

Surgutneftegaz Thrives On Financial Darkness

By [The Moscow Times](#)

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The country's fourth-largest oil producer pumps more crude than Britain, employs 100,000 people and trades on stock exchanges in Moscow, London and New York. What is not disclosed is how much cash Surgutneftegaz holds and the identity of its biggest shareholders.

A law to align Russian financial reporting with international standards this year promises to lift the veil on the Siberian driller, run by general director Vladimir Bogdanov since his Soviet-era appointment in 1984 at the age of 33. Citigroup estimates that the company holds \$28 billion in cash, more than double the balance of ExxonMobil.

Opaque accounting has held back the share price, according to Citigroup, which ranks the company as the best Russian oil investment ahead of LUKoil. Even after dividends, Surgutneftegaz investors earned a return of 11 percent over the past five years, a period when crude oil more than doubled.

Greater transparency “is a game-changer” at Surgutneftegaz, said Ildar Davletshin, an oil and gas analyst at Renaissance Capital. “Something the market has been waiting for the last decade.”

President Dmitry Medvedev, who will step down in May, met executives including Goldman Sachs Group chief Lloyd Blankfein and JPMorgan Chase head Jamie Dimon last year for opinions on how Russia might gain a larger role in international finance.

One result was a law that on Jan. 1 started requiring publicly traded companies to meet International Financial Reporting Standards, or IFRS. TNK-BP, BP’s Russian venture with a group of billionaires, said this week it will adopt IFRS standards for the first quarter. Rosneft, Russia’s largest oil company, switched earlier this month.

Prime Minister Vladimir Putin signed the order to create the financial reporting legislation last year.

“Long a sleepy ignored stock, we see changes afoot at Surgutneftegaz,” said Ronald Smith, an oil analyst at Citigroup in Moscow. “A material change in transparency and already in law may be accepted by the market as inevitable by year-end.”

Bogdanov, whose \$3.3 billion fortune ranks 32nd on the Forbes list of Russia’s richest men, quit reporting under U.S. Generally Accepted Accounting Principles after 2002 and has given no indication of a change. He declined to comment on 2012 plans when asked by Bloomberg News on Feb. 9 and wouldn’t be interviewed for this story. The Forbes estimate assumes the general director holds a controlling stake in Surgutneftegaz that isn’t disclosed.

The new law won’t force Surgutneftegaz, which has a market value of about \$35 billion, to disclose its controlling shareholders. The company listed ING Bank Eurasia and Bank of New York nominees as its largest shareholders and the only ones exceeding a 5 percent holding in accounts to Russian standards.

Surgutneftegaz has pumped oil from a swampy stretch of Siberia near the city of Surgut since the 1964 discovery of the region’s reserves. The company produced 1.2 million barrels a day in January, 0.7 percent more than a year earlier, according to data compiled by Bloomberg.

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