

M&A NEWS**Gazprom Neft wins an auction for two exploration blocks in Irkutsk region**

Kholmogorneftegaz LLC, a subsidiary of Gazprom Neft, won an exploration and production licenses for two hydrocarbon blocks in Irkutsk region for a total amount of RUR 3.18 billion (appr. US\$ 125 million).

Kholmogorneftegaz paid RUR 1.53 billion (appr. US\$ 62 million) for Vakunaisky block and RUR 1.65 billion (appr. US\$ 63 million) for Ignyalinsky block.

The estimated oil reserves of the Vakunaisky block are: 0.557 million tons under C1, 2.7 million tons under C2, 28 million tons under C3 and 25 million tons under D1 classification. The field also contains gas reserves in amount of 12.2 bcm under C1, 25.1 bcm under C2, 63 bcm under C3 and 50 bcm under D1 classification. Condensate reserves stand at 0.104 million tons under C1 classification.

The Ignyalinsky block contains 26 million tons of oil under C3 classification and 45 million tons of oil and 15 mtoe of gas under D1 classification.

Both blocks are located 80 km from currently constructed East Siberia-Pacific Ocean (ESPO) pipeline.

12 September 2007

Shareholders of JKK Oil & Gas Plc (operations in Russia and Ukraine) approve purchase of the Russian company Yuzhgazenergie LLC

The shareholders of JKK Oil & Gas Plc at the last extraordinary general meeting approved purchase of 100% shares in the Russian company Yuzhgazenergie LLC. Yuzhgazenergie LLC is located in the Adygeya Republic of Russia and holds a license for Koshehabalskoe

M&A in the Russian oil and gas industry

The following article is an excerpt from the M&A Guide for the Russian oil and gas industry published by ACP and the law firm Nörr Stiefenhofer Lutz in September 2006.

Taxes and other payments to the State**Value added tax (VAT)**

The tax rate for value added taxes is 18%. The tax is collected through taxable persons on a basis similar to the EU model (e.g. calculated on the sales value). In principle no VAT is applied to exports. Hence, no VAT has to be paid for oil, condensate and gas (including LNG) exports.

Property tax

There is a property tax payable by all Russian and foreign companies owning property in Russia. The tax base is the average net book value of fixed (non-current) assets (after depreciation and amortisation) on a company's balance sheet. The tax rate is determined by the region in which the property is located but limited to a maximum of 2.2%.

Export duties

Russia has no export excise taxes for oil and gas, but there are export duties.

- The export duty on crude oil is US\$ 216.4 per tonne (from 1 August 2006).
- The export duty on propane, butane, ethylene, propylene, ethylethylene, divinylene and some other oil products is US\$ 158.1 per tonne (from 1 August 2006). The export duty on processed oil products is US\$ 85.2 per tonne (from 1 August 2006).
- The export duty for natural gas 30% calculated on the basis of the customs value.

Export duties have increased significantly in Russia during the past few years. One of the reasons is the establishment of the Russian Stabilization Fund set up by the Federal Government which collects surplus income from the taxation of hydrocarbon producers.

gas condensate field. It is anticipated that closing of the acquisition will take place by 31 December 2007. As it was reported in July, JKX Oil & Gas agreed to acquire the target for US\$50 million. According to Miller and Lents, the remaining proved reserves of the field are 114 bcf of gas, proved and probable - 216 bcf. The field was discovered in 1972. Cumulative production from the start of exploration until the suspension of production in January 2006 amounted to 89 bcf. In June 2006, Yuzhgazenergie LLC received a 20-year license to conduct further appraisal and development of the field. Maximum output of 50 mcf per day is planned for 2011.

11 September 2007

Rosneft buys gasoline stations in Moscow

Rosneft announced a 100% acquisition of a Cyprus company Oxoil Ltd. holding controlling stakes in CJSC PARKoil and Park Service LLC. The two companies own 14 gasoline stations in Moscow, one gas station, and an oil rail loading rack.

Considering the transaction amount of US\$ 42 million, Rosneft paid less than US\$ 3 million for a gasoline station, which is less than the market average of US\$ 3-5 million for such kind of transactions. The second advantage of the deal for Rosneft is that it gained an influential partner - Central Fuel Company which holds a blocking shareholding in PARKoil.

Before acquisition of YUKOS' retail net, Rosneft didn't have own gasoline stations. Now it owns a net of 70 stations in Moscow and the region. According to the company's report, it plans to increase its network up to 2,000 gasoline stations by 2010.

11 September 2007

Tax regime under production sharing agreements

The Chapter of the Russian Tax Code on PSA provides for two forms of production sharing: standard and direct. The tax consequences of each form are different. Under the standard method, an investor/operator is subject to mineral extraction tax. Once the value of produced minerals less mineral extraction tax has been reduced by the amount of exploration, production and other reimbursable costs (in principle up to 75% of the value of the produced minerals, or 90% for production on the continental shelf), the remaining profits are shared between the State and the investor according to a formula included in the PSA. The investor's share is then subject to profit tax. The investor is exempt from customs duties on goods imported/exported under the PSA, as well as property tax and transport tax in respect of property/vehicles used for works under the PSA.

Under the **direct sharing model**, an investor is eligible for a share of up to 68% of the total volume of produced minerals. The investor is exempt from profit tax, mineral extraction tax, customs duties relating to goods imported/exported under the PSA, property tax and transport tax relating to property/vehicles used for works under the PSA, land tax and tax on the use of water. Investors/operators of PSAs are subject to Russian VAT as the previous PSA VAT exemption was abolished by an amendment of the Chapter of the Russian Tax Code on PSA.

Taxes on financings

The interest payments of Russian companies are subject to a 20% withholding tax if the lender is a non-resident (unless a foreign lender benefits from a favourable double taxation treaty with the Russian Federation). Interest payments to a lender who is a Russian resident are taxed at 24%.

Situation for foreign investors: double taxation treaties

Partial tax relief for foreign investors may be available under applicable bilateral treaties on the avoidance of double taxation. In order to obtain the benefit of a tax treaty, a payee/lender must apply to the relevant tax authorities.

**FINANCIAL ADVISORY
NEWS****MMK borrows EUR 365 million**

Magnitogorsk Iron and Steel Works secured a 365 million euro (US\$ 507.4 million) loan from a consortium of international banks to help finance a new steel mill.

The loan will be covered by Euler Hermes Kreditversicherungs AG.

ABN AMRO, Deutsche Bank and ING Wholesale Banking will supply the 10-year loan which MMK shall spend on a new slab caster and steel plate mill to supply car manufacturers, pipe makers and construction firms. The so-called Mill-5000 is MMK's largest single investment project. The company is investing US\$ 1 billion to build the mill which shall supply over 1.5 million tons per year of steel plate starting from summer 2009.

Reuters

14 September 2007

Banks to borrow US\$ 2 billion under LIBOR+0,7-0,95%

Lead managers for UC Rusal syndication loan defined interest rate during the last week syndication. The loan amount in consideration of US\$ 2 billion shall be supplied with the interest rate of LIBOR+0.7-0.95. It is planned to complete the syndication in November this year. After establishing UC Rusal, interest rate for the borrower substantially declined.

23 August 2007

Severneft to raise US\$ 240 million of 5-year debt financing

At the beginning of September Commerzbank started syndication of a US\$ 240 million loan to Severneft, an upstream company in Novy Urengoy which holds an exploration license for West-Yaroyahinskoye hydrocarbon field on Yamal peninsula (C1+C2

Currency law and export law**Currency regime**

The currency regime was changed by Law No. 173-FZ of 10 December 2003 "Concerning Currency Regulation and Currency Control" (the "Currency Act").

Passport of transaction

The reporting requirements under the new Currency Act include notification to the currency control authorities about currency operations. To this end, a "passport of transaction" must be established for almost every international currency transfer made pursuant to loan transactions, export-import contracts for goods and international service agreements. A passport is also required for Rouble loans between residents and non-residents. Previously, passports were required only for the export and import of goods. The passport has to be opened with an authorised Russian bank (i.e. a bank possessing a licence to conduct operations in foreign currency or a general banking licence) where the Russian company has accounts that it would use for transaction purposes.

The passport must be opened by the Russian party with a Russian bank. It allows currency control authorities to monitor whether currency payments made by residents under cross-border transactions are commensurate with the value of goods or services received.

Other restrictions such as using special bank accounts and deposit requirements have been abolished starting from 1 July 2006.

However, shares in Russian joint stock companies may only be sold and purchased for Roubles if the seller or the purchaser is a Russian legal entity or individual.

Transfer of foreign currency

For opening a bank account outside Russia a special procedure must be observed by a Russian legal entity (that procedure may include a preliminary notification about the account to or the registration of the account with the Russian tax authorities).

reserves include 28.8 million tons of oil and 17 bcm of gas).

The new facility shall be used for financing of general corporate needs and refinancing of existing corporate indebtedness.

Commerzbank acts as a lead manager and a book runner.

9 September 2007

Export law

There are currently no export restrictions for hydrocarbons in Russia. However, in practice the ability to export crude oil is still limited by the constraints of the transportation network, in particular the pipeline capacity of Transneft's crude oil pipelines. Generally, exporters are required to repatriate foreign currency proceeds to Russia, with certain limited exceptions, such as service of debt.

Based on its market knowledge and transactional experience, ACP has developed an M&A Guide for the Russian oil & gas industry in co-operation with the law firm Nörr Stiefenhofer Lutz. RPI, Statoil ASA and LeBoeuf Lamb were involved in preparing the Guide. The Guide describes in detail legal and tax issues of mergers, divestitures and acquisitions in the Russian oil & gas industry, and shall be of assistance to companies and individual investors interested in acquiring or divesting Russian oil or gas assets with a focus on the upstream sector. The Guide is provided to our clients free of charge upon request.

Most recent conferences where ACP was invited as a speaker:

- **The Performance Theatre**
The Performance Theatre Foundation
St.Petersburg, 20-21 June 2007
www.theperformancetheatre.com
- **6th International Pipeline Forum: Pipeline Transport 2007**
RPI, Transneft
Moscow, 17-18 April 2007
<http://www.rpi-inc.com/PF2007/index.html>
- **3rd International Conference: Trade & project finance in Russia**
Adam Smith Conferences
Moscow, 19-22 March 2007
<http://www.assetcapitalpartners.com/public/conferences.php>
- **1st International Russian Alternative Investment Forum: Examining the rise of private equity, hedge funds & other alternative investment tools**
Adam Smith Conferences
London, 21-23 February 2007
Vladimir Matias: "Financing options for leveraged deals and exit strategies"
<http://www.assetcapitalpartners.com/public/conferences.php>

Upcoming conferences to which ACP is invited as a speaker:

- **4th Annual Russian CFO Summit**
Adam Smith Conferences
Moscow, 22-25 October 2007
<http://www.cfosummit-russia.com>
- **5th International Conference: "Medium and Small Oil & Gas Assets: Current Acquisition and Investment Issues"**
RPI
Moscow, 14 November 2007
<http://www.rpi-inc.com/MA2007/index.html#bookmark1>

Recent publications by Asset Capital Partners:**Jan-Hendrik Röver, Secured Lending in Eastern Europe. Comparative Law of Secured Transactions and the EBRD Model Law (Oxford 2007)**

This new work is the first comparative study of central and eastern European secured transactions laws to be written in English. It gives a valuable insight into the legal reforms taking place in the transition economies of central and eastern Europe (and elsewhere), by explaining the general mechanics of secured transactions law in a helpful and practical way.

The book explores the characteristics that make security law useful from a practical point of view, the purpose being not merely to describe existing rules on security but to concentrate on the question of how those rules can apply in practice. The author concentrates on seven central and eastern European secured transactions laws in Bulgaria, the Czech Republic, Hungary, Poland, Romania, the Russian Federation and the Slovak Republic. These laws are contrasted with the EBRD's Model Law on Secured Transactions and the EBRD's Core Principles for a Modern Secured Transactions Law. In addition, English, German and US law (which, among others, influenced the EBRD's work) are used as further reference sources.

The descriptions of eastern European laws were reviewed by Nörr Stiefenhofer Lutz, a leading European law firm, thus ensuring an up-to-date introduction to central and eastern European secured transactions laws.

Asset Capital Partners is an international investment banking and financial advisory firm based in Munich and Moscow with a special focus on Russia and other CIS countries.

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