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Total to Buy \$4 Billion Novatek Stake, Enter Yamal Project (1)
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(Updates with share prices in fifth paragraph.)

By Anna Shiryaevskaya and Stephen Bierman

March 3 (Bloomberg) -- Total SA, Europe's third-biggest oil company, agreed to buy 12 percent of OAO Novatek and join the gas producer's Arctic LNG project to expand in Russia.

Total is paying about \$4 billion for the stake, Chief Executive Officer Christophe de Margerie said at Prime Minister Vladimir Putin's residence near Moscow late yesterday. The French explorer plans to raise its holding to 19.4 percent within three years, according to a statement.

Global oil producers are looking at Russia to boost reserves. The world's biggest energy producer needs foreign expertise to develop challenging projects in harsh, remote areas to maintain output. Russia wants to boost liquefied natural gas output to expand in growing Asian markets and compete in Europe.

"It is a good deal that has great potential," Putin said.

Novatek shares have gained more than 30 percent in the past three months, raising the value of stake to \$4.9 billion based on today's price. That is more than the company's market value in 2004 when Total made a failed bid to buy 25 percent.

Novatek shares gained as much as 21.6 rubles, or 5.9 percent, to 389.97 rubles in Moscow. The shares traded at 379 rubles at 11:08 a.m. local time. Total rose as much as 0.9 percent to 43.75 euros in Paris.

Total will appoint a director to Novatek's board, the company said in a statement. It 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, it said.

Billionaire CEO

Total is buying the stock from Novatek's billionaire CEO Leonid Mikhelson and Gennady Timchenko, co-founder of energy trader Gunvor International BV. The two men don't plan to significantly cut their stakes, Mikhelson said. The sale may close in April, Total said.

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

Putin in January praised a planned strategic alliance between BP Plc and state-run OAO 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 U.K. company in that deal.

Major Deals

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 agreements. 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 OAO Gazprom, Russia's gas export monopoly, 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, said Pyotr Sadovnik, deputy head of the subsoil resources agency, last month.

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

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

Main Partner

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

Mikhelson held 27.2 percent of Novatek at the end of last year, while Timchenko's investment fund, Volga Resources SICAV SIF SA, owned 23.1 percent. The two men got a two-year option to buy 9.4 percent of Novatek from OAO Gazprombank in December. The lender had acquired the stock from Gazprom a day earlier, reducing Gazprom's stake to about 10 percent.

"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.

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