

**M&A NEWS****ONGC, Sinopec and KNOC consider acquisition of Imperial Energy**

Korean National Oil Corporation's (KNOC) intentions to purchase Imperial Energy, a Russia based company, have been both confirmed and denied.

According to a KNOC company source they have never expressed an interest in buying Imperial Energy.

However, recent news reports have said quite the contrary, and have stated that KNOC have been interested in Imperial Energy, along with India's Oil and Natural Gas Corp Ltd (ONGC), and China's Sinopec Group (Sinopec), parent of top Asian refiner Sinopec Corporation.

The amount of the bid - alike the approach itself - is yet to be officially revealed, it has been reported that ONGC has submitted an initial bid of £12.90 per share, which totals out at around US\$ 2.96 billion.

In the past KNOC has kept its desire to expand no secret and has vowed to continuously hunt for foreign energy firms after it lost out in its bid to buy UK-listed Burren Energy in 2007.

The official value of Imperial Energy is estimated around US\$ 2.8 billion to US\$ 2.96 billion. ONGC was reported to be prepared to pay up to US\$ 3.5 billion.

Listed on the London Stock Exchange, Imperial Energy has oil operations in the Tomsk region, Western Siberia, as well as a 75% interest in SevkaZgra, a limited liability partnership registered in

**Pipelines of Eastern Siberia: from local supplies to large-scale exports**

The following material is based on the study **Oil and gas of Eastern Siberia and Russian Far East** by RPI released in May 2007. The study dwells on the regions' current and future projects in the exploration, production, transportation and infrastructure sectors; portrays current activities and interests of the regions' key players: Gazprom, Gazprom Neft, Rosneft, TNK-BP, Surgutneftegas, international companies and also focuses on future auctions and licensing issues.

**Part 3** (see Part 1 and Part 2 in the June and July issues of ACP Monitor)

**New large oil and gas transportation projects*****East Siberia – Pacific Ocean (ESPO) Pipeline***

YUKOS, which developed major oil fields in the Tomsk region and Krasnoyarsk Krai, was one of the first Russian oil companies to understand the benefits of selling oil from these regions in China.

The RF government believes construction of ESPO will provide a powerful incentive for active development of the subsurface in East Siberia and the Far East, though initially the bulk of exported oil will be pumped from West Siberia.

On December 31, 2004, Prime Minister Mikhail Fradkov signed an ordinance on the design and construction of the ESPO pipeline; Transneft was to be the customer for the project.

Initially, the ESPO scheme envisaged construction of the linear part of the 1,020-mm pipeline with total length of some 4,188 km and throughput capacity of 80 mt/year of oil at the Taishet-Skovorodino section and 50 mt/year at the Skovorodino–Pacific Ocean section.

According to preliminary calculations, some 7 mt to 10 mt of East Siberian oil will be provided to ESPO during its first year of operation (2009). Afterwards, volumes of East Siberian oil should grow and reach 20 mt in 2010 and 40 mt to 45 mt in 2015.

The East Siberia–Pacific Ocean pipeline will be implemented in two stages:

1. By the end of 2008, Transneft will build the Taishet (Irkutsk region) – Skovorodino (Amur region) oil pipeline with total capacity of 30 mt/year and an oil-loading terminal

Kazakhstan, which holds a license to explore 780.7 square miles in an area of north-central Kazakhstan known as the Torgai block. The Russia-based oil company itself confirmed, in early August, that it had been approached in relation to a possible cash offer.

Imperial Energy has in the past drawn the attention of various oil giants because of its potential as a gateway to Russia - which has frequently been hostile to foreign investment into its vast energy reserves.

27 August 2008

### StatoilHydro plans to enter Saint-Petersburg gasoline retail market

StatoilHydro acquired three land plots for the future gasoline stations network. In the next years StatoilHydro plans to build a network of up to 40 gasoline stations in Saint-Petersburg. StatoilHydro signed a partnership agreement with Saint-Petersburg Property Fund, which is searching the secondary market land spots for the gasoline stations.

StatoilHydro can become a competitor for the other existing gasoline stations foreign operators - Shell and Neste, which already operate in Saint-Petersburg.

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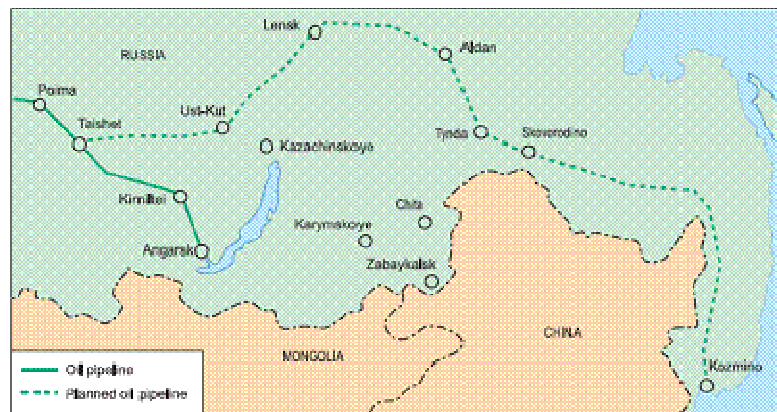
### Petrocapital Resources acquired 50% stake in JSC Almas International Trading Company

Petrocapital Resources announced the acquisition of 50% stake in Almas International Trading Company, a Kazakhstan company, involved in hydrocarbon exploration

on the Pacific coast to accept crude from Skovorodino arriving by rail.

2. Afterwards, Transneft plans to build an oil pipeline from Skovorodino (Amur region) to the terminal on the Pacific coast. This pipeline will have total capacity of 50 mt/year, bringing the throughput capacity of the oil pipeline system to Skovorodino to 80 mt/year, with 30 mt/year of that total earmarked for transport to China.

### Map 5. Current ESPO planned route



Source: Transneft

At the time RPI's research study "Oil and Gas of Eastern Siberia and Russian Far East" was going to print, work was conducted at the Taishet-Ust-Kut; Ust-Kut-Talakan field, and Tynda-Scovorodino sections. Some 570 km of pipeline was already laid.

One should be aware of the following risk factors for ESPO implementation:

- West Siberia will be the main source for years to come and plans to supply the pipeline with 30 mt/yr in the foreseeable future. Although West Siberia has the potential to supply the pipeline via expected incremental production, the ESPO pipeline will have to compete for this oil with other export routes and domestic refining.
- Transneft is currently refurbishing the existing trunk pipelines from West Siberia. Reconstruction of the pipeline includes pipe replacement in many sections, as well as replacing pumping units at certain pumping stations. The reconstruction program also includes repairing the existing transformer stations and installation of new ones.
- Another uncertainty is connected with competition

in the Mangistau region of Kazakhstan. The stake was acquired for the total consideration of US\$ 54 million.

Almas International Trading Company has two subsidiaries: TOO Atyraumunai and TOO Urals Neftekhimicheskaya Company. Moreover, Company is a minority shareholder in Exploration and Production Kazmunaigaz and Atyrausky Oil Refinery.

*21 August 2008*

### **PetroNeft Resources and Arawak Energy announced AMI agreement**

PetroNeft Resources plc (PetroNeft), owner and operator of Licence 61, Tomsk Oblast, Russian Federation, reported that it has entered into an Area of Mutual Interest agreement (AMI) with Arawak Energy Limited (Arawak) to jointly pursue new opportunities in the West Siberian Oil and Gas basin.

Arawak, which is listed on the London and Toronto stock exchanges, is a multi-asset oil and gas production, development and exploration group which has been active in the FSU since 1998, and has operations in Kazakhstan, Russia and Azerbaijan.

The AMI is structured to enable the two companies to work together on potential opportunities in the Western Siberia Oil and Gas basin where PetroNeft has its main operations.

Under this agreement PetroNeft will have the right of first refusal to be the operator of any joint projects in this basin.

Dennis Francis, Chief Executive Officer of PetroNeft commented: "We look forward to working with

with Russian Railways (RZD), which always played an important role in transporting crude and petroleum products in the East of Russia and which is currently increasing the throughput of the railway part of the route.

- Initially, the project cost was US\$ 11.5 billion (including US\$ 6.65 billion for the first stage). However, given the extended pipeline route, the project's total cost will be in excess of US\$ 12 billion, including an estimated US\$ 8 billion to be spent on the first stage of construction. Financing of the first stage of ESPO is provided by the government's Sberbank loan facility.
- The ESPO project entailed a significant focus on environmental issues.

At present, construction of the oil pipeline is continuing on schedule.

### **Altai gas pipeline**

In March 2006, during the official visit of Vladimir Putin to China, leaders of Gazprom and CNPC signed a Protocol on Deliveries of Natural Gas from Russia to China. First deliveries of Russian gas are expected to begin in 2011.

Russian natural gas will be pumped to China from the Unified System of Gas Supplies via two directions: the western route, from the regions of traditional Russian gas production, and the eastern route, from the fields of Sakhalin. The planned annual volume of deliveries is 68 bcm. Priority is being given to the western route (pipeline Altai) that is designed to pump 30 bcm/year. Originally, it was believed that fields of West Siberia would be the main source of gas for this pipeline; however, now it appears that some volumes of gas from East Siberia may also be used for this route.

the Arawak team in Western Siberia and we feel that the combined expertise and resources of the two companies will facilitate the acquisition and development of new opportunities in the region.”

14 August 2008

**Surgutneftegaz acquired 8% stake in Saint-Petersburg International Mercantile Exchange**

OAO Surgutneftegaz reported that it had acquired 8% stake in Saint-Petersburg International Mercantile Exchange. OAO Surgutneftegaz is one of the leading Russian oil companies with specialization on exploration and development of oil and gas fields, production and realization of oil products and petrochemicals. For the last several years the oil and gas market share of Surgutneftegaz has raised from 11% to 13%. The total production amounted to 64.5 million tons of oil in 2007.

ZAO Saint-Petersburg International Mercantile Exchange (SPIME) was established in April 2008. The Mercantile Exchange shareholders are oil and gas companies such as Transneft, Rosneft, Transnefteprodukt, Gazprom Neft, Zarubezhneft, Surgutneftegaz and other oil transportation and trading companies. At the first stage the Mercantile Exchange was created for selling oil products. At the second stage it is assumed to turn it to the export trading and expand the product line to metals, construction materials, grain and chemical fertilizers. The Mercantile Exchange will start working at the beginning of 2009.

11 August 2008

**Map 6. Altai gas pipeline**



Source: Gazprom

In September 2006, Alexei Miller, CEO of Gazprom, and Alexander Berdnikov, head of the Altai Republic, signed a cooperation agreement aimed at organizing joint activities aimed at expanding the Unified System of Gas Supplies to the Eastern regions of Russia.

The Altai project is based on the resource base of the Nadym-Pur-Taz region, which also may not be sufficient for filling this pipeline since Gazprom’s biggest fields are at the stage of declining production. So, there is a good chance that East Siberian gas will be needed to fill the pipeline. This plan also spurs complaints from environmental NGOs since the pipeline is to pass through a national reserve area in Altai.

According to Tomsktransgas, the subsidiary of Gazprom that will be in charge of the pipeline construction, investments in the section up to the border with China are

**FINANCIAL ADVISORY NEWS****Sibneftegaz to raise RUR 3 billion syndicated loan facility from Gazprombank and BNP Paribas**

AO Sibneftegas plans to raise a short-term bridge loan of up to RUR 3 billion from Gazprombank and BNP Paribas.

The loan, will be received before the end of 2008 used to finance the company's investment program (capital expenses for development of gas fields).

Sibneftegaz holds the Beregovoye field in Yamalo-Nenets autonomous district. The reserves of this field are estimated to be 319.22 billion cubic meters of gas, 4.94 million tons of gas condensate and 7.53 million tons of oil. In 2003 Itera has put the deposit into operation but Gazprom didn't provide the company with the gas transportation permission because of the shortage of transportation capacities.

In 2006 Gazprom via it's 100% subsidiary acquired 51% stake in Sibneftegas for the total consideration of US\$ 130 million, whereafter the deposit was put into the operation.

Next year the production of the deposit will amount to 12 billion cubic meters of gas.

Gazprombank will provide up to 50% of the loan amount (up to RUR 1.5 billion).

The loan will be at 11.5% annual interest rate.

28 August 2008

too high; they believe it would be enough to build an 8,000-km pipeline to Shanghai. The gas monopoly may be deliberately inflating the project cost to use it as leverage in negotiations over prices of gas deliveries to China.

The resource base for Altai gas pipelines initially may be Gazprom's reserves from new gas fields in Ob and Taz bay and gas fields of Rosneft. If development of the gas sector in Irkutsk were to come under the control of Gazprom, whose main idea is to pump gas from Kovykta westward, it would be possible to consider integration of these gas flows into the Altai gas pipeline.

To deliver gas from West Siberia in the first stage, plans call for building the new 2,800-km pipeline in the existing transportation corridor along the Urengoi-Surgut-Chelyabinsk pipeline, and then through the Tomsk region and Altai Krai to enter China. The diameter of the pipeline will be 1,420 mm. The Altai pipeline will connect the fields of West Siberia with Sinytzyan-Uigursk Autonomous District in the West of China. There, it will connect to the Chinese West-East pipeline which will deliver gas to Shanghai.

At the time of RPI's research release, the pipeline route was examined and the decision was made to produce a feasibility study of investments; commercial negotiations were under way.

The final decision about the construction of Altai pipeline will be taken by Gazprom after the end of commercial negotiations and signing of contract for gas deliveries.

*RPI is a research and advisory firm on the energy industry of Russia, CIS, the Caspian region and Central/Eastern Europe. To obtain additional information on the study "Russian Gas on Global Markets: Potential, Strategies and Outlook" please follow the link:*

*<http://www.eng.rpi-inc.ru/publications/items/?p=36&fra=amc>*

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### Upcoming conferences for which ACP is invited as a speaker

- **The First International Oil & Gas Service and Equipment Forum**  
Congress Management Network  
Tyumen, 1-4 October 2008  
<http://oilgasservice.com/>
- **5<sup>th</sup> Annual Russian CFO Summit**  
Adam Smith Conferences  
Moscow, 20-23 October 2008  
<http://www.cfosummit-russia.com/>

### Recent publications by Asset Capital Partners



**Ulf Siebel, Jan-Hendrik Röver and Christian Knütel (eds.), Handbook Project Financing and Public Private Partnerships (Cologne, Munich 2008), 1146 pages**

This book is the standard textbook on developing and financing projects in German language and has now been published in a second, fully reworked and extended edition. 34 leading practitioners and academics have contributed to the book. Jan-Hendrik Röver wrote the chapters on mining, oil and gas, introduction to project finance, project finance loans and security for project financing. A whole part of the book is devoted to public private partnerships. Readers of this book should be practitioners, academics and students.

**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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