

Total Buys 12% of Novatek for \$4Bln

By [The Moscow Times](#)

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Total chief executive Margerie expressing his satisfaction with the deal while meeting Medvedev on Wednesday. **Mikhail Klimentyev**

Total, Europe's third-biggest oil company, agreed to buy 12 percent of Novatek and join the Yamal LNG project to snap up reserves as international energy producers rush to explore Russia's Arctic resources.

"It is a good deal that has great potential," Prime Minister Vladimir Putin said at his residence near Moscow late yesterday after the heads of Total and Novatek signed accords.

Total is paying about \$4 billion for the Novatek stake, said chief executive Christophe de Margerie. The French explorer plans to raise its holding to 19.4 percent within three years, according to a statement.

Global oil producers are looking to Russia to boost reserves amid unrest in North Africa and the Middle East. Russia, the world's biggest energy producer, needs foreign expertise to develop projects in harsh, remote areas to maintain output and wants to boost liquefied

natural gas output to expand in growing Asian markets and compete in Europe.

Novatek shares climbed as much as 5.9 percent to 389.97 rubles, before erasing gains to trade down 0.5 percent at 366.68 rubles at 2:53 p.m. in Moscow. Total rose as much as 2 percent to 44.22 euros in Paris.

Novatek gained more than 30 percent in the previous three months, raising the value of the stake to \$4.7 billion based on yesterday's close. That is more than the company's market value in 2004 when Total made a failed bid to buy 25 percent.

Total will gain access to equity production of 120,000 barrels of oil equivalent a day and about 1 billion barrels of proved and probable reserves, and appoint a director to Novatek's board, the company said in a statement.

"Russia is today the go-to place for energy deals," Chris Weafer, chief strategist at UralSib Financial, said in a note Thursday. "It has the resource base and is open for business with clearer investment rules."

The recent upheavals in oil and gas producing countries show the need to be in Russia, de Margerie said yesterday in a meeting with President Dmitry Medvedev, according to a Russian transcript. Russia has safer conditions for investment, he said.

Putin in January praised a planned strategic alliance between BP and state-run Rosneft, Russia's largest oil producer, to swap shares and explore Arctic offshore resources. TNK-BP, BP's oil venture with a group of billionaires, is seeking to replace the British company in that deal.

The Russian prime minister, who approves major energy deals in the country, pledged "good administrative support" for Total at a meeting with de Margerie in June.

Total will gain 20 percent of the Novatek-led Yamal LNG project, according to yesterday's agreement. The companies aim to complete the deal in the first half, Total said.

"It is great that Total was picked," said Alexander Nazarov, an oil and gas analyst at IFC Metropol in Moscow. "Novatek has raised its chances of implementing the project."

Total is also working with Gazprom to develop the Shtokman field. De Margerie in June urged Putin to keep the Arctic project on track. Delays have put its first gas in 2016 and LNG in 2017. Shtokman may start in 2018, Pyotr Sadovnik, deputy head of the subsoil resources agency, said last month.

Shtokman and Yamal won't conflict, de Margerie said.

Yamal LNG aims to start producing LNG, which is gas chilled to a liquid for transport by tanker, in 2016. The project needs \$20 billion of investment, and may reach output of 15 million metric tons a year in 2018, according to the documents.

Novatek, which will hold 51 percent of the project, plans to select other participants "soon," keeping Total as the main partner, billionaire chief executive Leonid Mikhelson said.

Total is buying the stock from Mikhelson and Gennady Timchenko, co-founder of energy trader Gunvor International. Mikhelson held 27.2 percent of Novatek, while Timchenko's investment fund, Volga Resources SICAV SIF, owned almost 23.5 percent before the sale.

The two men don't plan to significantly cut their stakes and will exercise an option to buy 9.4 percent of Novatek, Mikhelson said. Those shares used to belong to Gazprom, which now holds about 10 percent of the smaller producer.

The sale may close in April, Total said.

Total's attempt to buy 25 percent in Novatek for \$900 million failed in 2005 as the Tarko-Sale, Russia-based producer sought a higher price and decided to sell shares to the public.

"Total's acquisition of a significant equity position in Novatek puts the independent Russian producer even more firmly on the map," Cliff Kupchan, an analyst at Eurasia Group, said by e-mail.

Novatek's board of directors has announced that the annual general shareholders meeting of the company will be held on April 28 in Moscow. The list of eligible participants in the meeting will be made based on shareholders of record as of March 22.

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