

Bashneft Kick-Starts Work on Trebs, Titov

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Midsized oil company Bashneft won a crucial jump-start for its development of the lucrative Trebs and Titov oil fields Friday when it signed a cooperation agreement with LUKoil, which will receive a 25.1 percent stake in the project.

"I have a personal love for Vagit and respect him deeply," said Vladimir Yevtushenkov, billionaire owner of AFK Sistema, which controls Bashneft, of fellow billionaire and president of LUKoil, Vagit Alekperov.

The tie-up will allow Bashneft to use LUKoil's existing pipeline system near the fields in the Nenets Autonomous District, as well as the \$4 billion Varandei oil terminal on the Barents Sea, which loads tankers bound for the United States and Europe. Both the pipeline and the terminal have available capacity.

"The use of LUKoil infrastructure speeds up the pace for production," said Alexander Korsik,

head of Bashneft.

Alekperov said LUKoil would pay 4.7 billion rubles (\$167 million) for the stake in the joint project, which will be run through a Bashneft subsidiary holding the licenses for the fields.

Trebs and Titov could come on stream between late 2012 and early 2014, Alekperov said, at a cost of about \$6 billion. Production would peak at 140,000 barrels a day in 2017, he added, cautioning that this was a conservative estimate.

Alekperov declined to reveal the financial details of the deal because, he said, "that is a commercial question linked to the development of this project."

State approval would not be required, he said, as both the companies involved are Russian.

The 25-year licenses for the Trebs and Titov fields in Russia's Arctic north were won by Bashneft at a state auction in December from which all other companies, including LUKoil, were disqualified. The company paid 18.5 billion rubles (\$668 million) for the licenses.

Proved listed reserves are 140.1 million tons of oil. The fields, located 25 to 50 kilometers from the coast, require relatively low operational expenditures and are anticipated, as greenfield sites, to enjoy high flow rates.

In an October research note, Troika Dialog said the project has a potential cash prize of \$27.2 billion over its lifespan, of which 85 percent will go to the state — leaving \$4.2 billion in free cash flow.

The partnership makes "supreme sense" for Bashneft, said Alex Fak, an oil and gas analyst at Troika Dialog, as it facilitates the quick exploitation of Trebs and Titov, the acquisition of which has made the company Russia's fastest-growing oil major.

LUKoil will also provide key geological knowledge for Bashneft, which has no experience working so far north. The company already has several licenses in the Timan-Pechora Basin, where Trebs and Titov are located.

Though welcome, the partnership is not as significant for LUKoil as it is for Bashneft.

"It is clearly not a big deal for LUKoil," Fak said. Even at peak flow, Russia's second-largest producer will only gain 35,000 barrels a day, less than two percent of its current production.

But the close link to Bashneft could prove beneficial in other ways.

"LUKoil has had issues in the past with getting access to new large reserves in Russia, losing out to state-owned competitors," a Renaissance Capital research note said Thursday.

"Partnership with Bashneft would partially address this issue."

Bashneft head Korsik said the deal represented a "real synergy" between the two companies.

"A high level of trust exists," he added, "and I think that it will continue to exist."

LUKoil and U.S.-based Vanco Energy will spend \$100 million to drill two appraisal wells and two exploration wells at Ghana's Dzata offshore oil and gas field, the company said Thursday, Bloomberg reported.

Dzata is near the Jubilee Field, which made the West African nation an oil exporter last year. The exploration of Dzata began in 2009. Oil and gas discovery was made in February 2010. LUKoil owns 57 percent of the block.

LUKoil is also working on Ghana's Cape Three Points Deepwater block and is interested in projects in Liberia and Sierra Leone. LUKoil will invest \$3 billion annually in projects outside Russia, the company said in March.

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