

M&A NEWS**Gazprom and SUEK sign an agreement on merging their power-coal assets**

Gazprom and Siberian Energy Coal Company (SUEK), the largest coal producer in Russia by volume, signed an agreement regulating main terms of merger of the companies' power and coal assets. According to the agreement, SUEK will issue additional shares in favor of Gazprom's daughter companies which will become holders of a 50% + 1 share stake of SUEK. The move is a part of Gazprom's long-term industrial strategy to increase the use of coal in domestic electricity generation and home heating to free more natural gas for export.

Gazprom had already been buying power generating companies from the state electricity company, which is being split up. Under the agreement, Gazprom will merge these assets with the coal mines and electricity plants belonging to SUEK.

The board of the future joint company will be headed by a Gazprom representative, while the present SUEK head Vladimir Rashevsky will be the general director.

Shares of the coal companies have appreciated sharply. Shares of the No. 2 coal company in Russia, Kuzbassrazrezugol, rose 77% last year on RTS stock exchange, valuing the company at about US\$ 4.9 billion.

SUEK, which is not traded, mined 90.9 million tons in 2007, which is almost two times more than 46 million tons mined by Kuzbassrazrezugol.

26 February 2008

Gazprom close to buying Serbia Petroleum Industry (NIS)

Representatives of Serbian Srbijagas and Russian Gazprom

Uzbekistan Oil And Gas Industry Seeks Foreign Investment For Ambitious Plans

*The vast oil and gas deposits in Kazakhstan and Turkmenistan dominate the interest of Western energy companies keen to gain access to the hydrocarbon reserves of the Caspian Sea region. By comparison, Uzbekistan has drawn little attention due to its remoteness and the difficulty in extracting gas from the country's scattered deposits, estimated at 1.87 trillion cubic meters (tcm). However, Russian and Asian companies are beginning to make substantial investments in Uzbek hydrocarbons and are expected to play a major role in assisting the country in boosting its natural gas production from 55.4 bcm/year to 78 bcm/year by 2010. A new report published by Moscow-based RPI, **Oil and Gas of Uzbekistan**, makes a comprehensive examination of Uzbekistan's hydrocarbon industry and Tashkent's efforts to attract foreign investors and fulfill ambitious government programs.*

In recent years, Uzbekistan has implemented a number of legal measures designed to attract foreign investment to the country's hydrocarbon sector. "By mid-2007, the system of government regulation had been shaped to its present form," RPI writes in its latest report. "The primary feature of this system is a patently favorable investment environment, characterized by a built-up legislative framework and a system of tax privileges designed to encourage capital investment over the entire petroleum sector value chain. The latest achievement of this system is the assertion of the right of a discovering investor to proceed with the development of the new asset." But, RPI points out, Uzbek legislation still leaves the government in charge of the decision whether to grant a license through auction or through direct bilateral negotiations with an investor: "This means that in the course of negotiations, the government may demand that a meaningful ownership share of projects be given to the government company Uzbekneftegaz, with foreign partners having to shoulder the investment costs. The government might also come up with additional demands, for instance, requiring operators to sell the output at fixed or below-market prices."

However, the report points out that Uzbek laws are in line with world standards, and the tax remissions suggest that

signed in Belgrade agreement on construction of a gas pipeline for transit of natural gas through Serbia.

The first Deputy Prime Minister Dmitry Medvedev told journalists that signing of the agreement was a logical continuation of the agreement signed in Moscow at the end of January. He pointed out this gas pipeline to be securing energy supplies to Serbia and Europe and also providing economic benefits for the citizens.

Agreement on energy cooperation between Serbia and Russia according to which Gazprom is to purchase 51 percent stake of NIS (Serbia Petroleum Industry) for EUR 400 million was signed in Moscow on 25 January 2008. The agreement also envisages that Gazprom invests in NIS 500 millions until 2012.

26 February 2008

Enel increases its stake in JSC OGK-5

Enel SpA increased its stake in OGK-5 power generating company from 37.15% to 52.9%, Enel reported. As of 11 February 2008, Enel Investment Holding B.V. (100% subsidiary of Enel) was offered to buy (within offer) 15.74% of OGK-5's registered capital (5,567,520,904 shares). Enel's press office noted that the buyout process is still not completed and the final Enel's stake in OGK-5 would be announced in the near future.

Until 5 February 2008, Enel received requests on buyout from minority shareholders. Price within offer is RUR 4.4275 per share. Mandatory offer of shares buyout from minority shareholders of OGK-5 was announced by Enel in November 2007.

Enel increased its share in OGK-5 from 29.99% to 37.15% in October 2007, when Enel Investment Holding B.V. acquired 7.15% stake from Credit Suisse bank. Out of the

"the challenge of attracting foreign investment for projects remains a priority." It also notes that the ratio between government guarantees and non-guaranteed investment has improved considerably in recent years: in 2002 the proportion of government-guaranteed investments in the Uzbek economy was 82%, compared to 27% in 2006.

Foreign Investment

Uzbekistan's investment program for 2007 called for the implementation of 78 projects, backed by US\$ 1 billion worth of foreign investment. Some US\$ 400 million of that target was slated for the fuel and energy sector. Since independence in August 1991, the Uzbek hydrocarbon sector has exceeded US\$ 4 billion, and cumulative investment in the Uzbek fuel and energy sector by Russian companies alone has amounted to US\$ 2.5 billion, RPI said.

Russian companies are traditionally active in the geological exploration and appraisal of oil and gas fields, but in recent years there has been an increasing presence of petroleum companies from Asia, including China, South Korea and Malaysia. RPI says there are 12 major joint ventures operating in various petroleum sectors that involve geological exploration, field development, manufacture and sale of petroleum products, utilization of associated gas, repair and services. RPI notes that most oil and gas projects involving foreign firms have been downstream ventures associated with oil and gas processing facilities. It cites "market players" as saying the potential for investment in the upstream sector involving foreign partners is high and states that "companies from Russia, China and Europe are beginning to be drawn into this segment."

Projects to produce natural gas and gas condensate planned for the near future will require US\$ 1.4 billion in investments and state-owned Uzbekneftegaz in 2003 set a target of raising US\$ 3 billion worth of investment in the sector by the end of 2010. Five operational projects with a value of US\$ 2.7 billion have since made a start.

Recent Developments

In December 2007, Russia's LUKOIL Overseas commissioned the Khauzak gasfield, part of the Kandym-Khauzak-Shady-

29.99% shares, 25.03% were acquired by the company in June 2007 at a tender paying RUR 39.2 billion (while the starting price was set at RUR 24.658 billion). The additional 4.96% stake was acquired by Enel in July 2007 for USD 281 million.

Earlier Russia's Federal Anti-monopoly Service (FAS) granted Italian company the right to buy the remaining 70% shares of OGK-5, while Enel's management announced plans to increase company's stake in OGK-5 to 100%.

OGK-5 OJSC was registered in Ekaterinburg on October 27 2004. It has four generation units around Russia: two in the Ural region (Reftinskaya GRES and Sredneuralskaya GRES), one in the northern Caucasus (Nevinnomysskaya GRES), and one in Central Russia (Konakovskaya GRES). The aggregate installed capacity of OGK-5 is 8,672 MW for power and 2,242 GCal per hour for heat.

In Russia, Enel owns 37.15% in OGK-5, while Enineftegaz (joint venture of Eni SpA (60%) and Enel (40%)) owns 20% in Gazprom Neft and 100% in gas companies Arcticgaz and Urengoil.

20 February 2008

Lukoil acquires two retail networks

Lukoil Group completed the acquisition of 100% of ZAO Association of Social, Economic, Scientific and Business Cooperation GRAND and 100% of OOO Mega-Oil M. Thus, Lukoil has considerably increased its retail network in Moscow and Moscow Region, which enables the Company to increase its sales volumes of high quality motor fuel of Euro-3 and Euro-4 standards.

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Kungrad group of fields. LUKOIL holds 90% of the 35-year production-sharing agreement, which calls for an investment of US\$ 3 billion. More than US\$ 350 million has already been put in developing the Khauzak field, where output is scheduled to reach 11 bcm/year by 2013. Over the course of development of the block, some 160 production wells will be drilled, 1,500 km of pipeline and 40 km of railway constructed, and an 8 bcm/year capacity gas processing plant built.

Work has begun to gather 2D seismic in the Uzbek sector of the Aral Sea. A five-member consortium established the Aral Sea Operating Company in 2006, comprised of LUKOIL Overseas, China's CNPC International, the Korea National Oil Corporation and Malaysia's Petronas Carigali Overseas, each with a 20% shareholding. Petronas Caligari signed a preliminary agreement for the Baisun Block and the Surkhanski Block in December 2007. The Malaysian firm also signed a memorandum of understand with Uzbekneftegaz regarding petrochemical projects.

In early February, LUKOIL acquired a controlling interest in a group of companies that include SoyuzNefteGaz, which is party to the 36-year PSA for the Gissar Block. The contract was signed in January 2007 and calls for an investment of US\$ 700 million with target production of 3 bcm within four years. The gas is to be exported through the Gazprom pipeline system. A list of Uzbekistan's PSA with foreign companies follows:

Uzbek Production-Sharing Agreements Executed with Foreign Investors

Field/Block	Year	Foreign Company
Shakhpakhty	2004	Gazprom
Kandym Group	2004	LUKOIL
North Guzar, North Nishan	2005	Zeromax
Gissar Block	2005	Zeromax
Kuanishsky, Aguiyinsky, West Urginsky, Aktumsuksky, Akchalasky Blocks	2006	Gazprom
Aral Sea	2006	Consortium
West Gissar Block	2007	SoyuzNefteGaz

Source: RPI

Severstal completes acquisition of Celtic Resources Holdings PLC

Severstal, an international mining and steel company, announced that Centroferve Limited, its wholly owned subsidiary, had completed the acquisition of gold miner Celtic Resources Holdings plc ("Celtic"). As at 30 January 2008, when its offer for Celtic closed, and upon completion of the compulsory acquisition procedure, Centroferve had acquired 100% of the issued share capital of Celtic. Celtic's shares were delisted from AIM on 22 January 2008.

The revised offer of Severstal of 290 pence per share valued Celtic at GBP 173 million. As a result of earlier acquisitions of Celtic shares at lower price levels, the total acquisition price paid by Severstal was GBP 162 million.

Severstal assets in the gold sector include two gold mining companies: OOO Neryungiri Metallic located in Sakha-Yakutia, and ZAO Rudnik Aprilkovo located in Chita region as well as licenses for geological survey and gold mining at Vitikamsky and Sagan Golsky oew fields located in Buryatia region and Uryakhsky ore field located in Irkutsk region.

14 February 2008

Transneft completes merger with Transnefteproduct

Transneft has finalized its merger with Transnefteproduct and has become the owner of a 100% stake in the company starting 4 February 2008. Meanwhile, the government's stake in Transneft held by the Federal Property Management Agency increased from 75% to 78.1057%. Under the terms of the deal, the government's stake in Transneft's share capital should not be less than 75% plus one share.

On 31 January 2008, Russia's Federal Financial Markets Service registered a report on the results of the additional issue of Transneft's

State Objectives

Uzbekistan considers its hydrocarbon sectors as a key means of propelling development of the national economy and the RPI report analyzes the targets for sustainable development of the industry that the state has mapped out, summarized as follows:

- Exploration: Replenish and develop the resource base; attract investors.
- Production: Oil production stabilization and gas production growth; improve upstream effectiveness for fields with declining production; bring new fields on-stream; Improve projects profitability for the state.
- Transportation: Modernize the existing system; diversify transportation routes for natural gas.
- Processing: Develop processing and petrochemical capacity for natural gas; Synchronize upstream and downstream projects.
- Marketing: Diversify foreign markets for natural gas; withdraw from wholesale and retail sales of oil products.

Gas Exports

Gas exports are of crucial importance to the Uzbek economy with Russia as the main market, although gas is also supplied to neighboring countries. Gas exports from Turkmenistan pass through Uzbekistan en route to Russia. Uzbek exports are expected to amount to 18 bcm/year by 2010 and eventually the country plans to ship gas to China through the new 30 bcm/year Turkmenistan-China gas pipeline, expected to operate in 2009 and pass through Uzbekistan and Kazakhstan.

For the foreseeable future, according to the RPI report, the major foreign companies operating in Uzbekistan will continue to be Russian, as well as China's CNPC, whose presence "is conditioned both by economic and political interests... Being oriented to economic effectiveness, big transnational companies from the US and Europe do not see [in Uzbekistan] projects deserving of their interests, and Uzbekistan's aims at increasing the Uzbekneftegaz share in all production projects up to 50% is beyond their comprehension." It adds that companies from other countries of the Asia Pacific Region are

ordinary shares. The shares were distributed in the form of private placement to provide finances for executing the process of merger with Transnefteproduct. Placing of share was completed on 15 January 2008. Transneft placed 882,220 ordinary shares with a par value of RUR 1 each. The price for every share placed stood at RUR 59.57 thousand, so the total amount of funds attracted reached RUR 52.55 billion. The additional issue was placed in favor of the state (represented by the Federal Property Management Agency) and was paid with the 100% shares of Transnefteproduct owned by the Russian state.

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FINANCIAL ADVISORY NEWS

Rosneft signs new USD 3 billion bank facility

OJSC Oil Company Rosneft signed a USD 3 billion structured crude oil pre-export credit facility from a group of international banks. The 5-year loan carries an interest rate of LIBOR+0.95% and is secured by export contracts for sale of crude oil.

The facility is arranged and fully underwritten by a group of international banks including ABN Amro, Banco Bilbao Vizcaya Argentaria, Barclays, Bayerische Landesbank, BNP Paribas, Deutsche Bank, ING Bank, JPMorgan, Mizuho Corporate Bank, JSB «Orgresbank» (part of Nordea), Societe Generale, Sumitomo Mitsui Finance Dublin, The Bank of Tokyo-Mitsubishi UFJ, WestLB (as the Mandated Lead Arrangers).

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involved in exploration work on various terms, "but if they succeed, they are going to get into complicated negotiations on the terms of realization of production projects."

In order for Uzbekistan to attract additional foreign investments, the country "needs further motion towards reducing government participation in exploration control policy." RPI suggests one element could be the reduction of Uzbekneftegaz's market share in new production projects to be realized over the next 10 years if this holding is not privately owned. "This will make the projects in Uzbekistan more attractive and competitive for investors and will assist in the practical performance of ambitious government programs for development of this sector," the report concludes.

For more information on RPI reports, including Oil and Gas of Uzbekistan, contact Vsevolod Prosvirnin at RPI, Tupolev Plaza - II, Akademik Tupolev Nab., 15/12, Office 401, Moscow, Russia. Tel: +7 (495) 778-4597, 778-9332, 980-9079. Fax: +7 (495) 980-8068. Email: prosvirnin@rpi-inc.com Website: www.eng.rpi-inc.ru/publications/items/?p=35&fra=amc

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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.

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