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MODERN INVESTMENT AND FINANCIAL CAPABILITIES OF RUSSIAN OIL COMPANIES

Review. *The subject of this research is the investment priorities of the oil industry of Russia and their financial capabilities to realize the oil projects under the conditions of current system of taxation, drop in the oil prices, fall of the ruble's value, and sanctions. The need for a tax stimulus is being looked at from the point of view of the main segments of the industry — oil recovery; oil refining; hydrocarbon exploration; geographical changes of extraction; rationality of investments into large, medium and small petroleum businesses; prospects for development via organic and inorganic growth in the industry. In examining the financial sources for increasing the investment activity, the author highlights the possibilities and limitations of using personal and credit resources, direct and indirect participation of the government. The investment potential and risks of the industry are being assessed within the industry as a whole, as well as in the largest Russian companies by comparison with the leading foreign companies. The author concludes that the anti-crisis company programs must be based on the review of their portfolio of projects: reducing the portion of the costly projects of increasing yield for the HTR, while exanding the portion of the less costly projects of improving energy efficiency; systemic management of the operating, investing, and financial expenses of the company, as well as improving productivity. The government in turn must make decisive steps towards switching to the new regime of taxation that would insure a stronger interconnection of the financial result and taxes, and would stimulate development of new oil deposits and deep refining, allowing companies to make new plans for the future.*
Keywords: *economics, taxes, oil production taxing, oil companies earnings, investment activity, investment potentials, financing, oil industry projects, capital structure, tax benefits.*

Аннотация. *Предметом исследования являются инвестиционные приоритеты нефтяной отрасли России и финансовые возможности реализации нефтяных проектов в условиях действующей системы налогообложения, снижения цен на нефть, падения курса рубля, секторальных санкций. Необходимость налогового стимулирования отрасли обосновывается с точки зрения основных отраслевых сегментов — нефтедобычи, переработки и геологоразведки, изменения географии добычи, целесообразности капитальных вложений в крупный, средний и малый нефтяной бизнес, возможностей развития за счет органического и неорганического роста отрасли. При исследовании финансовых источников увеличения инвестиционной активности выделены возможности и ограничения использования собственных и кредитных ресурсов, прямого и косвенного участия государства. Инвестиционный потенциал отрасли и риски оцениваются как в целом по отрасли, так и в разрезе крупнейших российских компаний по сравнению с ведущими зарубежными компаниями, на основе чего обосновываются меры по его развитию как со стороны компаний, так и государства. Делается вывод, что антикризисные программы компаний должны быть основаны на пересмотре портфеля проектов: снижении удельного веса дорогостоящих проектов расширения добычи ТРИЗ, увеличении доли менее затратных проектов повышения энергоэффективности; системном управлении операционными, инвестиционными, финансовыми затратами компании, повышении эффективности деятельности. В свою очередь государство должно сделать решительные шаги к переходу на новый режим налогообложения, обеспечивающий усиление взаимосвязи финансового результата и налогов, стимулирующий освоение новых месторождений и глубокую переработку, позволяющий компаниям строить планы на перспективу.*
Ключевые слова: *налогообложение нефтяной отрасли, налоговое стимулирование инвестиций, доходы нефтяных компаний, потребность в инвестициях, инвестиционная активность, инвестиционный потенциал, финансирование нефтяных проектов, структура капитала, инвестиционный климат, налоговые льготы.*

DOI: 10.7256/2073–8560.2015.2.14996

INTRODUCTION

The biggest significance for the investment and financial capabilities of the oil industry lies in the tax regulation of the raw mineral sector that is called to carry out dual functions. On one hand, it is the fiscal functions of ensuring consolidation of the natural economic rent generated by the oil industry into the government budget. On the other — stimulation of a stable long-term development of the oil industry itself: its competitiveness, increase of production based on modernization, improvement of energy efficiency, preservation of the environment.

Understanding the goal of the government regulation of the oil industry as withholding natural economic rent to replenish the country's budget without causing financial instability and providing investment capabilities for the oil companies, suggests the assessment of the investment and financial potential of the oil companies with the current tax regime and main scenarios of its correction.

In the recent years the oil industry demonstrated a dynamic growth: the extraction for 2000–2013 increased by 75% and amounted to 525 million tons, refining — over 340 million tons; Russia's share in the global oil trade reached 12%. All major oil companies are investing significant resources into recovery and refinery projects; the government also provides assistance with a number of projects (warranties, direct financing, political and information support). Nevertheless, the investments into development of the energy industry do not meet the demand: over the recent years they amounted only 60% of the volume predicted by Russia's energy strategy for the period until 2020 [1, 175].

The high demand for investments is linked to the following factors:

- The working capitals within the industry are deteriorated. By some assessments, the level of deterioration of the main capitals in oil recovery consists of almost 60%; in oil refining — 80% [1, 175].
- The extraction and refining equipment is largely outdated and does not correspond to the global scientific and technical level.
- Lack of complex extraction technologies leads to an irrational use of the deposits and low yield of oil.
- Exhaustion of the main oil deposits within the traditional regions for oil recovery requires development of new deposits.
- The increase of the portion of the difficult to extract deposits (highly viscous oil, natural asphalt, etc.) requires additional investments.
- Crude oil processing remains low. In currently stands at 75%, and according to the modernization plans only by 2020 it should reach 95%, although most of the developed countries have already achieved this result.

It is worth noting that investment tasks that correspond to the problems listed above are aimed first and foremost at implementing new deposits to replace the depleted ones, increasing rationality in using the deposits, growing the yield of oil extraction and the depth of its processing, rather than simply increasing the volume of extraction and processing. Such position is mostly based on the fact that the prognosis does not hold a significant increase in demand. The global demand for oil grows very slowly; new competition constantly enters the oil market; developed countries are switching to non-carbon sources of energy and alternative fuel types.

The investment tasks, aimed at making Russia more competitive by quality indexes, take into account the need to change the geography of extraction, as well as decrease the European market and possibly broaden the Asian and Asia-Pacific markets, which require substantial additional investments, including the capital for developing infrastructure. Therefore, *the goal of this research* is the analysis of the modern investment and financial capabilities of Russian oil companies under the current tax regime, and assessment of how Russia's oil industry is ready to face new challenges.

The goal is to solve the following *tasks*:

- Detecting the most pressing investment priorities within the short-term, medium-term, and long-term prospects.
- Determining the sources of financing for the investment projects.
- Reviewing financial capabilities for realizing the investment projects by largest Russian and foreign oil companies.

The most pressing investment priorities within Russia's oil industry

DOI: 10.7256/2073–8560.2015.2.14996

Table 1. Appropriation of capital investments by segments, in%

	2013	2012	2011
Rosneft			
Extraction	61.25	58.3	61.4
Refining	36.25	36.0	30.2
LUKOIL			
Extraction	76.6	76.3	78.8
Refining	17.6	16.9	15.3
Gazprom Neft			
Extraction	69.0	60.3	53.8
Refining	12.9	24.8	23.8
Tatneft			
Extraction	44.2	38.5	17.2
Refining	40.9	47.8	70.6
Bashneft			
Extraction	49.7	50.2	56.4
Refining	44.6	46.4	33.8
Shell			
Extraction	88.5	85.0	81.2
Refining	11.0	14.3	18.5
BP			
Extraction	77.5	73.5	80.8
Refining	18.3	20.8	13.4
Statoil			
Extraction	93.9	91.1	94.2
Refining	5.0	5.5	3.4
ExxonMobil			
Extraction	78.7	86.2	82.4
Refining	21.3	13.8	17.6

Empirical research of the development of Russia's oil industry over the last few years allows us to highlight some classifying parameters for reviewing the investment activity of the oil companies, among which are: sectors of the oil industry (extraction, hydrocarbon exploration, refining); geographical location; small, medium, and large businesses; organic and inorganic growth.

Oil extraction and refining. Appropriation of capital by segments of Russian and foreign oil companies, is presented in Table 1 [3–11]. We should note that the presented allocation as a rule does not account for 100%, as all companies have other investments — petrochemistry, etc.

The research shows that in most of the Russian and foreign companies alike, the biggest expenses are those associated with extraction, as this segment is the most capital intensive. Thus LUKOIL and Shell spend over 76% on oil extraction, and Statoil — 94%. Over the last 3 years over 50% of all investments into the segment of refining of Russian companies are made by Rosneft (including TNK-BP), then LUKOIL. The high investments of Rosneft into refining are associated with the large-scale program of modernization of the processing capabilities, which will allow taking the depth of refining to 81%. Nonetheless, despite the substantial capital investments, within the majority of company's plants mazut continues to maintain leadership within the structure of production (30–40%), and only the Germany plant produces 3% of mazut and 47% of diesel fuel. These partially points to underutilization of the stimulating tax levers in refining [3].

Overall, taking into account the high demand for modern oil refineries in Russia (most of the currently operating refineries are built predominately during the industrialization years

DOI: 10.7256/2073–8560.2015.2.14996

and during the 50's ans 60's of the last century), we can assert that there is insufficient amount of investing into the means for modernization and construction of new plants. If there are no new effective stimulus for development of oil refining (tax, customs), then increasing the depth of refining within the foreseeable future is out of the question, which goes against Russia's energy strategy.

Geographical investment priorities. The traditional regions for oil extraction are Western Siberia, where extraction has been taking place since the 1960's; Volga Region — since 1920's; Northern Caucasus — since the end of 19th century. However, the reserves within the traditional regions are gradually diminishing. Analysts note that current reserves in the main areas of extraction can supply the raw mineral stock over the next 10 to 15 years by no more than 50%. The rest should be obtained on new sites, including the continental shelf of the Arctic and Eastern Seas, Eastern Siberia, and European North [13]. Certain steps in this direction have already been made by the largest Russian companies Rosneft and LUKOIL, which puts them in line with the Western companies — Shell, Statoil and others, who are currently extracting the hard-to-recover (HTR) deposits. It should be understood however, that development of new oil regions raises the need for additional investments into both, recovery itself, and development of the infrastructure. Yet the current Russian tax system is not flexible enough to stimulate the extraction of the HTR, and proposes only spatial, selective instruments.

Large, medium and small business. Today, the role of smaller oil companies in Russia is insignificant, and continues to decrease. Even 10 years back, smaller oil companies were extracting approximately 10% of the oil; now their part stands at only 3%, while in US it accounts for approximately 50% [2].

Despite the popular opinion on the ineffectiveness of the small oil companies, there is a great potential for their development in Russia. Most of them operate within the «old» regions (Ural, Volga, Komi Republic, and Northern Caucasus). For these companies it is convenient to develop the smaller deposits, which by Russian classification contain less than 15 million tons and are within the category C1+C2. There are currently 818 of such oil deposits that have not yet been licensed, and over 1,000 that have been licensed to the oil companies, but remained virtually untouched: the level of their development is below 5% of the initial volume. The experts believe that the «small» exploration also has great potential, as even within the old extraction regions there are over 3 billion tons of possible resources. Russia also has over 20,000 inactive wells, many of which could be reactivated [2].

Thus, if the work of the small oil companies would be accompanied by the proper stimulus, such as institutional support that would include government guarantee for crediting of small investment projects, ability to get inexpensive financial resources (as will be demonstrated below, the cost of capital within the large vertically-integrated oil companies (VIOC) is significantly lower than those of small oil companies), tax incentives, transparent and indiscriminant access to the energy infrastructure for all market participants (pipelines, etc.), then the output of their work can significantly increase, raising the efficiency of use of the mineral base, and increase their contribution into budget and GDP.

Investment into organic and inorganic growth. The oil business within Russia is highly concentrated: the main volume is provided by the 10 largest vertically-integrated companies, which account for 87% of the yield. Recently, many of the VIOC were growing predominantly by investing into mergers and acquisition of other companies, i.e. in organic growth. For example, in 2013 Rosneft along with capital expenses of 560 billion rubles for the extraction and refining projects, spent additional 1.48 trillion rubles on acquisition of new stocks (including TNK-BP, sister companies, and interest in subordinate companies) [3, p. 118]. This is mostly related to the fact acquisition of new stocks is viewed as a less expensive investment than development of new deposits or construction of plants, while providing a synergistic effect.

However, the synergistic effect from the strategy of mergers and acquisitions, chosen by the Russian oil companies, is not yet fully evident. For example, despite the reporting of Rosneft's high synergistic effect in implementation of the

DOI: 10.7256/2073–8560.2015.2.14996

Table 2. Volume of capital investments (CAPEX) and their trend, in millions of USD.
(To ensure comparability the capital expenses of all companies are shown in the USD equivalent, calculated using the rates from Central Bank of the Russian Federation from December 31st of each year; the rate of growth is calculated to the corresponding preceding period.)

	January-September 2014/2013	2013	2012	2011
Rosneft	10577/11684	18667	15667	13033
Rate of growth%	97.8	128.4	141.2	100
LUKOIL	11040/10432	14957	11647	8249
Rate of growth%	110.0	128.4	141.2	100
Gazprom Neft	5174/4401	6374	5571	4063
Rate of growth%	127.5	123.3	129.0	100
Tatneft	1069/1193	1735	1673	1550
Rate of growth%	97.4	111.8	101.7	100
Bashneft	903/710	929	1014	776
Rate of growth%	137.4	98.7	123.9	100
Shell	23136/25637	40145	32576	26301
Rate of growth%	90.2	123.2	123.9	100
BP	16646/17722	24520	23222	17978
Rate of growth%	94.1	105.6	129.2	100
Statoil	82,1/75,7	16797	17017	14028
Rate of growth%	108.4	109.0	112.6	100
ExxonMobil	n/a	33669	34271	30975
Rate of growth%		98.2	106.5	100

Yamal projects (1.8 billion rubles of economy), while unifying the approaches by the key sister communities of the company (1.9 billion rubles); within oil refining by optimizing planning and making major repairs the company did not demonstrate proper growth, despite the merger with TNK-BP and other acquisitions: the net worth of the company in 2013 has doubled in comparison to 2011–2012, while net profit increased by only 1.5 times, revenue — by 1.6 times, administrative and general expenses have also increased by 1.6 times, and their part within the overall expenses continues to grow [3, 20]. The same trend has also continued in 2014.

Within LUKOIL, although to a lesser degree (the net worth increased by 11% in the same period), we can also see inorganic growth without a noticeable synergistic effect. The positive trend of extraction was achieved namely by acquiring two new assets: 100% of the Samara-Nafta and increased their stake in Kama-Oil from 50% to 100%. However, the revenue in 2013 has increased by only 2%, and since the commercial administrative and other expenses did not decrease, the net profit has actually dropped.

Thus, even taking into account the certain benefits of the inorganic growth, it is worth noting that it also has its boundaries, limited by the possibilities of repartitioning of the market and gaining the synergistic effect within giant companies with a large number of sister companies and various types of branches located on separate territories. Therefore, we can suppose that in the near future investments within the oil industry will gradually change its structure towards organic growth: increasing the rate of implementing new deposits, and modernization of refining.

We should note that a substantial portion of investments goes not only into the inorganic growth, but other areas as well. For example, reports increasing the capital for purchasing certificates of deposit (financial investments) as investment activity. Gazprom Neft holds substantial sums in deposits: in 2013 over 35% of all investments were placed into bank deposits, in 2012–25%. We can suppose that such strategy is invoked by the attempt of the companies to form a certain monetary reserve by high-risk investments into extraction and hydrocarbon exploration, and length of the term it takes to get return. As a result, the most precise measurement of the organic

DOI: 10.7256/2073–8560.2015.2.14996

Table 3. Ratio of borrowed and private capital

	September, 30 2014 г.	2013	2012	2011
Rosneft	1.53	2.59	1.0	0.92
LUKOIL	0.4	0.33	0.34	0.36
Gazprom Neft	0.67	0.57	0.53	0.57
Tatneft	0.3	0.34	0.41	0.58
Bashneft	1.5	0.89	0.87	0.93
Shell	0.98	0.97	0.99	1.11
BP	1.44	0.74	0.66	0.62
Statoil	1.52	1.49	1.45	1.69
ExxonMobil	N/A	0.92	0.94	1.06

growth of the production volume is characterized not by the amount of investments, but by the terminology used in corporate reporting — volume of capital investments (CAPEX). They are presented in the Table 2 by largest Russian and Western oil companies.

The data in Table 2 demonstrates that the expenses in 2011–2013 have rapidly increased within almost all companies. Among the Russian companies the highest investments were made by LUKOIL — over 30%, Gazprom Neft — over 20%, and Rosneft — approximately 20%. Among the foreign companies, the expenses are lower; only Shell has shown an increase in investments above 20% per year.

Our calculations show that if the trend of investments from 2011–2013 persists, the actual Ministry of Energy of the Russian Federation expectation of 2.5 trillion USD can be met (our calculations are based on the fact that the cumulative investments into the oil industry amounted to 50–60 billion USD and within the nearest years the investments will continue to grow by 20%). However, the analysis of company reporting for the first 9 month of 2014 shows a change in the trend: many of the companies demonstrate a decrease of capital investments in 2014 when compared to the same period from 2013.The only Russian companies that have maintained the growth in investments are Gazprom Neft and Bashneft; from the foreign companies — only Statoil. Taking into account a rapid drop in oil prices and the profitability of the industry towards the end of 2014 and beginning of 2015, the probability of further cutbacks in the oil industry investments is rather high in both, Russia and abroad.

If we compare the absolute volume of capital investments — they are higher within the Western companies. For example, Shell's numbers are 2.2 times higher than those of Rosneft, and 2.6 times higher than LUKOIL. But Shell is a larger company: its net worth is approximately 1.4 times higher than those of the largest Russian company Rosneft, even after its most recent mergers and acquisitions. The Western companies are also currently more productive: for example, Shell's gross revenue is almost 3 times higher than Rosneft's, and 3.2 times higher than LUKOIL's, despite the fact that it is not that much greater by asset value. This reaffirms the pressing need for investments into modernization and higher efficiency of the Russian companies.

Sources of finances for investment projects

The investments are traditionally made using private funds or company loans. The comparison of using these sources of financing within Russian and foreign companies is demonstrated in Table 3.

The research allows us to conclude that Russian and foreign oil companies alike primarily use a conservative strategy of financing, and utilize fairly low amount of borrowed funds in comparison to other industries. In recent years, only Statoil and Rosneft (2013–2014) have widely used the borrowed capital (an effect of a financial lever).

Considering that overall a fairly low amount of borrowed funds were used for development by both, Russian and Western companies, it is important to assess how the companies utilize their own funds, including net profit.

It is a known fact that net profit is allocated by the companies primarily to pay dividends and reinvest; the proportion of allocation plays

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Table 4. The weight of dividends in profits, in%

	2013	2012	2011
Rosneft	62.5	23.8	8,1
LUKOIL	36.5	22.9	19,1
Gazprom Neft	32.3	18.9	18.3
Tatneft	27.5	21.8	17.2
Bashneft	91.7	32.2	47.6
Shell	70.1	41.7	35.0
BP	24.9	47.8	16.9
Statoil	54.8	29.8	25.4
ExxonMobil	33.7	23.2	22.6

Table 5. Portion of unallocated profits within own capital, in%
(The index showing over 100% within certain companies is related to the fact that their capital was corrected due to the buyout of their own stock and conversion of bonds)

	First 9 month of 2014	2013	2012	2011
Rosneft	86.1	91.8	96.4	89.8
LUKOIL	104	100.04	100.04	100.00
Gazprom Neft	94	93.2	93.8	92.5
Tatneft	78	76.2	74.7	67.8
Bashneft	96	84.3	80.2	86.9

a key role in the investment capabilities of the companies. Table 4 illustrates the trends of the allocation of profits within the oil industry.

From the Table 4 we can see that the majority of Russian and foreign companies rarely payout more than 1/3 of the profits in dividends. Only Shell has a stable high portion of dividends in its profits. Within other companies the dividend payouts vary significantly from year to year: for example, in 2013 a number of companies have substantially increased dividend payouts, and lowered their abilities to reinvest. The causes for such increase are not always evident: in 2013 they are naturally not due to improvement of company's performance, rather explained by the demands of the stockholders and transfer of ownership rights (e.g. Bashneft).

The reports of the Russian companies allow us to highlight the portion of unallocated profits within their own capital, and in doing so assess the capabilities of the company to finance investments using their own funds (Table 5).

The data from Table 5 demonstrates that amongst the largest Russian companies almost all of the private capital consists of unallocated profits, which is the primary source of financing of operational, investment, and financial activities. We should understand however, that the size of the profit of the oil companies heavily depends on the oil prices. Although the level of price influence upon the amount of profit is differently assessed by the experts (for example, by the assessment from the Economic Expert Group, the price drop of $1 per barrel translates to 2.3 billion USD decrease in profit for the oil companies; according to the Alfa-Bank analysts — the change in oil price of $10 per barrel costs Russian oil companies 40 to 50 billion USD of profits before taxes, and 15 billion USD of net profit [15]), we can say with all certainty that as the oil prices halved in 2014, it has negatively affected the investment capabilities of the companies.

Table 6 gives us an idea about the changes of the financial results of the Russian companies over the three quarters of 2014, which the companies themselves attribute namely to the drop in oil prices (approximately by $10 per barrel within this period) and the currency exchange rate.

As we can see from the table above, at the forefront of the Russian companies as of 09/30/2014 are Tatneft and Bashneft, which showed an increase in profit over the three

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Table 6. Comparison of the profits of companies over the corresponding periods of 2013 and 2014

	Over the 3 month as of 09.30.2014	Over the 3 month as of 09.30.2013	Over the 9 month as of 09.30.2014	Over the 9 month as of 09.30. 2013
Rosneft, in billions of rubles				
Revenue	1,382	1,356	4,192	3,344
Gross profit before taxes	2	188	326	483
Net profit	1	143	261	417
LUKOIL, in millions of USD				
Revenue	39,021	36,737	112,907	105,560
Gross profit before taxes	2,462	3,853	7,737	10,070
Net profit	1,629	3,096	5,766	7,776
Gazprom Neft, in billions of rubles				
Revenue	373.9	347.1	1,062.3	937.853
Gross profit before taxes	61.8	73.3	173.5	170.1
Net profit	52.6	60,7	143.1	141.1
Tatneft, in billions of rubles				
Revenue	127.0	123.4	371.8	334.6
Gross profit before taxes	30.3	34.1	98.5	77.8
Net profit	23.4	26.0	78.0	59.9
Bashneft, in billions of ruble				
Revenue	162.9	156.6	472.7	417.1
Gross profit before taxes	20.4	10.0	58.1	42.6
Net profit	15.8	7.5	45.6	32.8
BP, in millions of USD				
Revenue	94,767	98,203	283,582	301,121
Gross profit before taxes	2,611	5,172	13,028	29,022
Net profit	1,324	3,592	8,376	22,660
Shell, in millions of USD				
Revenue	107,851	116,513	328,731	341,992
Gross profit before taxes	8,118	8,962	25,786	27,632
Net profit	4,542	4,737	14,312	14,704
Statoil, in billions of Norwegian Kroner (NOK)				
Revenue	147.4	161.6	459.8	470.1
Gross profit before taxes	16.0	38.9	101.4	98.6
Net profit	(4.8)	13.7	30.9	24.5
ExxonMobil, in millions of USD				
Revenue	107,490	112,372	325,910	327,395
Gross profit before taxes	13,410	14,189	42,788	42,995
Net profit	8,346	8,069	26,833	24,805

quarters by 30–40%. The overall revenue in rubles has grown in all Russian companies, but this is namely due to a favorable currency exchange rate. Taking into account the exchange rate differences revealed that within most of the large Russian companies the results have dropped, but among those suffered Rosneft and LUKOIL have definitely taken the biggest hit with net profits dropping by 60% and 34% respectively in the 9 months of 2014, as compared to the same period in 2013. The third quarter results of Rosneft look even more alarming. A rapid change in the company's performance led to a drop in its market value: since the beginning of 2014 its value has fell to 50 billion USD (by 38%), even though the Rosneft leadership forecasted that after acquiring TNK-BP for 55 billion USD the company was going to be worth 120 billion USD [18].

Analysis of the performance of Western companies gives a more transparent picture: it allows us to see a stable trend of a decrease in

DOI: 10.7256/2073–8560.2015.2.14996

Table 7. The portion of long-term debt within the overall debt, in%

	September 30, 2014	2013	2012	2011
Rosneft	64	63.4	76.6	66.6
LUKOIL	53	57.2	49.7	53.1
Gazprom Neft	67	63.2	53.8	60.1
Tatneft	53	51.2	58.7	58.9
Bashneft	67	59.2	59.7	64.8
Shell	50.4	47.1	44.3	42.2
BP	60.5	58.1	57.2	53.3
Statoil	67.0	68.0	65.1	65.0
ExxonMobil	N/A	57.0	60.5	54.3

Table 8. Correlation of long-term bank credit and bond loans, in%

	2013	2012	2011
Rosneft			
Long-term loans	71.8	77.9	92.0
Bond loans	20.0	18.6	8.0
LUKOIL			
Long-term loans	25.0	19.8	15.3
Bond loans	75.0	80.2	49.0
Gazprom Neft			
Long-term loans	61.2	50.0	59.5
Bond loans	38.8	50.0	40.5
Tatneft			
Long-term loans	100	91.9	95.0
Bond loans	-	8.1	5.0
Bashneft			
Long-term loans	42.7	80.5	89.5
Bond loans	57.3	19.5	10.5

main financial indexes, including the revenue of all companies. This has become the most evident in the third quarter of 2014, when BP's net profit has dropped to 30% of the corresponding period in 2013, and Statoil has even reported losses.

We should note that the worsening of the financial results of both, Russian and foreign companies in the third quarter of 2014, took place on the background of a fairly small drop in a value of oil and ruble; the «crash» happened later, and its consequences cannot yet be fully assessed. However, we can say with all certainty that within the economic circumstances of the end of 2014 and beginning of 2015 and with the current tax regime, forecasting even the preservation of previous profits that could be aimed at development is out of the question.

Despite a fairly conservative model of financing development and the predominant use of private funds in realizing the investment projects among most of the Russian and Western companies, it would be logical to review the details of how the industry uses the borrowed capital. A first glimpse at the role of long-term debt in financing development of the oil companies is provided in Table 7.

The data from Table 7 leads us to conclude that the long-term debt is predominant within all oil companies except Shell: within Statoil and Rosneft they vary between 63–76%, and in others exceed 50%. As a hypothesis, we can presume that they utilize these funds for capital investments. The research however, shows that not all long-term debt is being used for capital investments. Many of the companies have lots of «miscellaneous' debt.

The traditional instruments of long-term landing are bank crediting and bond loans, Table

DOI: 10.7256/2073–8560.2015.2.14996

8 presents the data on the use of these instruments by the oil companies.

The research shows that the traditional bank crediting represents the majority of debt within Rosneft, Gazprom Neft, and Tatneft. LUKOIL had a more modern structure of borrowed capital consisting of predominantly the bond loans and other long-term financial instruments, which resulted in a lower cost of the borrowed capital. As to foreign companies, such conclusion can only be made based on indirect information. This is due to the fact that it is not always possible to determine the exact type of instrument used: the bank crediting represents the complex hybrid instruments of hedging and securitization; the financial instruments are mostly of a hybrid nature.

We should note that the cost of loans for the Russian companies over the last years have only slightly differed from the costs of the foreign counterparts. Thus in LUKOIL, the average rate on its loans in foreign currency for 2014 amounted to 2–4%; Rosneft — 3.1–3.5%; BP — 3%; Statoil's vary between 1.15% with payoff by 2018, and 4.8% with payoff by 2043. The loans in rubles the Russian VIOC were acquiring with the average rate of 6–7%. Therefore, we can consider that Russian oil companies had access to inexpensive financial resources during 2011–2013. However, in the second half of 2014 this situation has drastically changed: the sectorial sanctions have closed the access to the Western market of capital for the Russian companies, while on the internal market following the key rate of Central Bank of the Russian Federation the interest rates within Russian banks have gone up. The government and the companies undertake certain steps in order to reorient the borrowing towards the Asian market, but it is not yet possible to evaluate the success of such attempts.

The decline in the oil companies' abilities to use their own resources and borrowed funds takes place on the background of the withdrawal of the government from participation in some investment programs: the government is not oriented towards a direct support of investment programs of the VIOC using the centralized government funds. At the same time, it is hard to forecast just how this general line would be sustained under the conditions of introduction of international sanctions against a number of VIOC, increasing interest rates, and a rapid change in the rate of dollar compared to ruble.

The companies have begun to turn to government with requests for financial assistance. Thus in fourth quarter of 2014, Rosneft has first requested 1.5 trillion rubles from the Russian National Wealth Fund, and later more than 2 trillion. And although these funds have yet to be given and Rosneft has went another way, in December, 2014 it has done the largest in Russia issuing of bonds worth 625 billion rubles, acquisition of which was made by banks partially owned by the government. The experts claim that these bonds can be used as collateral in the Central Bank of Russia. The Central Bank recommends the same scheme for crediting to other companies as well [20]. Thus the government makes an effort to indirectly relieve the difficult position of the companies.

Another mechanism for indirect help from the government can become the sale of a portion of the government's share of the company (if such exists, e.g. in Rosneft). Certain steps in this direction have already been made: in December 2014 a decision has been made on the purchase of 19.5% of the Rosneft's stock belonging to Rosneftgaz. The portion of Rosneftgaz after the purchase will decrease to 50% plus one share. It is expected that the profits from the sale of Rosneft in 2015 will total 423 billion rubles [18].

The government is gradually decreasing direct financing and the traditionally «state» sector of the hydrocarbon exploration. The position of the government believes that the way to stimulate the companies to increase their investment into the search for new deposits is by providing a flexible tax regulation [12]. This strategy to reduce government investments into hydrocarbon exploration does not mean a complete abandonment of it. The plan is that the government investments will be regrouped and concentrated on the five key zones. Overall, before 2020 approximately 320 billion rubles is planned to be allocated towards hydrocarbon exploration and renewing the raw mineral base [14]. This amount however, is rather insignificant compared to the investment programs of the companies themselves. For example, Rosneft alone has spent 38 billion rubles on hydrocarbon exploration in 2013.

DOI: 10.7256/2073–8560.2015.2.14996

Despite the fact that governments initiatives to bringing the private companies into the hydrocarbon exploration correspond with the current abilities of the government and world trends, our assessment of the prospects of these initiatives remains reserved: for the companies the investments into hydrocarbon exploration represent high risk and cause doubts that companies will go full-scale into these projects. In order to stimulate investments into exploration the private companies will require substantial tax incentives that would include covering of losses: the MRET deductions for hydrocarbon exploration, introduction of taxes based on financial results, etc. Russia's tax regime has yet to fully address this issue.

While forming investment programs, companies usually highlight the risks that can disrupt or postpone the realization of the projects and devise systems of measures for risk management. Thus, in Rosneft's 2013 report we notice the following: «Rosneft has sufficient capabilities to restructure the flow of commodities should a significant price difference arise between the domestic and international markets. ...The company is able to rapidly reduce the capital and operation costs in order to fulfill its obligations in the case of an abrupt decrease in the prices of oil, gas, and petroleum products' [13, p.189].

But even the pessimistic scenarios of how the situation would develop most likely did not estimate such drastic change in oil prices, increase in market competitiveness, and changes in regional structure of demand as it has happened in 2014. The situation is further aggravated by the fact that a number of Western companies are leaving the Russian market. Hence the mass media report that Exxon has already shut down 10 of their joint plants [17]. There are also other companies that are leaving Russia.

Until recently the portion of the Western companies participating in Russian projects consisted of 20% [16] and loss of partners leads to the inability of the companies to begin the execution of projects within the forecast timeframe, as the deposits in the Arctic, deep water drilling, and shale oil extraction in Siberia require mutual development in the area of technologies and foreign investments. For example, Rosneft was expecting to begin extracting in Arctic in 2018, but has to postpone the drilling in some sectors. As the company underlines, the corrections will be most relevant in the sectors that do not have Western partners [19].

On the other hand, this situation can give a push towards the import substitution industrialization within the industry and development of domestic innovative technologies. In the Rosneft's report for the third quarter of 2014 it is underlined that the portion of domestic equipment and raw materials currently consists of 75% (in HTR extraction) to 100%. There are proposals to replace the foreign oil and gas equipment that would allow fully replacing the foreign oil and gas equipment within the near 3–4 years [13]. If this task will be completed, the Russian oil industry can have a multiplicative effect upon development of the entire economy, and bring alone mechanical engineering, chemical industry, etc.

CONCLUSION

To conduct a deep analysis of the effects of the worsening global situation in the oil industry and bilateral sanctions upon the investment climate, financial situation and results of the work of oil companies, assess the potential effect of import substitution industrialization seems to still be impossible, as not enough time has passed, and the situation that took place in the fourth quarter of 2014 and beginning of 2015 continues to deteriorate, while the currently available information is still very controversial. However, the research shows that even the slight worsening of the situation in the third quarter of 2014 has caused a change in the investment strategies of the companies.

From the companies' perspective the current situation raises the need to enact risk management measure and devise anti-crisis programs within the companies that would be oriented towards the following:

1. Review of the project portfolio: decreasing the portion of the costly projects of expanding the extraction of HTR, and increasing the portion of less costly projects of improving energy efficiency;
2. Systemic management of operation investment and financial expenses of the company, and increasing efficiency.

DOI: 10.7256/2073–8560.2015.2.14996

The government in turn should make decisive steps towards a transfer to a new tax regime that would ensure a closer relation between the financial result and the taxes, and would stimulate development of new deposits and deep refining, allowing companies to make plans for new prospects.

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