

Inter RAO in \$1.5Bln Deal for Northgas

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Inter RAO tentatively agreed to buy 49 percent of minor natural gas producer Northgas in a bid to secure cheaper fuel for its growing electricity sales, an Inter RAO spokesman said Friday.

The deal with the stake's owner, Farkhad Akhmedov, has yet to pass due diligence and win approval from the board of the electricity export monopoly, said the spokesman, Nikolai Gorelov. Gazprom owns the other 51 percent of Northgas.

“Investors place a lot of emphasis on the possibility to control the costs of generating electricity,” Gorelov said. “Other major energy companies, such as E.On and GDF, have also expanded to buy fuel assets.”

For Inter RAO, the Northgas deal would represent its first foray into gas production, Gorelov said.

State-controlled Inter RAO, chaired by Deputy Prime Minister Igor Sechin, is willing to either

pay cash for the stake or swap it for some of the additional shares it is planning to issue soon, Gorelov said.

He declined to name the price but said it complied with “market terms.” A source familiar with the situation said the stake would change hands for about \$1.5 billion.

A spokesman for Gazprom, which has the right of first offer to purchase the stake, said Friday that the company wouldn't comment on the matter. But a source said Gazprom would probably not exercise its purchase option, Vedomosti reported Friday.

Despite Gazprom's control over the company, the shareholder agreement mandates unanimous passage of key decisions.

Northgas produced 3 billion cubic meters of gas at its only field, Severo-Urengoi in the Arctic Yamal Peninsula, and is planning to raise output.

Inter RAO will grow “considerably” over the next five years and plans to use natural gas to generate 75 percent of its electricity, Gorelov said.

“It's important to secure reliable and stable gas supplies,” he said, adding that the company's new strategy, adopted last month, prescribes as much.

Alfa Bank utility analysts led by Alexander Kornilov said in a note to investors Friday that Northgas would be a sensible investment for Inter RAO, and the price was fair.

“The acquisition would make the company more competitive,” they wrote. “In addition, the deal would decrease the risk of gas shortages for Inter RAO-owned generating companies and power units.”

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