Energy Intelligence www.energyintel.com

NEFTE COMPASS®

A weekly publication on oil and gas in Russia, the Caspian, Central Asia and Eastern Europe

Vol. XXIV, No. 7 February 19, 2015

Putin Keeps Hungary Close With 'Political' Gas Accord

President Vladimir Putin traveled to Hungary this week, his first official state visit to a European country since the start of the Ukrainian crisis a year ago. The one-day talks with Prime Minister Viktor Orban were short on long-reaching agreements but full of symbolism, as the Russian president aimed to demonstrate that he still has allies in Europe at a juncture when relations with the West are at their lowest in two decades. He also needed to show Moscow's goodwill after the cancellation of the South Stream gas pipeline and whip up support for the new Turk Stream project (NC Dec.11'14).

The two sides did not sign a long-term natural gas supply contract even though the current 20-year deal expires this year, although they did reach a "political agreement" on future deliveries by Russia's Gazprom, which supplies about three-fourths of Hungary's annual consumption of 6 billion cubic meters. Orban said the two decided that Hungary could draw on volumes that it failed to offtake per the existing contract and pay for them upon delivery. Putin confirmed this, saying that the "take-or-pay" clause in the contract would be annulled and Gazprom was ready to increase the amount of product it stores in Hungary's underground facilities (NC Oct.16'14).

Remarkably, as early as last month Orban had been highlighting the need to secure a long-term deal for cheap Russian gas, but last week he said in a radio interview that Hungary would be content with a short- or medium-term arrangement with Russia. With energy prices having dropped in the past three months, European countries are reluctant to get shackled by long-range commitments, particularly to Gazprom, which uses an oil-pegged pricing formula, and are jockeying for flexibility in both price and supply volumes.

Orban, sensing his relative position of strength, negotiated accordingly. Putin, after all, has few friends in Europe and is unlikely to find any better than the Hungarian prime minister, who confesses an admiration for Putin's politico-economic system based on a strong central power, or "illiberal democracy" (NC May29'14). Furthermore, Moscow understands that Hungary lost billions of dollars in investment from the cancellation of

(see Putin, page 2)

Inside This Issue:

Caspian Trading Standoff Could Mar Azeri-Turkmen Ties

A trading standoff in the Caspian Sea, where a tanker carrying crude oil from Turkmenistan has been waiting off Azerbaijan for a fortnight for permission to discharge, could potentially further strain relations between Baku and Ashkhabad. If the all-clear is not given soon, trading sources tell *Nefte Compass* that the vessel, the Russian-flagged *Kostroma*, carrying 5,000 metric tons of Cheleken crude, may have to be diverted to the Russian Caspian port of Makhachkala. The reasons for the blockage are unclear, though the sources say it reflects the growing competition between rival business interests.

At the beginning of this month, the *Kostroma* loaded the crude at the Aladja jetty, the export outlet used by Dubai-based Dragon Oil to market its share of production from its Cheleken field. The *Kostroma* was due to discharge at Dubendi, a terminal 50 kilometers northeast of Baku, which is operated by Dubai-based Middle East Petroleum and is the main entry point for Turkmen and Kazakh crude transported by rail to the Georgian Black Sea port of Batumi. In the past, Azerbaijan had imposed restrictions on Russian-flagged vessels entering its waters but sources in Baku say these were eased some time ago.

According to the sources, the vessel was chartered by Integral Trading, a Turkmen-owned, Geneva-based trading firm which has recently become an active player on the Caspian trading scene. Integral is closely affiliated with United Petroleum, a Turkmen outfit which has snaffled up most of Turkmenistan's crude exports for this year, including Dragon's, accounting for as much as 200,000 tons per month (NC Jan.15'15).

Integral then sold the cargo on a c.i.f. basis to a small Georgian-owned firm, Extol Trading, *Nefte Compass* is

(see Caspian, page 2)

Chairman: Raja W. Sidawi. *Vice Chairman:* Marcel van Poecke. *Chief Strategy Officer & Chairman Executive Committee:* Lara Sidawi Moore. *Editor-in-Chief:* Thomas E. Wallin. *Editorial Director:* David Pike. *Editor:* Michael Ritchie (mritchie@energyintel.com). *Editorial Offices:* Interpark House, 7 Down Street, 3rd Floor, London W1J 7AJ, UK. .Tel: 44-20-7518-2220. Fax: 44-20-7518-2221. Moscow Bureau: 20 Daev Pereulok, Daev Plaza, Office 509, 107045, Moscow. Tel: 7-495-604-8279. Fax: 7-495-604-8276. Washington Bureau: 1-202-662-0700. New York Bureau: Tel: 1-212-532-1112. Houston Bureau: Tel:1-713-222-9700. Singapore Bureau: Tel: 65-538-0363. *Sales:* sales@energyintel.com. Tel: 44-20-7632-4714. Fax: 44-20-7404-1788. *Circulation:* 5 East 37th Street, New York, NY 10016-2807. Tel: 1-212-532-1112. Fax: 1-212-532-4479. Email: customerservice@energyintel.com. Web site: www.energyintel.com. Energy Intelligence also publishes: Petroleum Intelligence Weekly, EI New Energy, Energy Compass, Energy Intelligence Briefing, Energy Intelligence Finance, International Oil Daily, Jet Fuel Intelligence, Natural Gas Week, NGW's Gas Market Reconaissance, Nuclear Intelligence Weekly, Oil Daily, Oil Market Intelligence, World Gas Intelligence.

Putin

(continued from page 1)

South Stream and that Budapest could be a key ally in supporting the European infrastructure needed to make Turk Stream a success (NC Feb.12'15). Putin said Hungarian firms that had been prepared to work on South Stream could be activated in Turk Stream.

Orban is eager to help. Hungary, after all, gets all its Russian gas via Ukraine, a route that Moscow would like to close as soon as it can launch the full 63 billion cubic meter per year capacity of Turk Stream. In theory, this will transfer dependence to the Balkan countries, where Russian gas will transit from the Turkish-Greek border. Orban said his government is conducting talks with all the relevant countries. "Any investment that will take Turkish gas through Greece, Macedonia, Serbia would be good for Hungary," he said. "Whether we can pull it off is a question of the future, but at any rate President Putin has given me hope."

In a curious twist, Putin said that although there was no returning to South Stream "as we know it," Moscow could nevertheless build a line to Bulgaria (NC Dec.18'14). "The European Commission is already asking us about this now. We're ready to go via Greece," the Russian leader said. "In other words we're not out to close anything or to cut anyone off ... We can essentially carry out part of the former South Stream via Turkey. For example, we can use our agreements, joint ventures with Hungary, Serbia and other partners and build all the way to Baumgarten, via Austria. All this is possible if our partners have a desire to cooperate."

Although Orban and Putin, who also confirmed their intention to proceed with a €12 billion ($13.6 billion) nuclear power project, strengthened their unique relationship, their agreements are unlikely to prove sufficient to secure Hungary's veto later this summer when EU member states vote on extending economic sanctions against Moscow. Orban will continue decrying European policy toward Russia while toeing the line on punitive measures. Nor did Putin probably ask for a veto. For Moscow, it is enough to keep Hungary close since, together with Serbia, Greece and Turkey, it forms an axis of strong allies in southeastern Europe. This in turn will help the Kremlin isolate Ukraine, which is its pre-eminent foreign policy goal right now. As for Hungary, Russia will remain a source of cheap energy that is the cornerstone of Orban's plans to restore competitiveness to the economy.

Gary Peach, Riga

Caspian

(continued from page 1)

told, with Extol making arrangements with local forwarding agents to transport the barrels by rail to Batumi, which is owned by Kazakhstan's state Kazmunaigas, or Kulevi, also on the Georgian Black Sea, which is owned by Azeri state Socar. This a route that Extol has used in the past to transship small volumes of Georgian crude oil, and traders say the company is eager to widen its source of supply. Extol could not be reached for comment.

This is not the first cargo of Turkmen crude that has gone across the Caspian to Azerbaijan so far this year. Several shipments have been delivered to the Sangachal terminal outside Baku, which is the entry port for all crude entering the Baku-Tbilisi-Ceyhan (BTC) pipeline that is operated by BP and terminates at the Mediterranean. Deliveries via BTC are co-ordinated by Azertrans, a privately owned company which enjoys a close relationship with Socar. Sources say the barrels for BTC were sold to Geneva-based Socar Trading, which has its own arrangement with BTC Pipeline Co. (NC Dec.11'14).

So far, the cross-Caspian oil trade has been largely unaffected by the strained relations between Azerbaijan and Turkmenistan over boundary disputes, though both countries have lately been making efforts to improve ties (NC May15'14).

For the past three years, until United/Integra swooped, Socar Trading was the sole lifter of Cheleken crude under an exclusive contract with Dragon Oil under which it would buy the barrels f.o.b. Aladja and then feed them into BTC. Last year, some 3.2 million tons of Turkmen oil were shipped to Sangachal and then marketed as Azeri Blend from Ceyhan. This included oil produced by Petronas from the Diyarbakir field in its offshore Block 1, and also from Burren Energy, now a subsidiary of Eni, which operates the Burun field in Nebit Dag province.

Though Turkmenistan is not a large oil producer, with output of below 200,000 barrels per day, its oil exports make up a key part of the Caspian trading picture. Integral and United are now regular users of the route running north to Makhachkhala and have a contract with Russian state pipeline monopoly Transneft to pump the oil to the Russian Black Sea port of Novorossiysk. Integral also has the option of using the Volga-Don canal, which starts at Astrakhan, but the river system is only navigable after the ice thaws from April through October.

By far the most profitable route for Turkmen shippers is the southern route to Iran, but this has been out of bounds for more than three years because of sanctions. Before the US slapped a ban on all trade with Iran, Dragon was sending some 90% of its oil exports to Iran's Caspian port of Neka, under a 10-year swap contract with Iran's Naftiran Intertrade Co. (Nico), which began in 2000. Trading sources say Dragon's netback is now at least $5 per barrel less than it was when it was using the Iran route.

Paul Sampson, London

Editorial: Nelli Sharushkina, Moscow Bureau Chief. London: Axel Busch, Kerry Preston, Paul Sampson. Moscow: Gary Peach, Nadezhda Sladkova, Vitaly Sokolov.

Rosneft Turns to Traders To Repay TNK-BP Debt

The repayment of $7.154 billion of debt to a group of international banks last week by Rosneft did not come easy. Scratching around for money to repay loans taken out to buy TNK-BP two years ago, the Russian state-run company offered additional crude oil volumes to international trader Trafigura for export in February on advanced payment terms.

The deal angered other regular offtakers of Rosneft crude, including Glencore, Vitol, Royal Dutch Shell and Eni, because it gave Trafigura the key right to choose preferred loading dates. It remains to be seen if the fallout will affect how the traders bid for volumes under Rosneft's new six-monthly crude tender announced last week. Rosneft is offering up to 14.42 million metric tons to be lifted in April-September.

It is also unclear if Rosneft, which is under financial pressure from Western sanctions, would continue the practice of offering monthly volumes on prepayment terms, or if the deal with Trafigura is a one-off.

In addition to 100,000 tons of Rosneft crude that Trafigura gets monthly under a $1.5 billion advanced payment deal signed in 2013 to lift a total of up to 10.11 million tons within five years, the trader received another 380,000 tons for export in February from Russian ports. Rosneft must have received some $140 million in advance payments, traders calculated.

The sum is not significant when compared to the more than $7 billion debt Rosneft had to pay by Feb. 13, but the deal with Trafigura shows how desperately the Russian company was searching for money.

Rosneft made a prevous payment of around $7 billion in December, indicating that, together with last week's and previous payments, the oil producer has repaid the entire $24.6 billion in two-year credits disbursed in 2013 by international banks for the takeover of TNK-BP. The remaining sum out of the total $31 billion loan was lent for five years.

Cat Oil Saga Takes New Twist in Cyprus

The future of Vienna-based, Russia-focused oil services company Cat Oil has been thrown into uncertainty after a court in Limassol imposed a injunction freezing the shares and assets of Cat Holding, the Cyprus-registered entity that, at least on paper, owns 47.5% of Cat Oil.

The ruling, which is temporary, casts serious doubt on the proposed sale of Cat Oil to Joma Industrial, a British Virgin Islands-registered group headed by the former boss of Schlumberger Russia, Maurice Dijols (NC Jan.15'15).

In a statement, Cat Oil said it had been told about the injunction by Anna Brinkmann, its former CEO who stepped down at the end of last year to counter the proposed takeover by Joma. Brinkmann has been involved with the company since it was created in the early 1990s. She is the former translator for Vitaly Schmidt, the former high-ranking Lukoil executive who helped set up the company but died of a heart attack in 1997.

Cat Oil says it believes the stake in the company held by Cat Holding, which is majority-owned by Brinkmann, remains "in principle" unaffected by the injunction. Joma, which claims to have built up a stake of over 87% of Cat Oil's shares, could not be reached for comment.

Russia Exports New Crude Oil Grade

A new grade of crude oil has started flowing to global markets from Sakhalin Island on Russia's Pacific coast. The new grade, Sakhalin Blend, replaces one known as Vityaz, produced by the Sakhalin-2 consortium developing oil and gas fields offshore Sakhalin Island under production sharing agreement (PSA) terms.

Sakhalin Energy, the operating company for Sakhalin-2, in which Gazprom holds 50% plus one share, confirmed to *Nefte Compass* that the new blend of light oil appeared in December last year. It represents a mixture of Vityaz with condensate from the Kirinskoye gas and condensate field also offshore Sakhalin, which is being developed independently by Gazprom.

According to reports, the new blend has been sold with a premium of $2-$3 to Vityaz, which used to be priced against Dubai crude. Produced from the Piltun and Astokh fields of the Sakhalin-2 contracted areas, Vityaz was of 33.6° API with a sulfur content of 0.24%. Last year, Sakhalin Energy produced 106,500 b/d of Vityaz crude, which was sent to world markets from the Prigorodnoye export facilities in the south of the island. Sakhalin-2 crude is pumped to Prigorodnoye via an 800 km pipeline across the island.

As a major shareholder of Sakhalin-2, Gazprom must have decided to use the infrastructure built by the consortium to also handle condensate from the Kirinskoye field, which the Russian state-run gas giant launched at the end of 2013. Last year, condensate output from Kirinskoye averaged only 300 b/d.

Insiders say that since Sakhalin Energy — whose other shareholders include Royal Dutch Shell and Japan's Mitsui and Mitsubishi — cannot keep its crude separate from the Kirinskoye condensate in the pipeline to Prigorodnoye, Sakhalin Blend will continue to replace Vityaz. However, Gazprom could later develop separate infrastructure when it launches other fields it is exploring in the area, including Yuzhno-Kirinskoye, which in addition to gas also harbors a lot of oil (NC Oct.30'15).

Lukoil Faces New Criminal Case in Ukraine

Lukoil's troubles have mounted in Ukraine, where the Russian major could lose its Karpatneftekhim petrochemical plant. Observers expected such a development following last month's accusations by Kiev, which Lukoil denied, that the company was supporting separatists (NC Jan.22'15).

Ukraine's State Security Service has launched an embezzlement case, accusing Lukoil of causing multi-million dollar damages to Ukraine while acquiring in 2000 the Oriana petrochemical complex in western Ukraine, now known as Karpatneftekhim. According to the security service, Lukoil together with its Ukrainian subsidiary Lukoil-Neftekhim created a firm, Lukor, based on Oriana assets and paid $100 million for a stake with its own shares, while the actual price of Lukoil shares was $27 million. Lukoil is also accused of failing to fulfill an obligation to repay Oriana's €170 million ($194 million) loan, which was ultimately repaid with state funds.

Lukoil denied the accusations, saying Kiev's actions were "dictated by the political processes in Ukraine." Vitaly Matushkin, the company's press spokesman, said the legality of setting up Lukor had been confirmed in Ukrainian courts. Since 2000 Lukoil has invested more than $540 million in Karpatneftekhim, where operations have been suspended due to the unrest in Ukraine.

In January, Lukoil and Vetek, a company belonging to an oligarch close to Ukraine's ousted President Viktor Yanukovich, were accused of smuggling oil products into Ukraine in 2013-14 and using the earned money to finance separatists. Lukoil has also been hit by Kiev's decision to nationalize an oil products pipeline of Russia's Transneft where there was 100,000 tons of Lukoil's products, worth some $100 million, planned for export to Hungary.

Russia to Expand Pacific Port as Asian Oil Sales Grow

In an effort to accommodate the growing exports of Russian crude oil to Asian markets, national pipeline operator Transneft is working on a plan to expand the Kozmino port on the Pacific coast.

A Transneft spokesman said the company's experts have started looking into the feasibility of the project in response to a request from the Russian energy ministry. He warned, however, that work could not begin earlier than 2020 after completion of the expansion of the East Siberia-Pacific Ocean (Espo) pipeline running to Kozmino.

The Transneft spokesman told *Nefte Compass* that 6 million metric tons/yr (120,000 b/d) could be added to Kozmino's current capacity of 30 million tons/yr. The calculations are based on the assumption that the expanded Espo line would be able to pump 50 million tons/yr from Skovorodino to Kozmino, out of which 14 million tons would be taken by the Komsomolsk and Khabarovsk refineries in Russia's Far East, leaving 36 million tons for export from Kozmino. The plan assumes that Rosneft's Far East Petrochemical Complex would not be built by that time.

The main expense at Kozmino would be in building additional tank reservoirs and dredging, which Transneft has started anyway to accommodate bigger tankers of 150,000 and 200,000 tons.

Exports from Kozmino stood at 24.9 million tons last year and are expected to grow in 2015 by at least 5 million tons, a volume that

Gazprom Upbeat About China Flows

In a bid to mollify skeptics, Russia's Gazprom has again confirmed that natural gas from the Chayandinskoye field will start flowing to China via the Power of Siberia pipeline in late 2018. The company said works on Chayandinskoye are progressing according to schedule although are still in the embryonic phase.

Doubts that Gazprom can manage to develop such a complex and remote field as Chayandinskoye on time have gained traction. In addition, some Chinese sources expect Gazprom to be reluctant in the current low oil price environment to invest in the so-called "Eastern route" to China, which together with the 61 Bcm per year Power of Siberia line and the Chayandinskoye and Kovyktinskoye fields could cost $55 billion (NC Feb.5'15).

Gazprom claims it has bought all the necessary equipment for building facilities needed for pre-developing the oil rim at Chayandinskoye. The company is also preparing to drill, with rigs in the process of being delivered to the field. Gazprom is also building roads and completing the design of gas infrastructure at the field. This is proof that the project will not be delayed, the company said. While observers still doubt that such huge projects can be completed without delays, they note the progress is a good sign that work has started at the field when several months ago activity was nil.

Power of Siberia construction began last September and is advancing according to schedule, Gazprom said. On Feb. 17 it announced a massive tender for large-diameter pipes for Power of Siberia worth around 68 billion rubles ($1.1 billion).

To further mark the importance of China-related projects, Gazprom boss Alexei Miller flew to Beijing last week to discuss a new contract on supplies via the so-called "Western route," or the Altai pipeline. A framework agreement was signed by Gazprom and China National Petroleum Corp. in November 2014 on supplies of 30 Bcm/yr, and now a 30-year commercial contract is almost ready for signing, Miller said (NC Nov.13'14).

Rosneft aims to send to China from the outlet under the deal with China National Petroleum Corp. Rosneft also has plans to export from Kozmino an additional 10 million tons/yr to India, while independent producers, including Irkutsk Oil Co., Dulisma and Surgutneftegas, could increase output from their acreage in East Siberia — which has Espo as the only evacuation route — by 3 million tons/yr in the near future.

If Gazprom Neft buys a refinery in Vietnam, it would also have to send some 6 million tons/yr from Kozmino (NC Dec.18'14).

Rosneft Shrugs Off Canadian Sanctions

Rosneft said it saw no impact from fresh Canadian sanctions since it has always been a passive participant in Canada's Cardium upstream project with US oil giant Exxon Mobil.

Canada announced on Feb. 17 new sanctions against 37 individuals and 17 companies from Russia and Ukraine, including Rosneft, in response to the actions of separatists in southeastern Ukraine in recent weeks.

Rosneft, which was already sanctioned by the US and EU last year, is not bothered with Canada's sanctions, insiders tell *Nefte Compass*. It has a 30% stake in Exxon's Cardium upstream project in the Canadian province of Alberta, which it received as a result of an asset swap deal in 2012 (NC Apr.19'12). Rosneft was interested in the project mainly because it wanted access to Exxon's technology for developing unconventional reserves, insiders say, which Rosneft has acquired since it sent managers to work there.

Rosneft spokesman Mikhail Leontyev was quoted by the Russian media as saying the company has not yet decided whether to quit the project, which is seen as a low priority, without big commercial benefits.

Analysts doubt the Canadian sanctions could have any serious impact on Rosneft's business or its cooperation with Exxon, which remains its partner in Arctic projects, according to Leontyev, despite the fact that the US supermajor had to withdraw from drilling in the Kara Sea last year (NC Oct.2'14).

Gazprom Prices Under Pressure in Europe

Russia's Gazprom may see a drastic decline in dollar revenue from exports to Europe, its key market, if its average sale price in the region falls sharply, the economic development ministry has warned.

According to the ministry's forecast, gas export prices to Europe will drop to $222/Mcm this year from $351/Mcm last year, a ministry spokesperson told *Nefte Compass* last week. Gazprom itself estimated last year's average price at $341/Mcm, down 11% on the year.

The company admits the drop in oil prices will have a negative impact on its business, as it is the key factor for determining gas prices under long-term contracts. Before the oil price fall, oil linkage was very favorable for Gazprom since it inflated prices to a level higher than those on the spot market. But now there is a risk that spot prices will exceed Gazprom's prices in Europe. Gazprom is now considering changing its formula to include coal and electric power components in addition to oil, the company said in a report last week.

Gazprom Gas Exports to Europe*

	2014	2013	2012	2011	2010	2009
Export Volumes (Bcm)	146.6	161.5	138.8	150.0	138.6	140.6
Average Price (US$/Mcm)	341	385	402	383	302	296

*Except for Baltic States. Source: Gazprom

With the price of $222/Mcm, Gazprom might generate $34.4 billion to $35.5 billion from sales in Europe this year if supplies increase to 155 Bcm-160 Bcm, as it expects (NC Feb.5'15). But the ministry disagrees, predicting exports to Europe at 127.3 Bcm in 2015, down 9.7 Bcm from its previous forecast. This threatens to reduce export revenues to $28.3 billion for 2015. Last year Gazprom earned some $50 billion by selling 146.6 Bcm at an average price of $341/Mcm.

Sales to Europe dropped over 9% last year. Key markets such as Germany and Italy ordered less Russian gas last year, with only Turkey, where demand remains robust, showing a modest increase. Gazprom's Europe sales statistics include operations of London-based subsidiary Gazprom Marketing and Trading, which puts the UK among key purchasers — even though the country doesn't receive any Russian gas by pipe from Russia.

A weakening of the ruble partly offsets the negative impact of lower demand and price, but nonetheless Gazprom's investment projects are still under threat as the cost of borrowing has risen amid sanctions. The gas giant's board had planned to review on Feb. 17 the 2015 budget and investment program approved last December at 840.35 billion rubles ($13.4 billion), taking into account a stress test using oil prices of $40/bbl and $50/bbl, but the company postponed the meeting until next week (NC Jan.1'15).

Russian Gas Exports to Europe

(Bcm)	2014	2013	Chg.
Germany	38.70	40.15	-1.450
Turkey	27.33	26.69	0.640
Italy	21.68	25.32	-3.640
UK	10.09	12.53	-2.440
Poland	9.10	9.79	-0.690
France	7.10	8.17	-1.080
Hungary	5.33	5.97	-0.640
Czech Republic	4.76	7.32	-2.560
Slovakia	4.39	5.42	-1.040
Austria	3.95	5.23	-1.280
Netherlands	3.51	2.13	1.380
Finland	3.11	3.54	-0.430
Bulgaria	2.79	2.8	-0.010
Greece	1.75	2.62	-0.880
Serbia	1.36	1.14	0.220
Slovenia	0.43	0.53	-0.100
Denmark	0.41	0.34	0.070
Romania	0.33	1.19	-0.860
Switzerland	0.30	0.37	-0.070
Bosnia and Herzegovina	0.16	0.19	-0.030
Macedonia	0.05	0.05	-0.004
Total	**146.61**	**161.49**	**-14.890**

*Except for Baltic States. Source: Gazprom

Abramovich Backs GTL Business to Succeed in FSU

When Russian billionaire Roman Abramovich quadrupled his stake in a small UK-based gas-to-liquids (GTL) company to 14.3% at the beginning of 2015 from around 3% a year earlier, it seemed to give a stamp of approval to a business that has clear possibilities to expand in the oil and gas regions of the former Soviet Union.

"It is obvious he has a number of interests in the energy sector," says Neville Hargreaves, business development director for Velocys, the UK-based GTL company. Abramovich's involvement in Velocys shows he has "a real enthusiasm for technology that can unlock some new opportunities."

The technology-driven company of 100 staff divided between the UK and US believes the time is ripe for take-off. After 14 years of work, the company reached a milestone in 2014 with a final investment decision taken for its first commercial GTL plant. The plant in Oklahoma could be a springboard for new opportunities, with countries like Russia, Kazakhstan and Turkmenistan key targets for expansion, Hargreaves told *Nefte Compass* in an interview.

"The good news is that GTL is not targeted in sanctions [against Russia]," Hargreaves said, adding that "we do obviously check the individuals we are dealing with [to make sure they are not blacklisted]." On the other hand, financial sanctions against Russian companies do have "some implications" for the strength of the market.

Although the GTL business was started as long ago as the 1950s by South Africa's Sasol, there are still only a handful of plants working today. The biggest, of 144,000 barrels per day, is in Qatar. Velocys' range of GTL plants is typically from 1,500-15,000 b/d. Mostly, the end product is high-quality low-sulfur diesel, with other gas conversion technologies geared towards producing gasoline.

"One of the advantages of the smaller scale projects is that they can be done quickly, say in two to three years, compared with around seven years for a big plant," Hargreaves says, noting that while the big plants require an enormous investment in construction and infrastructure, the smaller plants are designed to minimize both those costs.

A unique selling point of the smaller plants is that they can be built in areas that are far from gas pipelines — in the Russian Arctic regions, for example —processing either associated gas from oil fields or gas from deposits not big enough to merit costly export infrastructure investment. In such remote areas, the production of diesel to meet local needs is clearly a boon.

Even 2 Bcm/yr — the amount currently being flared by Malaysia's Petronas in Block 1 in the Caspian Sea off Turkmenistan, for the lack of export options — would be enough to run a 20,000 b/d GTL plant.

In its search to monetize its vast gas reserves, Turkmenistan is in talks with a consortium of Japan's Kawasaki Heavy Industries, Turkey's Ronesans and Denmark's Haldor Topsoe over building a second gas-to-gasoline (GTG) plant to follow a 15,500 b/d GTG plant due for completion in 2018 to export synthetic gasoline (NC Jan.29'15). Plans are also in the works for a separate GTL plant in Turkmenistan.

So how do the costs of GTL stack up? Depending on size and location, the capital expenditure would typically amount to $100,000 per 1 b/d. Some $15 per barrel would be needed pay back the capex over a 20-year lifetime of a plant, with operating costs of $20-$25/bbl on top of that. In other words, it would take $40/bbl to get the gas to liquid — plus the cost of the gas. When crude is priced around $50/bbl, the economics are tight, to say the least. A gas price of $1 per million Btu would translate into an oil price of $9-$10/bbl. With Asian spot gas prices currently around $7/MMBtu, the picture becomes even more questionable, although in an area like Siberia, the GTL costs would have to be compared with the price of crude oil, plus the refining margin and the cost of transporting the diesel to such a remote market.

"I would like to reiterate that this [Russia and other FSU oil and gas producing nations] is one of the big places in the world for GTL," Hargreaves said.

Michael Ritchie, London

Dutch Court Backs Yukos Claim

Shareholders of the former Yukos oil company have won another international court victory, this time against Rosneft, the main beneficiary of Yukos' demise.

The Amsterdam District Court posted a ruling last week saying claims brought against Rosneft by Yukos International UK BV are legitimate and shareholders of the latter have the right to seek compensation. The court did not say how much Rosneft should pay, although estranged shareholders were seeking some $333 million.

Shareholders are arguing that they suffered pecuniary losses after a Dutch court decision in 2008 to freeze accounts holding cash proceeds from sales of Yukos' assets. The case was initiated by Rosneft, which after having taken control of Yukos' former subsidiaries had paid part of the company's outstanding debts and therefore became a creditor.

The accounts were reportedly unfrozen in 2011, but the Dutch court is now claiming that Rosneft did not have the right to ask for such an account freeze. The court said the size of compensation would be determined after a damage-assessment procedure. Lawyers say Rosneft can appeal the decision.

The latest court decision is the third in a string of defeats involving the Russian government's dismantling of Yukos and the company's takeover by Rosneft (NC Feb.12'15).

Russian Agency Probes Schlumberger Acquisition

Russia's Federal Antimonopoly Service is analyzing US-based oil services giant Schlumberger's $1.7 billion deal to buy a stake of 45.65% in Russia's largest oil driller Eurasia Drilling Co. (EDC) signed last month (NC Jan.22'15).

The antitrust regulator had sent a request to Schlumberger seeking details about the transaction and received a response last week, a spokesman for the regulator said. It will study the submitted information within 30 days.

The deal was supposed to be closed by the end of March, but on Feb. 16 EDC said it would only be completed if the antitrust service confirms it is satisfied with Schlumberger's response to the information request. EDC shareholders have already approved the deal.

At this stage it is unlikely there would be any objections as Schlumberger is buying only a noncontrolling stake in EDC, which wouldn't hand the international giant an excessive market share in Russia, analysts say. However, Schlumberger would need antitrust approval if it decides to exercise an option to gain full control over EDC during a two-year period starting three years from the deal's completion. There are now doubts over whether the second stage of the acquisition would be approved.

Some observers say the antimonopoly service might have intervened because the expansion of the US major's presence might not be welcomed at a time when Moscow wants to replace foreign technology and equipment with homegrown variants in a drive to become less vulnerable to Western sanctions.

State to Buy Half of Yamal LNG Bond Placement

The operator of Russian independent gas producer Novatek's flagship Yamal LNG project will place $2.3 billion in bonds on Feb. 19, as part of the state aid approved late in 2014 (NC Jan.15'15). The government says it will only buy 75 billion rubles ($1.2 billion) of bonds from the issue. It is unclear who will mop up the rest.

To receive the first tranche of the state aid, Yamal LNG shareholders must provide a guarantee to the government, which Novatek boss Leonid Mikhelson promised in January shareholders would do shortly, correspondingly to their stakes. Novatek holds a 60% stake in the project, while France's Total and China National Petroleum Corp. each have 20% stakes.

The Yamal LNG board has approved placing two bond issues totaling $4.6 billion, but the company said it might sell only part of the approved bond issues.

The government will provide the second tranche of the 150 billion ruble aid from the rainy-day National Wealth Fund by buying another 75 billion rubles' worth of bonds from Yamal LNG's second bond issue, presumably in the second half of the year. The government says Yamal LNG must first receive project financing from commercial banks, which is expected by the end of June (NC Dec.11'14).

To further help the project, the government set a zero value-added tax for imported liquefaction equipment for the Yamal LNG plant. This could save the operator $2.5 billion-$3 billion, analysts say.

The Yamal LNG project involves the construction of a 16.5 million metric ton/yr LNG plant on the Yamal Peninsula, with its three 5.5 million ton/yr trains to be launched in 2017, 2018 and 2019.

Equities

Share Prices Closing On February 17, 2015 ($/Share)

Locally Traded Shares	Closing Price	Chg. From Feb 10, 2015	12 Months High	12 Months Low	Market Cap ($ mill.)
Bashneft	26.65	0.90	42.75	14.84	4,057.0
Gazprom	2.52	0.28	2.62	1.82	60,308.0
Lukoil	47.64	2.46	52.63	27.37	40,968.0
Rosneft	4.36	0.49	4.70	2.94	46,799.0
Novatek	8.27	0.44	8.86	4.85	25,900.0
Gazprom Neft	2.86	0.29	3.78	1.98	13,740.0
Surgutneftegas	0.55	0.00	0.61	0.35	20,115.0
Surgutneftegas pref.	0.65	-0.01	0.72	0.38	5,109.0
Tatneft	5.35	0.53	5.66	2.88	11,852.0
ADRs					
Gazprom	5.19	0.72	9.06	3.45	NA
Lukoil	48.15	3.66	62.37	30.20	NA
Gazprom Neft	14.81	1.65	22.73	9.00	NA
Surgutneftegas	5.58	0.16	8.21	3.10	NA
Tatneft	33.05	3.30	41.00	18.27	NA
Indices					
RTS	894.61	68.72	1,421.07	629.15	NA

RTS prices are given for companies listed on the exchange.
Market capitalization updated weekly.

Currencies

US Dollar Exchange Rates	Feb 18'15	Feb 11'15
Former Soviet Union		
Russian Ruble	62.51	65.46
Armenian Dram	477.25	476.70
Azerbaijani Manat	0.78	0.78
Belarussian Ruble	14,910.00	15,210.00
Georgian Lari	2.05	2.04
Kazak Tenge	185.18	185.00
Kyrgyz Som	60.75	61.15
Latvian Lat	0.62	0.62
Lithuanian Lit	3.03	3.06
Moldovan Lei	18.45	18.45
Ukrainian Hryvna	26.20	25.25
Uzbek Som	2,450.00	2,465.00

Eastern Europe	Feb 18'15	Feb 11'15
Albanian Lek	122.56	123.41
Bulgarian Lev	1.71	1.73
Croatian Kuna	6.75	6.81
Czech Koruna	24.15	24.42
Hungarian Forint	269.49	272.45
Macedonian Denar	53.64	54.15
Polish Zloty	3.67	3.71
Romanian Leu	3.90	3.92
Ruble exchange rates		
US Dollar	62.51	65.46
Euro	71.32	74.14
Pound Sterling	96.46	99.75
Japanese Yen	0.53	0.55

Tengiz Expansion Drifts Behind Schedule

A project managed by the Chevron-led Tengizchevroil (TCO) joint venture to increase production from the giant Tengiz oil field by more than 40% to around 800,000 b/d is likely to be completed in 2021, Kazakh Energy Minister Vladimir Shkolnik told a cabinet meeting.

This means that production from Tengiz is likely to remain at current levels of around 550,000 b/d before the starting gun is fired on the so-called Future Growth Project (FGP). Previously, the US major had hoped for the new FGP production to start coming on stream in 2018-2019 (NC Nov.21'13).

Shkolnik also said the government, which last autumn approved TCO's expansion plans, was in talks with the partners on reducing the capital costs for FGP, which have sky-rocketed to an estimated $40 billion from earlier estimates of $23 billion (NC Oct.9'14). "Our main demand is that the flow of dividends and profits to the republic should not be smaller, but on the contrary, should increase from the project's expansion," he said.

Since the TCO contract was signed in April 1993, the project has been a huge money-spinner for both sides, with the government netting more than $100 billion in taxes and royalties and Chevron reaping billions from crude oil sales. Chevron owns a 50% interest in TCO alongside state Kazmunaigas (25%), US supermajor Exxon Mobil (20%) and Russia's Lukarco (5%).

Crude oil and condensate production in Kazakhstan fell in January by 1.5% to 1.63 million b/d a year earlier. It was down 4.5% from December 2014 (table). TCO, the biggest producer, saw output drop in January by 2.6% year-on-year to 548,420 b/d and by 8.4% from the previous month (NC Feb.27'14). The second-biggest producer, Karachaganak Petroleum Operating Co., led jointly by BG and Eni, was up 1.8% in January at 243,630 b/d year-on-year but down 5.5% from December.

Kazakh Crude Oil and Gas Condensate Production, January 2015

('000 metric tons	January		December '14		Chg.	
or '000 b/d)	b/d	tons	b/d	tons	b/d	tons
Abi Petroleum Capital	0.42	1.79	0.44	1.87	-0.02	-0.08
Ada Oil	4.25	17.98	4.27	18.04	-0.01	-0.06
Aktau-Transit	0.03	0.15	0.11	0.48	-0.08	-0.34
Altius Petroleum	8.30	35.10	8.40	35.53	-0.10	-0.43
Aman Munai (Kazakhmys Petroleum)	0.62	2.62	1.40	5.92	-0.78	-3.30
Amangeldy Gas	0.41	1.73	0.48	2.02	-0.07	-0.29
Anaco	2.46	10.40	2.49	10.55	-0.04	-0.15
Ansagan Petroleum (Kortazh)	0.88	3.72	0.88	3.72	-0.001	-0.004
Aral Petroleum	0.37	1.56	0.74	3.15	-0.38	-1.59
Arman	1.32	5.58	1.28	5.43	0.04	0.15
Atyraumunai	0.22	0.93	0.19	0.80	0.03	0.13
BNG Ltd	0.01	0.03	0.01	0.03	0.00	0.00
Buzachi Neft	0.80	3.37	0.73	3.08	0.07	0.29
Buzachi Operating	38.51	162.89	34.32	145.13	4.20	17.76
Caspian neft	16.85	71.24	16.05	67.90	0.79	3.34
Caspian Neft TME	2.32	9.80	2.39	10.11	-0.07	-0.31
CaspiOilGas	0.15	0.64	0.17	0.71	-0.02	-0.07
CNPC-AiDan Munai	6.71	28.39	7.26	30.72	-0.55	-2.34
CNPC-Aktobemunaigas	100.66	425.70	104.53	442.07	-3.87	-16.36
Ecogeoneftegas	0.12	0.50	0.12	0.49	0.003	0.01
Embamunai	0.07	0.28	0.06	0.27	0.002	0.01
Embamunaigas	55.15	233.23	56.55	239.14	-1.40	-5.91
Embavedoil	0.31	1.30	0.29	1.24	0.01	0.06
Emir Oil	3.74	15.80	5.40	22.82	-1.66	-7.02
Falcon Oil and Gas	0.40	1.70	0.29	1.24	0.11	0.46
Galaz and Co.	0.86	3.63	0.86	3.63	0.00	0.00
Gyural	0.44	1.86	0.46	1.95	-0.02	-0.09
Jupiter Energy	0.59	2.48	0.59	2.48	0.00	0.00
Karachaganak Petroleum Operating Co.	243.63	1,030.37	251.83	1,065.02	-8.19	-34.65
Karakudukmunai	14.61	61.78	13.68	57.84	0.93	3.94
Karazhanbasmunai	43.24	182.88	42.27	178.75	0.98	4.13
Kazakhoil-Aktobe	18.20	76.98	18.68	78.99	-0.48	-2.01
Kazakhturkmunai	4.87	20.61	5.02	21.24	-0.15	-0.63
Kazgermunai	61.46	259.94	62.30	263.49	-0.84	-3.55
KazGPZ	0.18	0.77	0.18	0.75	0.004	0.02
Kazmunayteniz (Borankol)	2.93	12.40	2.99	12.66	-0.06	-0.26
Kazmunayteniz (Tolkyn)	0.58	2.44	0.66	2.80	-0.09	-0.36
Kazpetrol Group	3.20	13.52	3.23	13.64	-0.03	-0.12
Ken-Ai-Oil Kyzylorda	0.44	1.86	0.43	1.82	0.01	0.04
Ken-Sary	5.26	22.24	5.42	22.94	-0.17	-0.70
Khazar Munai	0.26	1.10	0.30	1.25	-0.04	-0.16
KMK Munai	7.78	32.90	9.09	38.45	-1.31	-5.55
Kolzhan	15.93	67.36	16.78	70.97	-0.85	-3.61
Kolzhan-Oil	0.01	0.06	0.02	0.07	0.00	-0.01
Kommunai	4.03	17.05	4.50	19.04	-0.47	-1.99
Kozhan	3.08	13.02	3.08	13.02	0.00	0.00
Kuatamlonmunai	11.12	47.04	11.81	49.95	-0.69	-2.91
Kumkol Trans Service	5.93	25.08	6.03	25.50	-0.10	-0.42
Lines Jump	0.37	1.55	0.37	1.57	-0.01	-0.02
Maersk Oil Kazakhstan	10.31	43.62	9.76	41.29	0.55	2.33
Mangistaumunaigas	125.40	530.36	126.25	533.96	-0.85	-3.60
Maten Petroleum	10.20	43.13	9.76	41.27	0.44	1.86
Meerbusch	2.39	10.10	2.48	10.48	-0.09	-0.38
Munai Ontustik	0.00	0.00	0.95	4.03	-0.95	-4.03
Munaily Kazakhstan	0.06	0.26	0.00	0.01	0.06	0.25
North Caspian Oil Development	0.09	0.37	0.09	0.37	0.00	0.00
Oil Co. KOR	5.42	22.94	5.42	22.94	0.00	0.00
PetroKazakhstan Kumkol Resources	41.06	173.65	40.33	170.54	0.74	3.11
PetroKazakhstan Ventures	1.91	8.07	1.42	6.01	0.49	2.06
PhizTekh Firm	1.54	6.52	1.53	6.48	0.01	0.04
Potential Oil	3.00	12.71	2.88	12.19	0.12	0.52
Precaspian Petroleum	0.58	2.47	0.60	2.54	-0.02	-0.07
Sagiz Petroleum	5.48	23.16	6.01	25.40	-0.53	-2.24
Saigak Kazakhstan	0.47	1.97	0.38	1.63	0.08	0.35
Samek International	3.76	15.90	3.73	15.76	0.03	0.14
Sazankurak	1.78	7.51	1.79	7.55	-0.01	-0.04
South-Oil	21.55	91.14	21.92	92.71	-0.37	-1.57
Svetland-Oil	0.42	1.78	0.43	1.81	-0.01	-0.03
Tabynai	0.59	2.48	0.60	2.53	-0.01	-0.05
Tandai Petroleum	0.37	1.55	0.37	1.55	0.00	0.00
Targabatai Munai	0.01	0.06	0.01	0.05	0.003	0.01
Tasbolat Oil Corp.	3.28	13.87	3.61	15.25	-0.33	-1.38
Tenge	0.71	3.01	0.70	2.97	0.01	0.04
Tengizchevroil	548.42	2,319.36	598.71	2,532.05	-50.29	-212.69
TethysAralGas	2.07	8.75	2.00	8.45	0.07	0.29
Tobearal Oil	0.22	0.94	0.22	0.95	-0.003	-0.01
Turgai Petroleum	20.28	85.76	20.81	88.01	-0.53	-2.25
Uzenmunaigas	107.54	454.79	106.35	449.78	1.18	5.01
Zhaikmunai	16.18	68.41	15.95	67.47	0.22	0.94
Zhalgiztobemunai	0.95	4.00	0.95	4.04	-0.01	-0.04
TOTAL	**1,630.09**	**6,893.95**	**1,695.43**	**7,170.32**	**-65.35**	**-276.37**

Notes: Table is based on the following factor for conversion to barrels: Crude - 7.33. Data for the previous month were revised.

Lukoil Uzbek Deal With CNPC Falls Through

Lukoil's plan to farm in China National Petroleum Corp. (CNPC) into a project in Uzbekistan has failed due to the drop in oil prices. The setback follows Sinopec's refusal to buy Lukoil's holding in Kazakhstan, forcing the Russian major to take the case to arbitration in London. The two failed deals with the Chinese state giants are not insignificant as Lukoil had planned to receive more than $2 billion from the divestments.

According to sources, Lukoil has refused to sell a 30% stake in its $3 billion Kandym gas development in Uzbekistan to CNPC because the Chinese major is now offering a price the Russian company considers too low. Lukoil holds 90% in the venture and wanted to divest a stake to spread the risk (NC Jan.15'15). It originally wanted to get more than $1 billion for the stake.

Now, however, Lukoil has to move on alone at Kandym with a program to double gas production to 8 Bcm/yr and build a gas processing complex. The $2.66 billion engineering, procurement and construction contract for the Kandym gas processing plant was signed with South Korea's Hyundai Engineering last week.

A little more than a week ago, Lukoil began arbitration proceedings in London against Sinopec after the Chinese firm allegedly reneged on a deal signed last April to buy the Russian company's 50% interest in Kazakh oil producer Caspian Investment Resources (CIR) for $1.2 billion (NC Feb.12'15).

Lukoil now aims to sell its stake in CIR to a buyer at the current market price and claim the difference — between that sum and the $1.2 billion — in damages from Sinopec. The court process, however, could last for years.

Kazakhstan Lowers Oil Export Duty

The sharp drop in oil prices has prompted the Kazakh government to reduce the oil export duty from $80 to $60 per metric ton, with the new rates coming into force within a month. Minister of National Economy Yerbolat Dossayev said the rates were lowered in accordance with budgetary requirements and would be made official in a government decree to be published in mid-March.

The export duty was introduced in May 2008 in the wake of Kazakhstan's worst-ever financial crisis, with the size of the levy fluctuating between $20 and $80 per ton. Almost all Kazakh producers have to pay the tariff, with the notable exception of the Chevron-led Tengizchevroil (TCO) joint venture, which enjoys a contractual exemption from extra taxation. Several years ago the BG/Eni-operated Karachaganak consortium took the government to arbitration seeking the reimbursement of over $1 billion in export levies but later withdrew its case (NC Apr.29'10).

One Year on, Ukraine Energy Security Still Fragile

Despite boasting about how it is increasing imports of natural gas from Europe and greatly reducing dependency on Russia, Ukraine, one year after the ousting of President Viktor Yanukovich, is still in a perilous position as far as security of supply is concerned.

Local independent producers, widely regarded as the biggest hope for short-term and midterm gains for domestic output, have slashed investments after getting hit with higher taxes, while Russia has vastly reduced transit deliveries, to an extent that the reliability of reverse supplies could come under doubt later this year (NC Jan.22'15).

Independent producers, who last year boosted output last year by 18% to 3.3 Bcm, are increasingly strident about the sharp increase in royalties (NC Aug.7'14). London-listed JKX Oil & Gas, the oldest and biggest Ukrainian independent, announced on Feb. 16 that it was seeking compensation of $180 million in international arbitration since, in the company's estimation, Ukraine's government violated two international treaties when it raised royalties last year and extended them throughout 2015.

"Having taken proper Ukrainian and international legal advice, we've been told our case is good," Anthony Cardew, a spokesman for Eastern Europe-focused JKX, told *Nefte Compass*. He said the company believes that Ukraine violated the Energy Charter Treaty with the UK and a bilateral investment treaty with the Netherlands, which "is the basis on which our shareholders invested in the company, and therefore we have to seek clarification."

Added to litigation that other independents have initiated in Ukrainian courts, Ukraine's government essentially has to cope with a gas-related revolt both at home and in Russia. Gazprom has reduced shipments to Europe via Slovakia by more than half compared to a year ago, so that daily deliveries are now a mere 48 million cubic meters (17 Bcm/year), and the company is likely to continue decreasing pressure to minimize volumes that can be reversed back to Ukraine (NC Jan.22'15).

The second quarter of 2015 will be crucial. If last year Naftogaz, the state-owned producer and importer, managed to import some 7.5 Bcm from Russia — gas that went into winter storage — then this year a large offtake seems impossible given both the economics and politics involved. And flows from the West, which at best can amount to 1.2 Bcm per month, won't make up the difference. Still, Ukrainian officials are confident they can survive next winter too. Gas consumption continues to decline — over the first 10 days of February it was 1.6 Bcm, down 31% year-on-year — and overall prices from both Western traders and Gazprom have fallen dramatically. Import-dependent Ukraine has suddenly found itself in a buyers' market.

Nevertheless, the government is aware how fragile its energy predicament remains, which partially explains why on Feb. 14 Prime Minister Arseniy Yatsenyuk announced that the country would create a $1 billion reserve for gas and fuel oil supplies to help it survive next winter. Yatsenyuk said the reserve would be financed through state-backed credits.

Crude Oil Deliveries From Russian Producers to FSU Refineries, December 2014

('000 metric tons)

Belarus

Mozyr	**1,102.6**
Gazprom Neft-Khantos	217.2
KazMunaiGas-RM	56.5
Lukoil-Perm	50.0
Lukoil-West Siberia	220.0
NK Rosneft	380.0
Permtotineft	6.7
Ritek	49.7
Samaraneftegas	122.0
Tursunt	0.5
Naftan	**953.5**
Bashneft	64.4
NK Rosneft	216.5
Rusvietpetro	41.1
Samaraneftegas	200.0
Surgutneftegas	278.8
Tatneft	117.2
Ulyanovskneft	35.5

Russia

Komsomolsk	**530.0**
Samotlorneftegas	422.0
Vanyoganneft	108.0
Tuapse	**613.4**
NK Rosneft	296.3
Nyaganneftegas	317.1
Angarsk	**858.0**
Megionneftegasgeologia	5.3
Nizhnevartovsk Oil and Gas	197.5
NK Rosneft	151.0
Slavneft-Nizhnevartovsk	26.6
Tomskneft	418.9
Varyoganneftegas	58.8
Achinsk	**660.0**
NK Rosneft	293.2
Samotlorneftegas	297.5
Severo-Varyoganskoye	36.3
Vankorneft	33.0
Novokuibyshevsk	**735.0**
KazMunaiGas-RM	65.6
Orenburgneft	656.3
Samotlorneftegas	13.0
Syzran	**625.0**
NK Rosneft	567.8
Samaraneftegas	57.2
Kuibyshev	**614.0**
NK Rosneft	7.0
Orenburgneft	227.9
Samaraneftegas	134.3
Udmurtneft	219.2
Uvatneftegas	19.0
Yermakovskoye	6.6
Saratov	**533.0**
Buguruslanneft	145.6
NK Rosneft	8.0
Orenburgneft	23.9
Samaraneftegas	355.5
Ryazan	**1505.0**
Megionneftegas	63.4
Nayganneftegas	70.0
NK Rosneft	836.0
Nyaganneftegas	46.0
Samotlorneftegas	93.5
Slavneft-Nizhnevartovsk	48.0
Sobol	5.0
Uvatneftegas	343.0
Nizhegorodnefteorgsintez	**1436.9**
Chepetskoye NGDU	2.7
Dalpromsintez	3.0
Energy Co. RIF	0.8
Idjat	0.7
Institute Rostek	0.2
KNK	4.0
Lukoil-AIK	57.6
Lukoil-Perm	633.4
Lukoil-West Siberia	567.6
Permtotineft	11.4
Ritek	89.8
SMP-Neftegas	5.2
Tatneft	9.9
Transoil	12.8
Tursunt	2.8
Udmurtneft	30.0
UNK-Perm	5.0
Volgograd	**1028.8**
Lukoil-West Siberia	825.3
Ritek	203.5
Permnefteorgsintez	**756.4**
Kama-oil	31.2
Lukoil-Perm	318.6
Lukoil-West Siberia	394.0
Ritek	12.7
Ukhta	**341.0**
Lukoil-Komi	341.0
Kirishinefteorgsintez	**1650.0**
Surgutneftegas	1650.0
Yaroslavlnefteorgsintez	**1401.2**
Gazprom Neft-Khantos	187.5
Lukoil-Komi	247.4
Megionneftegas	31.0
Megionneftegasgeologia	15.9
NK Rosneft	220.2
NK Slavneft	35.5
NNK-Pechoraneft	22.0
Obneftegasgeologia	155.1
Obneftegeologia	20.4
Rusvietpetro	74.9
Salym Petroleum	250.4
Slavneft-Nizhnevartovsk	9.9
Sobol	1.9
Tatnefteotdacha	43.9
Udmurtneft	70.0
VUMN	15.3
Yaroslavl-Mendeleyev	**5.0**
Northern Lights	1.5
Polar Lights	3.5
Omsk	**1840.0**
Archinskoye	15.1
Chernogorskoye	7.5
Gazprom Neft-Khantos	43.5
Gazprom Neft-NNG	643.2
Gazprom Neft-Vostok	22.8
Goloil	12.4
Megionneftegas	227.1
Megionneftegasgeologia	5.3
Negusneft	19.9
Novatek-Tarkosaleneftegas	5.0
Slavneft-Nizhnevartovsk	26.5
Tomskneft	243.1
Tosmskgazprom	87.1
Transneft-Central Siberia	20.0
Valyuninskoye	1.7
Varyoganneft	25.6
White Nights	52.8
Zapolyarneft	381.2
Moscow	**828.4**
Akmai	1.7
Belkamneft	79.9
Dinyu	3.6
Enes	0.8
Gazprom Neft-Khantos	391.9
Geologia	1.4
Geological Exploration Center	3.0
Gorny	4.4
Industrial Ecology	0.4
Kara-Altyn	4.6
Kolvaneft	3.0
Komnedra	12.7
Kosyuneft	1.1
Makoil	0.9
Megionneftegasgeologia	7.0
Neftus	3.0
NNK	0.4
Northern Lights	2.0
Obneftegeologia	14.0
Okunevskoye	4.0
Pechoraneftegas	11.2
Regional Oil Consortium	27.1
Reshetnikovskaya Oil Co.	1.0
Rusvietpetro	34.0
Ryabovskoye	17.3
Selengusheft	0.2
Severo-Zapadniye Main Pipelines	40.0
Sial	6.7
Slavneft-Nizhnevartovsk	36.5
SMP-Neftegas	20.0
Sobol	3.1
Tatnefteprom-Zyuzyeyevneft	29.2
TNGK-Razvitiye	5.0
Transneft-Sever	10.0
Troitskneft	12.6
TsNPSEI	2.5
Udmurt National Oil Co.	4.8
Udmurt Oil Co.	19.0
Udmurtgeologia	7.5
Uralskaya Neft	1.1
Welloil	0.1
Orsknefteorgsintez	**392.0**
Aganneftegasgeologia	39.0
CanBaikal Resources	7.5
Gazprom Neft-Khantos	141.9

Crude Oil Deliveries From Russian Producers to FSU Refineries, December 2014

('000 metric tons)

Megionneftegas	78.3
Mokhtikneft	18.9
NK Russneft	9.9
Orenburgneft	38.5
Sibintek	4.8
Varyoganneft	3.3
YurskNeft	50.1
Gazprom Neftekhim Salavat	**529.0**
Gazprom	0.0
Lukoil-West Siberia	20.0
Salym Petroleum	40.0
Surgutneftegas	468.9
Krasnodareconeft	**174.9**
Aki-Otyr	72.4
Inga	1.0
Kayum Neft	24.0
Novatek-Tarkosaleneftegas	15.0
Sorovskneft	14.2
Varyoganneft	26.7
White Nights	21.6
Taif NK	**667.7**
Bulgarneft	6.2
Druzhbaneft	1.8
MNKT	10.4
Okhtin-Oil	11.3
Tatex	8.6
Tatneft	594.6
Tatnefteprom	7.9
Tatoilgas	20.5
TNGK-Razvitiye	6.4
Mariisk	**159.8**
Salym Petroleum	15.0
Surgutneftegas	144.8
Ufaneftekhim	**494.2**
Bashneft	264.3
Lukoil-West Siberia	123.9
Megionneftegas	77.5
Obneftegasgeologia	22.5
Salym Petroleum	6.0
Novo-Ufa	**601.1**
Bashneft	310.0
Lukoil-West Siberia	243.7
Obneftegasgeologia	47.4
Ufa	**434.7**
Bashneft	155.7
Lukoil-West Siberia	135.0
NK Slavneft	16.4
Obneftegasgeologia	80.6
Obneftegeologia	3.0
Salym Petroleum	44.0
Khabarovsk	**343.7**
East Transnational Co.	14.9
INK	85.0
Samotlorneftegas	167.8
Varyoganneft	10.0
Varyoganneftegas	64.6
Yuzhno-Okhteurskoye	1.5
Transbunker-Vanino	**60.0**
INK	60.0
Afipsk	**493.1**
NK Rosneft	20.0
Sorovskneft	25.0
Surgutneftegas	194.6
Vankorneft	233.5
Volgodeminoil	20.0
Ilsky	**264.8**
Gazprom Neft-Khantos	9.8
Gazprom Neft-NNG	90.2
Lukoil-West Siberia	8.9
Nefteburservice	0.3
Novatek-Tarkosaleneftegas	10.0
Purneft	3.7
Region-Neft	15.0
Surgutneftegas	99.8
Volgodeminoil	27.2
Antipinsk	**599.3**
Kolvaneft	4.0
Lukoil-West Siberia	130.0
Novatek-Tarkosaleneftegas	16.8
Salym Petroleum	96.0
Surgutneftegas	319.4
Tarkhovskoye	22.7
Yangpur	10.5
Slavyansk ECO	**149.9**
Aki-Otyr	26.4
Khanty-Mansiysk Co.	0.5
Lukoil-West Siberia	63.0
Negusneft	10.0
Saneco	5.0
Sorovskneft	45.1
SibRosPererabotka	**30.0**
Kolvaneft	0.9
Polar Lights	17.0
Rusvietpetro	12.1
Anjersk Oil and Gas Co.	**47.0**
Archinskoye	9.5
Bashneft	6.0
Gazprom Neft-Vostok	30.5
Lukoil-West Siberia	1.0
Tomskneftepererabotka	**40.0**
Tomskneft	40.0
Novoshakhtinsk	**221.8**
Aloil	13.7
Belkamneft	2.5
Bental	0.7
Bitex	35.0
Blagodarov-Oil	2.9
Bulgarneft	4.8
Carbon-Oil	0.5
Geologia	8.0
Geotex	4.6
Kara-Altyn	20.6
Khit-R	5.9
KNK	1.0
Kondurchaneft	0.3
Mellyaneft	3.7
Neftetrade-Udmurtia	0.2
Nokratoil	0.5
Orenburgnefteotdacha	5.5
Region-Sirius	0.2
Reimpex-Samara-Neftepromysel	1.7
Sadacoil	1.8
Samarainvestneft	16.2
Tatex	8.7
Tatneft	30.0
Tatneft-Geologia	11.4
Tatneft-Samara	15.5
Terrigen	14.5
TN-Severny	0.2
TNS-Razvitiye	4.0
Vinka	1.5
Yambuloil	0.7
Yar-Oil	0.1
Yelabuganeft	0.7
Yuzhno-Aksyutino	4.3
Taneco	**734.0**
Tatneft	734.0
Diteco	**50.0**
Allianceneftegas	10.8
Nord Imperial	1.3
Tomskaya Neft	37.9
Volkhovneftekhim	**46.9**
Neftus	8.2
Nizhneomrinskaya Neft	0.9
Orenburgneft	26.0
Polar Lights	1.9
Rusvietpetro	10.0
Kargapolsky Petroleum Solvent Plant	**20.0**
CanBaikal Resources	10.0
Sibintek	10.0
Itatsky Refinery	**35.0**
Novatek-Tarkosaleneftegas	1.9
Sorovskneft	10.0
Tomskaya Neft	9.1
Tomskneft	14.0
Nafta	**9.6**
Northgas	0.5
Novatek-Tarkosaleneftegas	9.1
VPK-Oil	**10.0**
Gazprom Neft-Vostok	7.0
Lukoil-West Siberia	3.0
NefteKhimService	**250.0**
Gazprom Neft-Vostok	48.5
Lukoil-West Siberia	60.0
Samotlorneftegas	78.0
Tomskaya Neft	30.0
Tomskneft	11.5
Yugraneft Corp.	22.0
Chernigovsky Refinery	**24.9**
Matyushkinskaya Vertical	0.5
Severnoyeneftegas	4.9
Stimul-T	3.5
Tomskneft	16.0

Crude Oil — Supply, Demand Rebalancing to Undermine Urals

Urals prices are expected to weaken against dated Brent as crude oil exports from Russia increase, European refineries close for maintenance, and supply disruptions that have hampered Middle East exports in recent weeks begin to ease.

Urals barrels have traded close to parity with Brent throughout February, owing to an alignment of regional supply, demand and logistical factors which sent Urals to a short-lived premium to dated Brent in the Mediterranean earlier in the month (NC Feb.12'15).

However, increased Russian crude exports over the next two months will put pressure on Urals differentials through spring. The change in Russian export tariffs has wiped out de facto downstream subsidies which had artificially supported refining margins in Russia. Many simple refineries are now closing, domestic crude runs are falling, and Urals barrels will be pushed out onto the international market.

"We are expecting an uptick in loadings during the March and April maintenance season, but above and beyond the usual. We have increased our expected maintenance levels considerably," said Eugene Lindell of JBC Energy.

"This should go some way to calming the high differentials we are seeing now, especially if you factor in weather-related outages because as those dissipate this will relieve pressure on supply, and rates should fall a little bit more."

In Northwest Europe, Urals started the week at a discount of $1.25 to dated Brent and gained 35¢ in midweek trading. The 90¢ discount held through the weekend, before falling away on Feb 17.

The gains seen last week were driven by high prices in southern Europe. Urals differentials in the Med held steady last week, maintaining a 15¢ discount to the global benchmark, which has been trading close to $60 per barrel.

Urals differentials in the Med climbed steeply towards the end of January due to a smaller February loading schedule at Novorossiysk, strong crude runs among European refiners, shipping delays caused by bad weather in the Bosporus Strait, and supply disruptions to competing crude grades from Iraq.

Geopolitical risks in Iraq's semiautonomous region of Kurdistan could provide a pillar of support to Urals through the coming months, in which increased Russian crude exports will coincide with Europe's refinery maintenance season.

Products — Diesel Premiums Spike on Prompt Shortage

Europe's diesel traders are still "spooked" by the $15 per ton metric premium over March ICE Gasoil international trader Gunvor managed to get from European major BP for 27,000 tons of French winter grade diesel into the UK's Thames on Feb. 13.

Premiums had been hovering just a few dollars above ICE Gasoil since the benchmark contract switched from 0.1% sulfur gasoil to 10 parts per million (ppm) sulfur diesel barges earlier this year, before BP suddenly found itself struggling to find prompt fuel late last week.

Regular diesel seller Swiss trader Vitol has disappeared from the spot market after winning Germany's EBV strategic stock tender to supply 180,000 tons of diesel, at a time when the trans-Atlantic arbitrage is closed and European refinery maintenance is starting to get underway.

Neste Oil's 206,000 b/d Porvoo refinery in Finland and Total's 207,000 b/d Lindsey plant in the UK are both in shutdown for the next two months at least, with Germany's 310,000 b/d Karlsruhe refinery expected to join them later this month.

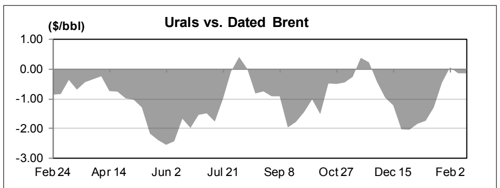
Cargo premiums have come down only slightly since Feb. 13 with Gunvor selling 18,000 tons of French winter grade to French oil company Total into Le Havre at a still-strong March plus $10/ton on Feb. 17.

The market remains steeply backwardated on the front of the curve, but higher prices further out are stopping oil from coming out of tank. Latest data from Dutch oil consultancy PJK International show ARA gasoil tanks currently at a 16-year high of 3.065 million tons.

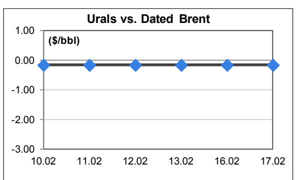
Heating oil is weak in comparison to diesel with recent oil price rises quashing end-user demand for 50ppm sulfur gasoil in the main German market. Household tanks were still 63% full at the start of February, according to the latest industry survey, down from a five-year high of 66% in Nov/Dec last year.

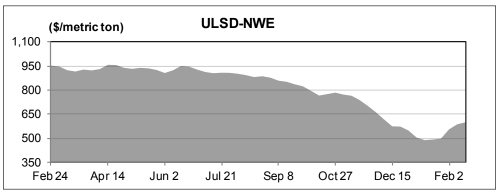
Marketplace

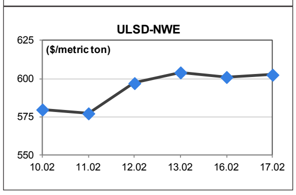
12-Month View



1-Month View







Spot Crude Oil Prices

$/barrel f.o.b. terminal, or c.i.f. destination

	Feb 18	Feb 11	Chg.
Dated Brent f.o.b. (38 API)	60.77	55.78	4.99
Russian Urals c.i.f. NWE (31 API)*	59.72	54.53	5.19
Russian Urals c.i.f. Med (31 API)†	60.62	55.63	4.99
Azeri Light (35 API)	64.22	58.73	5.49
CPC Blend c.i.f. Med (45 API)†	61.42	56.43	4.99
ESPO (35 API)	61.77	58.22	3.55
Dubai (30 API)	59.39	53.87	5.52

**Basis Rotterdam. †Basis Augusta.*

Product Prices

$/ton, c.i.f. basis

	Feb 18	Feb 11	Chg.
ICE LS Futures (front month)	580.50	549.00	31.50
0.1% Gasoil NWE	578.00	544.00	34.00
0.1% Gasoil Med	577.50	541.00	36.50
10 ppm Diesel NWE	588.50	557.50	31.00
M-100 Cracked NWE	315.00	295.00	20.00
ICE LS Futures (second month)	575.25	540.75	34.50