

Sibneft

Onaco asset swap

October 16, 2002

Yesterday, TNK and Sibneft issued a joint statement confirming conversion of the latter's 38% stake in Orenburgneft and 3% stake in Onaco into TNK Intl stock. According to the agreement, Sibneft will receive an 8.6% stake in TNK Intl, together with an option to sell this stake to TNK Intl shareholders (at an undisclosed price), a guaranteed level of dividends and a seat on the board. The details on price and guarantees, unveiled yesterday, make the deal attractive for Sibneft. However, the deal is negative for other minority shareholders of Orenburgneft and Onaco, making the likelihood and timing of a buyout offer from TNK uncertain.

TNK Intl

TNK Intl is the fourth largest oil company in Russia, with total proven reserves of 7,898 mln boe (including 7,258 mln bbl of oil reserves) and output last year of 692 kbpd. It owns a 97% stake in OAO TNK, which itself controls four upstream subsidiaries: Samotlorneftegaz, Nizhnevartovsk Oil & Gas, TNK-Nyagan and Tyumenneftegaz. Before the deal, TNK Intl and OAO TNK controlled a 91% stake in Onaco, as well as a 61% voting interest in Orenburgneft (through Onaco). It also owns controlling stakes in four refineries (Ryazan, Nizhnevartovsk, Orsk and Ukrainian Lisichansk, providing it with a combined annual refining capacity of 900 kbpd. The only oil asset of the TNK group not consolidated in TNK Intl is SIDANCO.

The company is registered in the British Virgin Islands and was, prior to the deal, owned equally by Alfa Group and Access-Renova. In the interests of liquidity, it is the structure likely to be used for a future IPO or sale of equity to a strategic investor.

A fair deal

We believe the agreement to be positive for both TNK and Sibneft. It effectively completes the consolidation of TNK Intl, by giving the company more than 90% voting control in all of its assets. Sibneft also appears to have secured attractive terms, particularly if the guarantees from TNK shareholders are taken into account.

The value of Sibneft's investment in Orenburgneft and Onaco was reported to be \$430 mln on Sibneft's balance sheet at end 2001. Based on this figure, the **deal implies an equity value for TNK Intl of exactly \$5 bln** and this is likely to have served as a basis for negotiation. It translates into an EV/EBITDA multiple for TNK Intl of 4.0, on a par with Russia's first-tier oil majors. Although it could be argued that TNK deserves a discount to other traded oil majors due to the poorer quality of its asset base and share illiquidity, the put option and guaranteed dividends are an important consideration and should compensate Sibneft.

Swap valuations

Book value of Sibneft's investment in Onaco assets	\$430 mln
Stake in TNK Intl to be received	8.6%

Implied valuation of TNK Intl

Equity value	\$5,000 mln
Net debt, as of December 31, 2001	\$2,601 mln
Enterprise value	\$7,601 mln
EBITDA	\$1,898 mln
EV/EBITDA	4.0

Source: Companies, Troika Dialog

After the conversion, Sibneft will, through the 8.6% stake in TNK Intl, command an annual oil output of 22.33 mln bbl. This is 2% lower than that from its stakes in Orenburgneft and Onaco, but the put option and dividend guarantees make up for this.

Before conversion

	Annual output, mln bbl, equity based	Sibneft share	mln bbl
Orenburgneft	57.89	38%	22.00
Onaco	26.56	3%	0.80

Sibneft's share of output, mln bbl **22.79**

Source: Companies, Troika Dialog

After conversion

	Annual output, mln bbl, equity based	TNK Intl share	mln bbl
Samotlorneftegaz	116.83	97%	113.32
Orenburgneft	57.89	81%	46.71
Onaco	26.56	93%	24.71
Nizhnevartovsk Oil and Gas	38.23	97%	37.08
TNK-Nyagan (Kondpetroleum)	22.86	97%	22.17
Tyumenneftegaz	16.13	97%	15.65
Total			259.64

Sibneft's share of output, mln bbl (8.6% of TNK Intl) **22.33**

Note: based on 2001 production figures

Source: Companies, Troika Dialog

Minorities left out in the cold

Although the deal is positive for Sibneft, its exit as blocking shareholder will reflect negatively on minority shareholders in both Orenburgneft and Onaco, who are unlikely to be offered the same terms. One very simple reason for this is that conversion into shares of an offshore company would be technically difficult for Russian residents. The most likely scenario is a buyout of these minorities by TNK, although the timing and even likelihood of such a buyout are uncertain. Having already accumulated more than 90% of the voting shares, TNK will certainly be in no hurry.

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