

# Croatia exclusive: Gazprom's purchase of the Croatian INA will help the South Stream, the report

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Gazprom Neft, the daughter-company of Russian oil and gas giant Gazprom, has agreed to purchase shares of the Hungarian MOL and the Croatian oil company INA. According to the Russian experts, the job will help South Stream pipeline project to enable Croatia to boost exploration and production of petroleum products.

The point of the deal

In mid-July, Alexei Miller, head of Gazprom, met with Croatian President Ivo Josipovic and Prime Minister Zoran Milanovic during his visit to Croatia. The negotiations were about the possible construction of the arm of the South Stream pipeline in Croatia, and Gazprom's participation in the tender for the new deposit exploitation. However Croatian newspaper "Novi list" wrote about an agreement on the Gazprom Neft entry in the capital of the Croatian company INA.

"Hungarian oil and gas company MOL said it wanted to sell its 49.1% in the Croatia's state oil company INA even in November 2013th. Gazprom is officially concerned with the oil and gas exploitation in the Croatian part of the Adriatic shelf and the continental part of the country" explains Vadim Vedernikov, deputy director of the Department for analysis and risk in the management of UFS IC company. According to him, the fact that Gazprom Neft bought 49.1% of Croatia's state oil company (44, 84% belongs to the Croatian Government and private investors have the rest) increases the likelihood of successful implementation of the South Stream. As expert points out, the current route of the South Stream gas pipeline assumes his exit from Serbia on the territory of Hungary and then to Austria. But with such a close-paying part of the Russian holding in Croatian INA, Gazprom may expand gas sales territory or even build an alternative route of the pipeline through the territory of Croatia, if there is a problem with its implementation in Hungary.

In March 2010th, Russia and Croatia signed an intergovernmental agreement that provided the Croatia's accession to the project. The South Stream provides the gas pipeline construction, with a capacity of 63 billion cubic meters, in South and Central Europe. The first gas through South Stream will be delivered at the end of 2015th, and full design capacity of the pipeline will be used in the 2018th. Moreover, according to the results of the first half of 2014th, Gazprom delivered to Croatia 45% more gas than in 2013th. In September 2013th Gazprom and LNG Croatia Ltd. agreed on the implementation of the project for the use of natural gas as a motor fuel.

It makes profit to all

Gregory Birg, analyst of the company "Investcafe", explains that repeatedly occurred

corporate conflicts between MOL and INA, and the sale for a good price would match to Hungary's MOL, which thus would solve the problem assets. On the other hand, Croatia criticizes MOL for contract that Hungarians gives the right to access to the INA. Due to the contract signing Croatian former Prime Minister Ivo Sanader got 10 years in prison. The court ruled that Ivo Sanader received bribes during the contract signing. Zsolt Tamas Hernadi also was under investigation, the current head of MOL.

Another reason for the deal is a drop in the indicators both of INA and MOL. " The past 2013th was very difficult for the Hungarian company, net profit of the company declined by 86%", says Gregory Birg. According to INA, the oil production in Croatia has fallen by 17% in 2013th, and production of petroleum products by 9%. Moreover, the modernization of two refineries in Rijeka and Sisak, belonging to INA, was almost frozen.

Gazprom Neft is suitable buyer, because the company is actively developing in the Balkans. It bought 51% of Serbian oil company NIS in 2009th for 440 MEUR, which has already worked in the Balkans and has two oil refineries of 7.3 million tons per year. Moreover, Gazprom Neft controls network which has more than 330 gas stations. The company has a network of 55 stations under the brand Gazprom in Serbia, Bosnia and Herzegovina, Bulgaria and Romania. " Recently, Gazprom Neft has showed interest in acquiring a license for geological hydrocarbons exploration and exploitation in the shelf of Croatia and on the land. Therefore, the company is the logical and probable buyer" adds Gregory Birg. In 2013th Croatia has decided to publish a tender for the implementation of geological research on the land parts of rich in hydrocarbon raw materials. And to participate in this tender, Gazprom Neft registered his daughter-company in Croatia last year.

However, the market participants assume that the job of buying shares in INA still can fail. As Dmitry Baranov points out, a leading specialist of the company "Finam Management", as it was previously said the series of Croatia legislative acts could be changed about ban of the INA shares to the investors from outside the European Union. " In this case, after a change in the law, Russian companies could not buy them", warns the expert.