

MARCH-APRIL 2009

M&A NEWS**Gazprom Neft buys 16.95% of Britain's Sibir Energy**

Gazprom Neft, the oil-producing arm of Russian energy giant Gazprom, has acquired 16.95% of Britain's Sibir Energy, which operates in Russia.

Gazprom Neft has acquired 65.503 million ordinary shares of Sibir Energy to consolidate 16.95% of the company's shares, Sibir Energy reported.

Sibir Energy's main assets include a stake of almost 50% in the Moscow refinery and also 50% in the Salym Petroleum Development joint venture with Shell.

Gazprom Neft announced it had bought a minority stake in the oil producer Sibir Energy, with the acquisition placing Gazprom's oil arm in control of some 16% of Sibir Energy, with a market value estimated at just GBP 675.5 million British pounds (US\$ 992 million).

"Sibir Energy is a promising company with which we have been cooperating in oil processing at the Moscow Refinery," said Alexander Dyukov, Gazprom Neft's Board Chairman.

27 April 2009

Eni closes deal to sell 20% in Gazprom Neft to Gazprom

Eni has closed the deal to sell a 20% stake in Russian oil producer Gazprom Neft to its parent company, Gazprom, for the total consideration of US\$ 4.2 billion, Italian energy giant announced.

The deal stipulated in a bilateral agreement signed between the two energy giants on 7th April gives

Capital for oil & gas service companies, realities and trends

Part 2 (For Part 1 see ACP Monitor February 2009)

"It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is the most adaptable to change."

"In the long history of humankind (and animal kind, too) those who learned to collaborate and improvise most effectively have prevailed."

Charles Darwin

The lack of financing of oil service companies which took place in the 90es may continue nowadays due to a further deterioration of the economic situation in the major oil & gas companies in Russia.

On the other hand, successful sector performance and reserves growth require a significant capital inflow for exploration of deposits. Almost all major oil & gas deposits were developed in the Soviet Union times. In the 90es, oil & gas sector in Russia experienced a significant funding shortage, which resulted in a decrease of investments into geologic exploration and caused a gap in the resources replacement in the companies. In order to solve this problem, companies should significantly increase investments into geological exploration.

Almost all Russian vertically-integrated oil companies (VIOC) are now experiencing declining production rates on their major oil & gas fields and, in order to perform their contractual obligations, they will need to increase investments into drilling and exploration processes. Improving productivity through the optimization of production processes almost reached its physical limits. The ability to compensate the falling production rates on depleted oil fields could only be implemented through the commissioning of new oil fields, which will also increase demand for services of oil service companies.

Gazprom control of a total of 95.68% in its oil arm.

Eni CEO Paolo Scaroni said earlier his company had bought the stake for US\$ 3.7 billion at an auction two years ago with a loan at an interest rate of 9.4%, which pushed the asset cost to a total US\$ 4.2 billion.

Gazprom Neft, which handles exploration and production of oil and condensates, reported a 12% increase year-on-year in its US GAAP net profit to US\$ 4.7 billion in 2008.

24 April 2009

M&A activities in the Russian oil&gas sector in March 2009

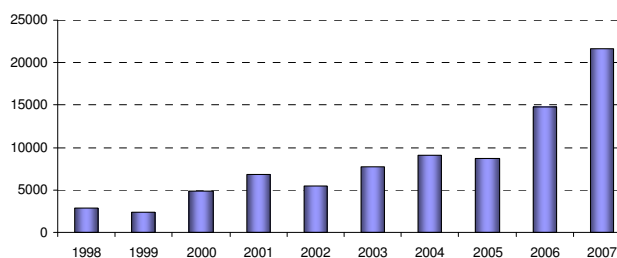
According to the preliminary data of M&Aonline analytic group, in March 2009 five transactions have been closed in the Russian oil&gas sector for the total value of US\$ 3.59 billion.

The biggest transaction was implemented by AFK Sistema which acquired a controlling stake in six Bashkir fuel and energy companies (OAO "ANK Bashneft", OAO "Bashkirnefteproduct", OAO "Ufimsky NPZ", OAO "Novoil", OAO "Uralneftekhim", OAO "Uralorgsintez") for the total consideration of US\$ 2.5 billion.

The group of Bashkir fuel and energy companies is ranking among the ten largest oil companies in Russia (11.7 tones of produced oil in 2008).

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CAPEX, in mln USD



The long-term attractiveness of the oil service business is also supported by the fact that in 2004-2006 over 500 license fields were exposed to auctions, 312 of which were successfully sold. Total recoverable reserves of the license fields exceeded 1.15 billion tones (ca. 8.46 billion barrels). Therefore, the necessity to comply with the license obligations by field owners will increase the demand for the services of oil service companies.

The new approach to the mineral extraction tax (MET) calculation which entered into force in January 2009 will facilitate a release of additional financial resources and will allow companies to increase investments into geologic exploration including exploration of sophisticated deposits.

Moreover, the Russian government currently provides support for the development of worked-out deposits. A declining MET rate for such type of deposits was established. These actions shall provoke a further interest for mature oil & gas fields and bring additional investments into their development.

Talking about regional development of the sector, one may highlight the potential of the Eastern Siberia whose deposits contain over 3 billion tones of oil. The prospects of this region can hardly be overestimated. Construction of the Eastern Siberia – Pacific Ocean pipeline will provoke an increase in production and exploration works in the region. For an even greater production encouragement, the government has set a zero MET rate for the fields in Eastern Siberia (tax holidays).

Apart from continental deposits, ca. 80-100 billion tones of recoverable oil reserves are contained in the Russian shelf areas. Some of the fields will be put into operation in the nearest future. The development of such fields requires application of sophisticated drilling and production technologies and is expected to result in a further growth of

FINANCIAL ADVISORY NEWS**Gazprom sells US\$ 2.25 billion 10-year bonds at par**

Russia's gas export monopoly Gazprom sold US\$ 2.25 billion worth of a 10-year bond at par. The sole arranger of the deal was Credit Suisse.

The deal was priced at 9.25 per cent. The bond carries a three-year put option. The spread over the three-year US Treasury note is 795 basis points while the spread over 10-year Treasuries is 638 bps.

Gazprom is expected to use the proceeds of the bond to refinance an existing US\$ 1.8 billion bilateral loan with Credit Suisse.

"That's great news for investors looking at the relative value situation in the Russian corporate universe," commented Luis Costa, head of emerging debt strategy at Commerzbank in London.

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demand for high-technological oil services facilities.

Oil & gas industry is one of the main sectors of Russian economy and its importance can hardly be overestimated. The world financial crisis has without a doubt aggravated the situation in the industry but there are certain upsides to this as well. Along with the decline in revenues and increase in competition, the oil service companies will need to find more effective ways of operation and to optimize their production processes to reduce the costs.

Taking into account the lack of capital in oil & gas companies, the demand for oil services is expected to shift to the most experienced and high professional industry players who are using proven technologies and focused on geological and technical risks mitigation, which shall lead to further industry consolidation.

Recent conferences where ACP participated as a speaker

- Third Banking Forum CIS Countries & Eastern Europe**
 Congress Management Network
 Vienna, 23-25 April 2009
<http://bankingforumvienna.com/>
- Crisis Management in Russia**
 Adam Smith Conferences
 Moscow, 17 February 2009
<http://www.adamsmithconferences.com/php/2008/finance/>
- The First International Forum "Oil & Gas Service and Equipment"**
 Congress Management Network
 Tyumen, 01-04 December 2008
<http://www.oilgasservice.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.

Asset Capital Partners GmbH

Prechistensky per. 14/1
 119034 Moscow, Russia
 p: +7 495 981 0791
 f: +7 495 981 0792

moscow@assetcapitalpartners.com
www.assetcapitalpartners.com

Asset Capital Partners GmbH

Bauerstrasse 20
 80796 Munich, Germany
 p: +49 89 242 246 910
 f: +49 89 242 246 990

munich@assetcapitalpartners.com
www.assetcapitalpartners.com

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