

## **Russian energy opportunities remain for foreign investors**

Significant acquisition opportunities remain for foreign investors in the Russian oil sector, despite recent concerns over the state's increasing role in the energy sphere.

Some foreign energy firm delegates at an M&A conference in Moscow this week said they had encountered obstacles to their efforts to make acquisitions in the Russian oil and gas sector. However, most said they remained keen to pursue targets in Russia in spite of difficulties reaching agreement with regional and federal authorities.

Emmanuel Bazin, managing director of investment bank BSGV's oil and gas department, said the majority of attractive targets are still in West Siberia, Russia's main oil producing region. However, for this reason competition is also strongest in that region, he added, meaning areas with undeveloped reserves such as Timan Pechora could see more activity going forward.

With the possible exception of Sibneft, Bazin said, there are no acquisition opportunities left among the major Russian oil firms. The best opportunities may therefore exist among medium-size oil firms that have large capex requirements but limited access to capital markets, he added. Additionally, there are 100-200 small oil companies, which for some foreign entities could be the most attractive segment for progressively building up a presence in Russia, Bazin said.

Vladimir Matias, managing partner of advisory firm Asset Capital Partners, agreed there are infrastructure investments which small to mid-size companies owning larger assets cannot finance themselves. Russian independent oil companies generally welcome foreign investment if it comes with access to western technological know-how, he added.

Acquisition opportunities are also likely to continue emanating from majors spinning off marginal properties to specialised operators that may be able to use them more effectively, BSGV's Bazin predicted.

Brian Zimble, a partner at law firm LLGM's Moscow office, said oil assets are currently seeing high levels of competition from potential buyers, meaning sellers are able to dictate terms more freely. Asset Capital's Matias argued that Russian assets are still cheaper than other markets, estimating that oil assets sell for USD 2-3 per barrel in Russia compared to USD 5-8 per barrel in the United States. Foreign firms investing in Russian oil companies should look for developed assets, thus eliminating exploration costs, he added.

LLGM's Zimble said foreign firms should not be unduly concerned about new draft legislation relating to foreign acquisitions of Russian natural resources. Although the current draft foresees only Russian-incorporated companies being permitted to bid at energy auctions, such companies may be Russian subsidiaries of foreign firms, he noted. However, a group of around ten key "strategic" assets in the natural resource sector are expected to be declared available only to Russian companies without foreign participation, he added.

by Patrick Gill in Moscow