

JANUARY 2008

**M&A NEWS****Gazprom gets 50% stake in Austrian Hub**

Gazprom will take a 50% stake in OMV's Central European gas hub in Austria, giving it greater access to the continent's customers.

The agreement was signed on 25 January 2008 between OMV and Gazprom which already supplies gas to the hub. Alexander Medvedev, Gazprom deputy chief executive, gave his comments:

"We are once again demonstrating the tremendous contribution that Gazprom is making in securing natural gas supply to Europe."

Gazprom, which supplies one-quarter of Europe's gas demand, seeks a greater access to the Western Europe's retail and distribution networks. OMV's Baumgarten gas hub, which Medvedev pledged to make the largest in continental Europe, would become a terminus for two rival pipelines through southeast Europe, one planned by OMV, and the other by Gazprom.

"Whichever channel this gas takes to get to Europe, Gazprom clearly wants the infrastructure that will get it closer to the customer," said Steven Dashevsky, co-head of equities at Moscow-based UniCredit Aton.

Last year, the facility handled 17.8 billion cubic meters of gas and is therefore the Europe's third-largest gas facility, according to OMV.

The OMV-led Nabucco link is intended to diversify European supplies by tapping into gas from the Caspian region via a pipeline from Turkey through Southeast Europe. South Stream, a joint Gazprom-Eni project, is designed to run under the Black Sea from Russia to Bulgaria, where one of its branches will take a route similar to Nabucco's.

28 January 2008

**Comparison of Russian and international oil reserves classifications**

This review of the Russian and international oil reserves classification aims to aid to understand different reserves and resources classification, and, in particular, the difference between Western reserves classifications and the Russian ones.

Reserves and resources classifications are crucial for oil & gas professionals in several ways:

- The classification is an important indicator for the value of an asset or indeed an oil & gas company (although – as should be highlighted – is not the only indicator. The netback from a barrel of oil or a cubic meter of gas ultimately determines the "intrinsic value" of an asset or a company. The term "intrinsic value" was famously introduced by Warren Buffet for providing guidance to the shareholders of Berkshire Hathaway Inc.).
- Since the value of a company is driven largely by its reserves and resources, it is one of the main drivers of the market capitalization of listed companies.
- The price for the sale of a hydrocarbon asset or shares in an oil & gas company will largely depend on the classification of the reserves and/or resources.

The correct classification of reserves and resources is a complex task which is not made easier by the many different national and international classification systems. As far as people interested in Russian hydrocarbon assets are concerned, they will soon have to familiarise themselves with the Russian classification system for hydrocarbon reserves and resources. Although in practice independent reserves audits are increasingly based on international standards, nevertheless, the Russian classification system is still used in many contexts and, therefore, remains relevant.

The amounts of reserves and resources as well as their classification have recently received particular importance for foreign oil & gas professionals: according to an amendment of the Russian State Secrets Act in February 2004, only Russian

### West Siberian Resources announces merger with Alliance Oil Company

West Siberian Resources Ltd ("WSR") announced plans to merge with OJSC Oil Company Alliance ("Alliance Oil") and create a vertically integrated Russian oil company with a stable supply of crude oil, substantial refining capacity and important assets in distribution and marketing of petroleum products. The group will have proved and probable oil reserves of 430 million barrels, production of ca. 51,000 barrels per day, refining capacity of 70,000 barrels per day, and 255 gas stations that will provide the basis for stable future earnings and high margins.

The combined market capitalisation of the companies amounts to ca. US\$ 2.5 billion and combined pro forma revenues for nine months 2007 amounted to US\$ 1,398 million and combined EBITDA amounted to US\$ 228 million.

WSR and shareholders of Alliance Oil signed a Memorandum of Understanding ("MoU"). The parties intend to enter into and execute definitive merger agreements that will see Alliance Oil become a wholly-owned subsidiary of WSR in exchange for WSR issuing to Alliance Oil shareholders 1,783,540,968 ordinary shares representing 60% of its total issued share capital post-issue.

Alliance Oil is a leading independent Russian oil company engaged in crude oil refining and marketing of refined products with a focus on the Russian Far East and neighbouring export markets. Alliance Oil conducts its refining operations at its Khabarovsk refinery, which has a refining capacity of 70,000 barrels per day. Alliance Oil is also engaged in exploration, development and production of crude oil in Tatarstan (Russian Federation) and Kazakhstan.

WSR is an independent Russian oil company incorporated in Bermuda.

citizens may have access to information about the amount of oil & gas resources unless a permit is granted to a foreigner.

On a more general level the sudden reduction in reserves of Royal Dutch/Shell highlighted the issues of implementing reserves and resources classifications in practice. They have even triggered a recent joint effort by the US Securities and Exchange Commission (SEC) and the International Energy Agency (IEA) to come up with a new reserves and resources classification.

### The Russian reserves classification

Russian reserves evaluations are historically not based on economic assumptions. Generally, Russian methodologies classify oil and gas deposits as reserves if such deposits are technically recoverable, even if the recovery of a portion of such reserves using currently available technology is economically unprofitable.

Under the Russian classification system, resources and reserves are subdivided based on their degree of substantiation into the following categories: categories A, B, and C1 include explored reserves; preliminary estimated reserves are represented by category C2; and forecast resources are represented by categories C3, D1L, D1 and D2. A brief definition of each category under the Russian classification is provided below<sup>1</sup>.

- **Category A** reserves are calculated on the part of a deposit drilled in accordance with an approved development project for an oil or natural gas field. They represent reserves that have been analyzed in sufficient detail to define comprehensively the type, shape and size of the deposit, the level of hydrocarbon saturation, the reservoir type as well as major features of the deposit that determine the conditions of its development (mode of operations, well productivity, strata pressure, natural gas, gas condensate and crude oil balance and other features).
- **Category B** represents reserves of a deposit, the oil or natural gas content of which has been determined on the basis of commercial flows of oil and/or natural gas obtained in wells at various hypsometric depths. Category B reserves are computed for a deposit that has been drilled in accordance with either a trial

WSR's exploration and production assets provide a combination of current oil production with significant low-risk development and exploration potential. The company operates in three of Russia's largest oil basins: Western Siberia, Timano-Pechora and Volga-Urals. According to the evaluation conducted by DeGolyer and MacNaughton, as of 31 December 2006, the proved and probable SPE oil reserves amounted to 306.8 million barrels, while proved, probable and possible reserves amounted to 443.9 million barrels. In the fourth quarter 2007, WSR's average daily oil production amounted to 34,028 barrels and reached the level of 40,500 barrels per day by the end of December 2007.

15 January 2008

#### **Lukoil and Gazprom Neft establish a joint venture**

OAO Lukoil and OAO Gazprom Neft have established a joint venture, OOO Oil and Gas Company "Regional Development".

The relevant documents were signed by Vagit Alekperov, President of OAO Lukoil, and Alexander Dyukov, President of OAO Gazprom Neft.

OAO Lukoil owns a 49% stake in the authorized capital of the joint venture while OAO Gazprom Neft holds a 51% stake. The authorized capital of the enterprise will be comprised of monetary contributions. The joint venture will be managed on a parity basis.

The joint venture will focus on acquiring rights for subsoil use, geological survey, exploration and production of hydrocarbons, field development, implementation of infrastructure-related projects, transportation and marketing of produced hydrocarbons.

"The joint venture of Lukoil and Gazprom Neft is an efficient tool of mutually beneficial cooperation between Russia's major oil

industrial development project in case of a natural gas field or an approved technological development scheme in case of an oil field.

- **Category C1** represents the reserves of a deposit (or of a portion thereof) whose oil or natural gas content is determined on the basis of commercial flows of oil or natural gas obtained in wells (with some of the wells having been probed by a formation tester) and positive results of geological and geophysical exploration of non-probed wells.

The type, shape and size of the deposit and the formation structure of the oil- and/or gas-bearing reservoirs are determined from the results of drilling exploration and production wells and by those geological and geophysical exploration techniques that have been field-tested for the applicable area.

- **Category C2** reserves are preliminary estimated reserves of a deposit calculated on the basis of geological and geophysical research of unexplored sections of deposits adjoining sections of a field containing reserves of higher categories and of untested deposits of explored fields. The shape, size, structure, level, reservoir types, content and characteristics of the hydrocarbon deposit are determined in general terms based on the results of geological and geophysical exploration and information on the more fully explored portions of a deposit. Category C2 reserves are used to determine the development potential of a field and to plan geological, exploration and production activities.

- **Category C3** resources are prospective reserves prepared for the drilling of: (i) traps within the oil-and-gas bearing area, delineated by geological and geophysical exploration methods tested for such area and (ii) the formation of explored fields which have not yet been exposed by drilling. The form, size and stratification conditions of the assumed deposit are estimated from the results of geological and geophysical research. The thickness, reservoir characteristics of the formations, composition and characteristics of the hydrocarbons are assumed to be analogous to those of explored fields. Category C3 resources are used in planning of prospecting and exploration works on the areas known to contain other reserves bearing fields.

companies which possess a great production and financial potential required for implementing major projects", Vagit Alekperov said.

Alexander Dyukov added that "Cooperation between Gazprom Neft and Lukoil within the JV framework is going to expand the areas of both companies' presence and enhance the efficiency of new fields development".

30 December 2007

### Gazprom reports its capital expenditure plans

The Gazprom's Board of Directors approved the company's Investment Program, Budget and Cost Optimization Program for 2008.

Under the Investment Program for 2008, total investments will make up to RUR 710.13 billion (ca. US\$ 29 billion) with capital investments projected at RUR 479.42 billion (ca. US\$ 20 billion) and long-term financial investments projected at RUR 203.71 billion (ca. US\$ 8.3 billion). According to the Budget for 2008, overall cash income & revenues shall make up to RUR 2.926 trillion (ca. US\$ 119.6 billion); liabilities, expenditures and investments will account for RUR 3.014 trillion (ca. US\$ 123.2 billion); financial borrowings are planned at RUR 90 billion (ca. US\$ 3.7 billion). The Cost Optimization Program for 2008 stipulates activities furthered to cost reduction accounting for RUR 10.1 billion (ca. US\$ 413 million).

#### Overview

The Gazprom's Investment Program for 2008 and forecast for 2010 embraces the most promising investment projects.

In the production sector the major projects are: pre-development of the Bovanenkovskoye, Kharasaveyskoye and Shtokman fields. The work will continue on pre-development of Kharvutinskaya area of Yamburgskoye, Yen-Yakhinskoye, Urengoyskoye,

- **Category D1L** resources are prospective localized resources of the drips determined by geological and geophysical exploration methods, located within the prospective oil and gas content regions. Category D1L resources are used in planning of drips for further exploration drilling and shifting some of these resources to C3 category.
- **Category D1** resources are calculated based on the results of region's geological, geophysical and geochemical research and by analogy with explored fields within the region being evaluated. Category D1 resources are reserves in lithological and stratigraphic series that are evaluated within the boundaries of large regional structures confirmed to contain commercial reserves of oil and natural gas.
- **Category D2** resources are calculated using assumed parameters on the basis of general geological concepts and by analogy with other, better studied regions with explored oil and natural gas fields. Category D2 resources are reserves in lithological and stratigraphic series that are evaluated within the boundaries of large regional structures not yet confirmed to contain commercial reserves of oil and natural gas. The prospects for these series to prove to be oil-and gas-bearing are evaluated based on geological, geophysical and geochemical research.

It should also be noted that for reserves of crude oil, Russian reserves classification methodology calculates a so called "coefficient of extraction" or "oil recovery coefficient" based on certain geological and technical factors to quantify extractability.

### Western reserves classifications

In contrast, the Western methodology classifies oil and gas deposits as reserves only if such deposits are economically extractable on the basis of existing technologies, prices, and costs.

One can encounter several Western reserves definitions:

- **Society of Petroleum Engineers (SPE)** – 50,000+ professionals in 55 countries. 5 offices worldwide: Dallas, Dubai, Houston, Kuala Lumpur, London

Zapolyarnoye and other fields. In gas transportation, the major projects are: the Bovanenkovo-Ukhta gas main system, Ukhta-Torzhok, construction of Gryazovets-Vyborg gas pipeline, Pochinki-Gryazovets, Murmansk-Volkhov, construction of SRTO-Torzhok gas main construction, expansion of the Urengoy gas transportation joint.

Capital investments shall also be channeled to development of fields and gasification of Irkutsk Oblast, Kamchatka Krai, Khabarovsk Krai, reconstruction of major funds and gas transportation, technical re-equipment of UGS facilities, provision of design and geological survey and operating drilling in fields.

The Long-Term Financial Investment Plan for 2008 particularly contemplates Gazprom's participation in the Nord Stream and Sakhalin-2 projects as well as the projects of development and utilization of gas condensate and oil fields of the Arctic shelf of Russia including Prirazlomnoye and Shtokman fields. Additionally, the Plan stipulates acquisition of assets, in particular, Beltransgaz shares. The Plan contemplates earmarking finance for field exploration and development projects abroad (at Block 112 in the Republic of Vietnam, Bay of Bengal in India), as well as provision of long-term loans to Gazprom subsidiaries to operate at Yuzhno-Russkoye field, Krasnoyarsk Krai, Caspian Sea Shelf.

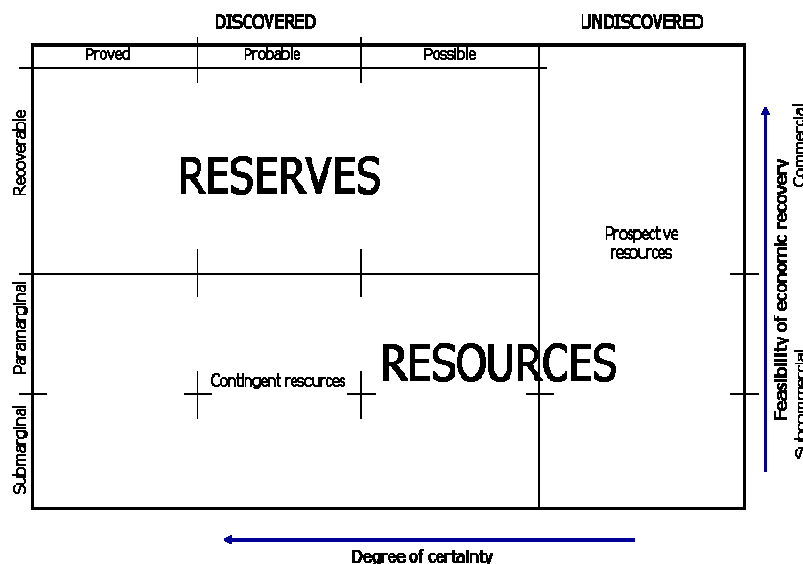
Pursuant to the Investment Program, in 2008 it is planned to commission 1,293 km of gas main and branch pipelines, 7 compressor stations at pipelines and underground gas storage facilities with total capacity of 616 MW, 4 compressor stations, 1 installation of the integrated gas preparation. It is also planned to put into operation 84 exploitation gas wells and 19 wells at UGS.

Transportation and UGS projects

- **World Petroleum Congress (WPC)** – A forum for science and technology of petroleum of 57 countries which represent over 90% of the worlds major oil and gas producing and consuming nations of the world. The office is located in London.
- **American Association of Petroleum Geologists (AAPG):** 30,000+ professionals in 116 countries. Office in Tulsa, Oklahoma.

According to these classifications, resources which are determined as total quantities of petroleum that are estimated, at a specific date, to be contained in or to have been produced from known accumulations; plus those estimated quantities in accumulations yet to be discovered are divided into 2 main categories: discovered resources and resources which still remain undiscovered.

Based on a chance of success, discovered resources can be characterized as proved, probable and possible reserves.



**Proved reserves**

Proved reserves are estimated quantities of crude oil, natural gas, or condensate that have been proved to a high degree of certainty by an analysis of the production history of an oil field and of adequate geological and engineering data. Development drilling is already in progress on the field and commercial production data is available.

- If deterministic methods are used, the term *reasonable certainty* is intended to express a high degree of

take nearly 49% of the total amount of capital investments for 2008 whereas production related projects – ca. 48%.

*29 December 2007*

### **Gazprom Neft closes the transaction on acquisition of 50% stake in Tomskneft**

OAO Gazprom Neft announced closing of the deal on acquisition of 50% shares of OAO Tomskneft from OAO Rosneft by its subsidiary – OOO Gazprom-neftfinance.

The purchase was performed under condition that the co-owners of OAO Tomskneft (Rosneft and Gazprom Neft) would jointly make managerial decisions on key issues of the enterprise development and rotations of the key personnel.

After the transaction closing, Gazprom Neft will record the operating results of Tomskneft in its US GAAP statements based on the principle of equity participation. Rosneft acquired Tomskneft in May 2007 at YUKOS auctions for US\$ 6.8 billion. In June 2007, it announced the sale of the 50% stake in the asset to VneshEconombank (VEB) for US\$ 3.4 billion. Some of VEB's representatives, however, denied bank's participation in the deal. The same month Rosneft published its US GAAP financial statements for 2 quarter 2007 in which it stated its obligation to sell 50% share in Tomskneft by the end of 2007. According to Vedomosti, VEB was involved into the deal as an intermediary, in order to resell it to Gazprom Neft. Later it was decided to remove VEB from the scheme.

*27 December 2007*

### **Rosneft enters the international bunker tank market**

Maritime fleet is one of the largest fuel consumers in the world. Fuel costs account for ca. 80% of all operating expenses associated with

confidence that the quantities will be recovered;

- If probabilistic methods are used, there should be **at least 90 % probability** that the quantities actually recovered will equal or exceed the estimate.

These amounts of reserves can be produced economically through the application of improved recovery techniques (such as fluid injection). However the estimates of proved reserves do not include the following:

- Oil that may become available from known reservoirs but is classified separately as "indicated additional reserves";
- Crude oil, natural gas or liquids, the recovery of which is subject to reasonable doubt because of uncertainty as to geological, reservoir characteristics or economic factors;
- Crude oil, natural gas or liquids that may occur in undrilled prospects;
- Crude oil, natural gas or liquids that may be recovered from oil shales, coal and other such sources<sup>2</sup>.

### **Proved developed reserves**

Proved reserves are reserves that are recoverable from existing wells with existing equipment with current operating methods and expenses.

### **Proved undeveloped reserves**

Proved undeveloped reserves are proved reserves which can be recovered only by drilling of additional wells or by implementing additional equipment.

### **Probable reserves**

These are susceptible of being proved based on reasonable evidence of producible hydrocarbons within the limits of a structure or reservoir above known or inferred fluid contacts but are defined to a lesser degree of certainty because of more limited well control and/or the lack of definitive production tests. Probable reserves may include extensions of proved reservoirs or other reservoirs that have not been tested at commercial rates of flow or reserves recoverable by enhanced recovery methods that have not yet been tested in the same reservoir or where there is reasonable uncertainty

the ship. Moreover, the size of the world's bunker tank's fuel market is 400 million tons with a total annual turnover of about US\$ 160 billion.

Rosneft started the development of centralized bunker tank business in the Russian Federation from the beginning of 2007. During November – December 2007 Rosneft began bunker's fuel shipment in its own marine terminals and filled 6 heavy cargo ships in Arkhangelsk and 7 heavy cargo ships in Nakhodka marine terminals.

Significant resource base and location of the oil refineries and terminals provide the company with full access to the major international and local seaports and river ports.

Analyzing these competitive factors, Rosneft intends to develop bunker business in equatorials of Primorsky and Khabarovsk areas, Sakhalin area, Black Sea marine terminals, White and Barents Seas marine terminals, in the fishery areas and local navigable waterways.

In the near future, the company is going to start the bunker fuel shipments to the Tuapse, Syzran and Rostov. Rosneft intends to realize up to 1.5-1.7 million tons of fuel in 2008.

In the future, Rosneft intends to further widen the list of services of its marine terminals and to create modern bunker centers on the present facilities. Moreover, Rosneft is planning to start on its refineries production of the ship's fuel in accordance with the international quality standards, and increase the accomplishment of oil products to 10 million tons per year by 2020.

*25 December 2007*

### **Lukoil acquired 55 gas stations in Rostov region**

OOO LUKOIL-Nizhnevolgsknefteprodukt – a 100% subsidiary of OAO LUKOIL, reports that it had completed acquisition of a gas stations network from ZAO

that the program will be implemented.

If probabilistic methods are used, there should be **at least 50% probability** that the quantities actually recovered will equal or exceed the estimate of proved plus probable reserves.

### **Possible reserves**

These may exist but are less well defined by well control than probable reserves. Possible reserves include those based largely on log interpretation and other evidence of hydrocarbon saturation in zones behind the pipe in existing wells, possible extensions to proved and probable reserves areas where indicated by geophysical or geological studies, and those to be recovered by enhanced recovery methods where the data are insufficient to classify the reserves as proved or probable.

If probabilistic methods are used, there should be **at least 10% probability** that the quantities actually recovered will equal or exceed the sum of estimated proved plus probable reserves plus possible reserves.

Rostovneft for the total amount of RUR 1.4 billion (US\$ 57.22 million). Acquired assets include 55 gas stations and oil tank farms. Volgogradsky refinery is going to be the major supplier of oil products to the gas stations.

Lukoil has 41 own gas stations in Rostov region with the annual turnover of ca. 100 000 tons of oil products and accounts for 6% of the local market.

This acquisition will increase the volumes of the oil-product's retail sales by the company and its share in the local retail market up to 12%.

24 December 2007

**FINANCIAL ADVISORY NEWS**

**Eurosib takes US\$ 20.5 million loan to buy freight cars**

Bank Societe Generale Vostok (BSGV) St Petersburg has opened a multi-currency nonrefundable credit line with a limit of RUR 500 million (ca. US\$ 20.5 million) for Eurosib SPb-Transportation Systems.

The five-year loan will be used to finance and re-finance the acquisition of freight cars. Eurosib SPb-Transportation Systems is currently operating a park of 10,258 railway vehicles.

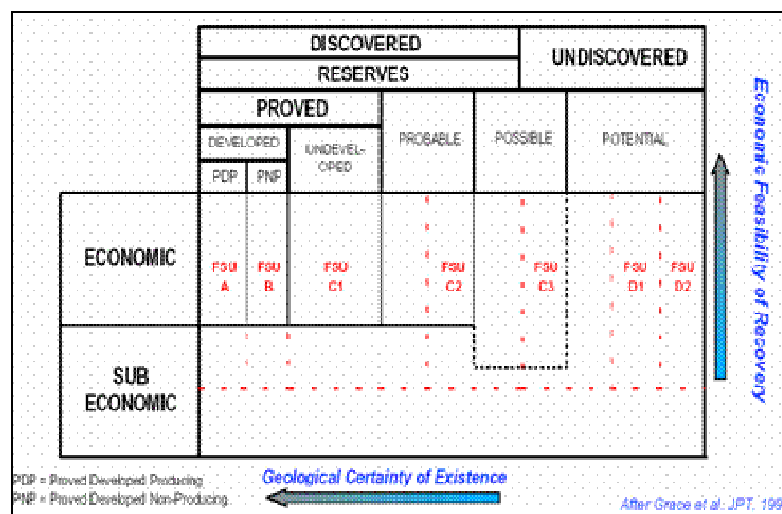
Eurosib is one of Russia's largest private transportation and logistics companies with over 10,000 cars and 13,500 TEU containers at its disposal.

10 January 2008

**Comparison of the Russian and international classifications**

The main differences between the Russian and international classifications are summarized in the table below:

Russian Classification	International Classification
<i>Classifies both recoverable reserves and resources</i>	<i>Classifies only recoverable reserves</i>
<i>Based on the geological exploration phases and on the methodology for defining calculation parameters</i>	<i>Based on the development plan phases</i>
<i>Does not include commercial factors</i>	<i>Includes technological and commercial factors</i>
	<i>Category of Contingent resources</i>
<i>Deterministic</i>	<i>Provides for probabilistic methods for reserves and resources calculations</i>
<i>Reserves = ABC1+ C2</i>	<i>Reserves = AB+C1 (partly – in well drainage area)</i>
	<i>Reserves which could be recovered by secondary (or tertiary) production methods are considered as proved only if those methods are already applied</i>



<sup>1</sup> The Ministry of Natural Resources of the Russian Federation, ACP research  
<sup>2</sup> Renaissance Capital Oil and Gas Yearbook 2006

**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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