

Conoco to Pull Back From Russian Partnership

By JACOB GRONHOLT-PEDERSEN

U.S. oil giant [ConocoPhillips](#) has told OAO Lukoil Holdings that it plans to sell as much as half its 20% stake in the Russian oil producer, Lukoil Chief Executive Vagit Alekperov said Tuesday. The plan marks a weakening of one of the few big partnerships U.S. energy companies have forged in oil-rich Russia.

Conoco, the third-largest oil company in the U.S. by market value, after Exxon Mobil Corp. and Chevron Corp., said in October it would sell about \$10 billion of assets over the next two years in an effort to shore up its finances, but it didn't mention the fate of its Lukoil stake.

At current market prices, a 10% stake in Lukoil, Russia's No. 2 oil producer behind OAO Rosneft, is worth about \$4.7 billion.

John Roper, a spokesman for Conoco, declined to comment Tuesday. On Wednesday, the Houston-based company is expected to shed some light on its asset-sale plans—including the partial sale of its Lukoil investment—at an annual meeting with analysts.

Conoco acquired a 7% stake in Lukoil in 2004 through hard-fought political maneuvering with the Kremlin, and increased its stake over the years. It had looked for the partnership to give it more access to oil and gas projects in Russia and a foothold in Iraq, where Lukoil had an oil-exploration contract before the U.S. invasion.

Except for a joint production unit in the Russian Arctic, however, the alliance didn't lead to any new development projects. And even though Conoco had a seat on Lukoil's board, some analysts questioned whether it had any significant control over its Russian partner's operations.

Conoco's experience shows how international energy companies have struggled to find new resources abroad. Now, many of them, including Conoco, are refocusing their efforts on more predictable targets in North America.

After winning lucrative deals in the 1990s, Western oil companies met difficulties in Russia after Vladimir Putin, formerly president and now prime minister, started to renationalize Russia's energy sector early in the past decade.

A meeting Mr. Putin hosted in the Yamal region of Russia's Arctic last year with CEOs of the world's biggest energy companies was seen by many as a signal of better access to Russia's oil resources. But the companies have yet to see that promise materialize.

Mr. Alekperov, Lukoil's CEO, said Tuesday his company has no plans to buy back shares from Conoco, contradicting comments last week from Chairman Valery Grayfer, who said he would find it necessary to buy back any Lukoil shares Conoco might put on the market. "We have a pre-emptive right to buy back [shares held

by Conoco], but so far I don't find this necessary," said Mr. Alekperov.

Mr. Alekperov said Conoco may sell the shares "very carefully" on the open market in small batches. He expressed hope the sales wouldn't significantly hurt Lukoil's share price.

His comments sent Lukoil's shares down 1.8% Tuesday in Moscow trading.

"There is no growth and nothing exciting operationally to look for," Alfa Bank analyst Chirvani Abdoullaev said of Lukoil. "Last hope was for a buyback."

Lukoil plans to publish fourth-quarter results Wednesday, after a presentation in London.

—Angel Gonzalez
and Ben Casselman contributed to this article.

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