready to take the interests of other countries into account as well, Russian President Vladimir Putin said.

"Many take our activities somewhat cautiously and get scared by these activities. But we have said repeatedly that we will act solely within the international legal framework, we have always acted this way and intend to do so in future," Putin said when speaking at the Seliger 2014 youth forum.

The Arctic has interests for other countries as well and Russia will take them into account and "pursue acceptable compromises, while defending our own interests of course," the president said.

Russia will revive defense and Emergency Situation Ministry infrastructure in the Arctic as, among other things, Russia needs to ensure the safety of convoys passing, not to fight and confront anyone there, Putin said.

According to the president, the Arctic is a promising region and the Northern Sea Route that is being revived will become a powerful competitor to existing transport arteries, the president said.

"Arctic plays a very important role for us from the viewpoint of ensuring our security because unfortunately this is what it is - U.S. assault submarines are concentrated not far from the Norwegian shore. I will remind you that the arrival time for rockets from these submarines to Moscow is 15-16 minutes. But our fleet, a considerable proportion of our underwater fleet, is there," Putin said.

However, despite the existence of systems which allow the movement of submarines to be followed easily, "they are not seen" if they go under the Arctic ice, the president said.

"And this is a big problem for those who are to watch them. In general, the Arctic has a concentration of our interests and, of course, we should pay more attention to the issues of Arctic development and enhancing our positions," Putin said.

Russian projects in the Arctic remain a priority and their implementation should not be affected by sanctions or other external decisions, Deputy Energy Minister Alexei Teksler told reporters.

However, he said the sanctions should be taken seriously and the consequences need to be calculated.

"On one hand, this is a push to the development of import substitution, on the other this is a situation for additional analysis of the programs, projects that we have today. Work is being done in both areas. I think that specific plans for import substitution, for the support of specific projects that we are implementing will be worked out very soon already together with other agencies and companies," Teksler said in response to a question about the impact of sanctions on Russia's oil and gas sector and operations in the Arctic.

He said the "development of the Arctic was, is and remains a priority."

"We will do everything so that no sanctions and other outside decisions affect the development of the projects that we believe are important for the development of the Arctic areas of the Russian Federation," Teksler said.

## Russia to allocate 320 bln rubles to geological exploration to 2020 - Khloponin

ST. PETERSBURG. Sept 1 (Interfax) - Russia will allocate 320 billion rubles to geological exploration and mineral reserve replacement in the period to 2020, Deputy Prime Minister Alexander Khloponin told journalists in St. Petersburg on Monday.

"The sector will be allocated a quite large amount of resources: roughly 320 billion rubles to 2020. The money is available. The main thing is spending it effectively. The whole question consists in how to effectively approach the use of natural resources, so that the state receives the maximum effect," Khloponin said during a working meeting in St. Petersburg.

Growing the mineral resource base and training highly qualified specialists is especially important given the difficult international situation, he said.

"All of the necessary conditions have been created for effective development. We must replenish the mineral resource base in a systematic manner," Khloponin said.

## Moscow ready to go to WTO over retrospective enforcement of Third Energy Package - Lavrov

MOSCOW. Sept 1 (Interfax) - Russia is ready to appeal to the WTO over the retrospective enforcement of the EU Third Energy Package, Russian Foreign Minister Sergei Lavrov said.

"We are ready to use WTO mechanisms, for instance, in the defense of our opinion on the impermissibility of the retroactive enforcement of norms of the so-called EU Third Energy Package, i.e. of the Third Energy Package's application to the agreements and projects concluded otherwise and materially implemented long before the Energy Package was devised and took effect," he told MGIMO University students.

## Russian oil export duty lowered to \$367.6 per tonne from Sept 1

MOSCOW. Sept 1 (Interfax) - Russia has lowered the export duty on crude oil by \$20.8/tonne to \$367.6/tonne effective September 1, 2014, according to data from the Economic Development Ministry.

The export duty was \$388.4/tonne in August.

The discounted duty on oil from East Siberia, Caspian fields and the Prirazlomnoye field fell to \$176/tonne on September 1 compared to the August rate of \$191.8/tonne.

The duty on superviscous oil declined to \$36.7/tonne from \$38.8/tonne in August.

The duty on light and dark petroleum products, which was unified at 66% of the duty on crude oil, dropped to \$242.6/tonne on September 1, from \$256.3/tonne in August.

The duty on diesel fuel, with a coefficient of 0.65 from the duty on crude oil, declined to \$238.9/tonne as of September 1, down from \$252.4/tonne.

The duty on gasoline exports, based on a coefficient of 0.9, fell to \$330.8/tonne as of September 1 from \$349.5/tonne in August.

For propylene trimers and tetramers, the export duty declined to \$23.8/tonne from \$25.2/tonne.

The duty for liquefied natural gas (LNG) grew to \$221 per tonne from \$147.4 per tonne.

## Regulations round-up

\*\*\* Rosneft CEO Igor Sechin believes the decision made by the Hague court on Yukos could have been made under pressure. "As to the Hague Court decision, it cannot be ruled out that it was made under certain political pressure, especially after the sanctions were imposed," Sechin said in an interview with Der Spiegel. (1/9)

MORE: Full coverage of all our round-up news can be found in the Interfax Energy Daily.

## STATISTICS

### Urals crude price declines slightly to \$106.28 in 8M

MOSCOW. Sept 1 (Interfax) - Urals crude averaged at \$106.28 a barrel in January-August 2014, down slightly from \$107.34 in the same period of last year, Finance Ministry expert Alexander Sakovich told Interfax, quoting preliminary data from commodity price agencies.

Urals averaged at \$101.09 a barrel in August alone, down from \$111.11 in the same month last year.

The oil blend averaged at \$106.99 a barrel in January-July this year, up \$0.19.

### Russia boosts oil production 0.7% in 8M, gas production down 2.7%

MOSCOW. Sept 2 (Interfax) - Russia produced 349.402 million tonnes of oil and gas condensate in January-August 2014, 0.7% more than in the same period of last year, according to data from the Central Dispatching Department of the Fuel and Energy Complex (CDU TEK).

In August 2014 alone, Russia produced 44.472 million tonnes of oil (down by 0.1% compared to August 2013), with average daily production amounting to 10.515 million barrels.

In the eight months, Rosneft produced 127.217 million tonnes of oil (16.159 million tonnes in August), Lukoil - 57.536 million tonnes (7.355 million tonnes), Surgutneftegas - 40.856 million tonnes (5.226 million tonnes), Gazprom Neft - 22.229 million tonnes (2.884 million tonnes), Tatneft - 17.645 million tonnes (2.255 million tonnes), Slavneft - 10.841 million tonnes (1.369 million tonnes), Bashneft - 11.559 million tonnes (1.548 million tonnes) and Russneft - 5.759 million tonnes (0.737 million tonnes).

Russia cut raw material exports to non-CIS countries by 2.3% year-on-year in the eight months to 133.518 million tonnes.

Companies with Russian investments and joint ventures with foreign investments produced 32.687 million tonnes of oil and gas condensate in January-August 2014 (4.265 million tonnes in August alone).

Gazprom produced 10.545 million tonnes of oil in January-August 2014 (1.294 million tonnes in August alone), and PSA operators 9.621 million tonnes (1.019 million tonnes).

Natural gas production fell 2.7% to 417.586 billion cubic meters (bcm).

Gas output stood at 42.737 bcm in August alone.

Gazprom produced 282.508 bcm of gas in the 8M, including 26.278 bcm of fuel in August.

One of the largest independent gas producers, Novatek, produced 35.932 bcm of gas in the 8M (4.424 bcm in August). Other producers contributed 28.172 bcm (3.546 bcm) and production sharing project operators - 18.526 bcm (1.854 bcm).

Vertically integrated oil companies Rosneft produced 23.442 bcm of gas in January-August (3.010 bcm in August), Lukoil - 12.275 bcm (1.534 bcm), Surgutneftegas - 6.217 bcm (0.785 bcm) and Gazprom Neft - 7.744 bcm (0.948 billion).

## Russian oil exports to non-CIS countries down 2.3% in 8M

MOSCOW. Sept 2 (Interfax) - Russian oil exports to non-CIS countries fell 2.3% year-on-year in January-August to 133.518 million tonnes (4.027 million barrels per day), the Central Dispatching Department of the Fuel and Energy Complex (CDU TEK) said.

This included 16.128 million tonnes in August (3.813 million barrels a day), down 0.4% year-on-year.

The Transneft pipeline network carried 132.050 million tonnes of oil in the 8M, of which 118.666 million tonnes were Russian oil; and exports bypassing Transneft came to approximately 14.851 million tonnes.

In August alone, exports via Transneft came to 15.985 million tonnes, of which 14.364 million tonnes were Russian; and 1.764 million tonnes bypassed Transneft.

Transneft pipelines carried 15.506 million tonnes of export oil, including transit volumes, via the port of Novorossiysk in the January-August (1.432 million tonnes in August), 29.305 million tonnes via Primorsk (3.29 million tonnes), 16.008 million tonnes via Kozmino (2.199 million tonnes), and 9.284 million tonnes via Ust-Luga (1.289 million tonnes).

Rosneft exported 64.187 million tonnes of oil via Transneft to non-CIS countries in January-June (7.796 million tonnes in August), Lukoil - 13.01 million tonnes (1.675 million tonnes), Surgutneftegas - 17.651 million tonnes (2.047 million tonnes), Gazprom Neft - 4.237 million tonnes (470,000 tonnes) and Tatneft - 5.491 million tonnes (562,000 tonnes).

Enterprises that are not part of vertically integrated oil companies exported 7.434 million tonnes of oil via Transneft in the 8M (938,000 tonnes in August), and production-sharing agreement (PSA) project operators exported 1.005 million tonnes (121,600 tonnes).

Transit of oil from Kazakhstan totaled 11.307 million tonnes (1.399 million tonnes) and transit of Azerbaijani crude - 677,800 tonnes (84,800 tonnes).

Russian oil companies decreased oil exports to CIS countries 22.9% year-on-year in January-August to 14.895 million tonnes. Exports to Belarus fell 0.5% to 14.878 million tonnes. Exports to Kazakhstan were at 17.306 million tonnes.

Data for oil export to CIS countries reflect a swap arrangement for oil supplies to China via Kazakhstan.

## Oil deliveries to Russian refineries up 5.6% in 8M

MOSCOW. Sept 2 (Interfax) - Oil deliveries to Russian refineries rose 5.6% year-on-year in January-August of this year to 188.924 million tonnes, according to data from the Central Dispatching Department of the Fuel and Energy Complex (CDU TEK).

Deliveries in August alone totaled 25.002 million tonnes, up 3.6% year-on-year.

Rosneft refineries took delivery on 50.662 million tonnes in January-August (6.733 million tonnes in August), Lukoil - 30.335 million tonnes (3.969 million tonnes), Surgutneftegas - 12.899 million tonnes (1.65 million tonnes), Gazprom Neft - 22.368 million tonnes (2.961 million tonnes), and Bashneft - 14.557 million tonnes (1.881 million tonnes).

## Ukraine cuts gas consumption 13.5%, transit 7.1% in H1, import up 41%

KYIV. Sept 1 (Interfax) - Ukraine cut gas consumption 13.5% year-on-year in January-June 2014 to 24.649 billion cubic meters, the Energy and Coal Ministry said.

Consumption fell in June alone, by 23.7% to 1.494 bcm.

Gas imports grew 41% to 14.515 bcm in H1 and 120% in June to 2.051 billion cubic meters.

Gas transit via Ukraine fell 7.1% in the six months to 36.571 bcm and was down 16.2% in June to 6.026 bcm.

Oil transit through Ukraine to Europe edged down 0.5% to 7.429 million tonnes in the first half, and was down 15% to 1.069 million tonnes in June alone.

Oil product consumption in Ukraine declined 8.7% to 4.089 million tonnes, including reductions of 12.5% to 1.618 million tonnes for gasoline, 5.3% to 2.397 million tonnes for diesel, and 24.5% to 73,800 tonnes for fuel oil.

Oil product consumption in June was down 19% year-on-year to 681,000 tonnes, including declines of 23.7% to 270,700 tonnes for gasoline, 15.7% to 399,300 tonnes for diesel fuel and 12% to 11,000 tonnes for fuel oil.

## PRESS

### Russian press on the oil & gas sector on August 28

\*\*\* A Moscow court on Wednesday dismissed Sistema's motion to unfreeze shares in oil company Bashneft and other companies frozen at the request of the Investigative Committee. Investigators are questioning the legality of the privatization of Bashkir energy companies and the subsequent sale of shares to Sistema by the son of Bashkortostan's former president. A criminal case has been opened against unidentified Sistema managers (Kommersant, p. 1; Vedomosti, p. 12).

\*\*\* Kazakhstan is proposing that Russia build a gas pipeline to China through the Central Asian country as an alternative to the Altai project. Russian gas giant Gazprom is not very enthusiastic about the idea. Analysts believe Kazakhstan's proposal is not very attractive, primarily due to weak export prospects, as the market niche in Western China has already been filled by Turkmen gas (Kommersant, p. 9).

\*\*\* Russian steel and coal group Mechel, which is struggling under a debt of more than \$8 billion, proposed a new plan to save the company at a meeting with bankers on Tuesday: to convert all outstanding foreign currency loans to rubles and set an interest rate equivalent to the Central Bank refinancing rate plus 1-2%, with payments on the principal to start in five-seven years. Not all the banks like the idea (Vedomosti, p. 1).

### Russian press on the oil & gas sector on August 29

\*\*\* The Russian government has decided that oil companies should use the Kuyumba-Taishet and Zapolyarye-Purpe pipelines being built by Transneft on a pump-or-pay basis. Otherwise they could lose tax and customs breaks for the fields serviced by these pipelines. Rosneft, Gazprom Neft and Gazprom have been ordered to submit updated schedules for delivery of oil and condensate to the pipelines by September 15 (Vedomosti, p. 10).

\*\*\* Russia wants to link the reduction of gas prices for Ukraine to the European Commission easing its position on the South Stream and Opal gas pipelines. The Russian and European Union energy chiefs, along with the head of Gazprom, will discuss this issue in Moscow on Friday, when they will hammer out positions ahead of a new round of trilateral talks including Ukraine in early September (Vedomosti, p. 12).

\*\*\* The Russian government's decision to freeze the tariffs of natural monopolies has not yet fazed Federal Grid Company, which reported an IFRS net profit of 18.6 billion rubles for the first half of 2014. Adjusted EBITDA grew 23% to 49.9 billion rubles, while revenue rose 12.6% to 85.4 billion rubles. Going forward, the company's results will depend on cutting costs and additional revenue from grid connections, rates for which are not restricted, analysts said (Kommersant, p. 9).

## Russian press on the oil & gas sector on September 1

\*\*\* Gazprom might ramp up investment in the gas transport system of Kyrgyzstan, which it bought for \$1 billion, by building a pipeline to supply gas to the southern part of the country at a cost of 45 billion rubles, Kyrgyzstan's president said. The Russian gas giant will also lower the price of gas for northern Kyrgyzstan by a third. Analysts said the pipeline might not pay for itself, but Gazprom's actions will tie Kyrgyzstan closer to Russia and the Customs Union (Kommersant, p. 7).

\*\*\* The volatile political and economic situation is forcing Lukoil to reduce spending. Russia's second largest oil company will reduce its investment program in 2015 by \$2 billion, and reportedly does not intend to make new acquisitions. Lukoil has already pulled out of a deal to buy a refining asset, recovering an advance of \$400 million. Analysts believe the company is saving due to the general higher cost of borrowing (Kommersant, p. 9).

\*\*\* Russia's Federal Grid Company intends to become more efficient over the next five years - with state support and new sources of financing. Its development program for 2015-2019 calls for cutting operating costs by 25% by 2017. FGC aims to boost revenue by 25% and net profit by 16.5% over the five years, while investing 685 billion rubles, including in major national projects such as grid infrastructure along railways and in Crimea (Vedomosti, p. 11).

## Russian press on the oil & gas sector on September 2

\*\*\* Rosneft president Igor Sechin has offered China a stake in the Russian state oil major's largest East Siberian project - Vankor, which is supposed to become the resource base for oil exports to China. President Vladimir Putin is not opposed to the idea. Chinese state company CNPC could reportedly get a 10% stake in Vankorneft for \$1 billion, but this might just be the first step (Vedomosti, p. 1; Kommersant, p. 1).

\*\*\* RusHydro could face a fine of up to 2 billion rubles for violations of competition law in the purchase of turbines for a power plant in Russia's Far East. Regulators suspect the buyer and vendor, GE, might have colluded in the equipment tender held at the end of 2013. The only other bidder was Siemens. RusHydro denies the charges (Kommersant, p. 9; Vedomosti, p. 12).

## Russian press on the oil & gas sector on September 3

\*\*\* Russia's biggest oil company, Rosneft might reduce oil production by about 2 million tonnes in 2014. Rosneft nearly doubled production to 206.8 million tonnes in 2013 following the acquisition of TNK-BP, but it has reduced drilling due to cost cutting and disputes with contractors. The company aims to slow the decline in output by 2020, but this will require a dramatic increase in well drilling, sources said (Kommersant, p. 1).

## CONVERSIONS

### Units of measure

One cubic meter (1 cu m) equals 35.3147 cubic feet, 61,023.41 cubic inches, 219.969 UK gallons, 264.17 U.S. gallons or 6.28976 barrels.

One U.S. barrel equals 158.988 liters.

One metric tonne = 1,000 kg

One ton (U.S.) = 1,016 kg

One ton (UK) = 907 kg

Crude oil

#### Multiply by:

	Tonnes	Barrels	U.S. Gallons
Tonnes	1	7.33	307.86
Barrels	0.1364	1	42
U.S. Gallons	0.00325	0.0238	1

### Refined product

#### Multiply by:

	Barrels to tonnes	Tonnes to barrels
LPG	0.086	11.6
Gasoline	0.118	8.5
Kerosene	0.128	7.8
Gas oil	0.133	7.5
Fuel oil	0.149	6.7

### Gas

#### Multiply by:

	bcm NG	mIn tonnes OE	mIn tonnes LNG	mIn barrels OE
bcm NG	1	0.90	0.73	6.29
mIn tonnes OE	1.111	1	0.805	7.33
mIn tonnes LNG	1.38	1.23	1	8.68
mIn barrels OE	0.16	0.14	0.12	1

### Key

All tonnes = metric tonne

bcm = billion cubic meters

NG = natural gas

OE = oil equivalent

LNG = liquefied natural gas

## ANALYTICAL REPORTS

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