

LUKoil Said to Mull Diamond Mining

By [The Moscow Times](#)

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Alrosa's mine at the Udachnaya pipe in the Sakha republic is sometimes claimed as the world's largest pit.

The country's largest nonstate oil producer LUKoil plans to start a diamond-mining project next year after investing about \$1 billion in a possible challenge to Alrosa's monopoly, said two people familiar with the matter.

LUKoil would emulate BHP Billiton, the world's biggest mining company and one of the few to produce both diamonds and oil. The Moscow-based oil company may mine as much as 4 million carats of rough diamonds a year at the Grib pipe in Russia's northern Arkhangelsk region, once co-owned by De Beers, supplier of about a third of the world's rough diamonds, the individuals said on condition of anonymity.

After the start of production, LUKoil plans to sell the project to a strategic investor such as state-controlled Alrosa, they said. Alrosa, the world's largest diamond miner by output, produced more than 34 million carats last year. The oil producer will invest \$1 billion in the project before the first stone is produced, one of the people said.

"Diamond mining in Russia is now more profitable than oil," said Denis Gabriyelik, an analyst at Otkritie Capital in Moscow. Alrosa had a 54 percent margin on earnings before interest, taxes, depreciation and amortization for the first nine months of 2011, while LUKoil reported an EBITDA margin of about 14 percent for the full year.

Gleb Ovsyannikov, a LUKoil spokesman, declined to comment. Andrei Polyakov, Alrosa's spokesman, said no talks have been held with LUKoil about the mine.

In 2008, Archangel Diamond Corp., or ADC, then controlled by De Beers, agreed to pay \$225 million for a 49.9 percent stake in the Grib pipe project to end litigation over the field's ownership rights. De Beers walked away from the deal after Russian authorities asked the company to polish diamonds in the country as a condition for the transaction. LUKoil now owns 100 percent of the project, while ADC filed for bankruptcy.

BHP said Nov. 30 that it may sell some or all of its diamond operations, saying they have limited potential for growth. Harry Winston Diamond and groups led by KKR and Apollo Global Management are in talks to buy BHP's Ekati diamond mine in Canada, two people with knowledge of the matter have told Bloomberg.

Alrosa, the world's biggest diamond producer by output, said the state may sell a 14 percent stake as early as after the publication of the company's first-half international-standard financial results.

The sale may be held until full-year results are prepared, Alrosa said Friday in an e-mailed statement. Alrosa is holding a tender to hire an auditor for this year's report and is ready to pay as much as 36 million rubles (\$1.2 million), it said.

The government will maintain a controlling stake of more than 50 percent, according to the statement. A full exit by the state would mean that Alrosa would have to redeem \$1 billion of eurobonds, the company said.

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