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Alfa Group Sets Up Unit to Invest $20Bln in Oil, Gas

By Peter Hobson

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Mikhail Fridman's Alfa Group, flush with money after earning billions on the sale of TNK-BP, has set up a London-based oil and gas investment vehicle that could invest about $20 billion over a three to five year period, a representative of the subsidiary told The Moscow Times.

The unit, called L1 Energy, plans to invest $10 billion of its own funds, and another $10 billion might be borrowed or provided by other investors, she said.

L1 Energy has a mandate to identify, execute and manage long-term significant investments in exploration and production, oilfield services, infrastructure and other energy projects, Alfa said in a statement.

German Khan, one of Alfa's three co-owners, who returned to the group earlier this month after 10 years as the executive director of TNK-BP, will be chief executive of the company. L1 Energy will boast a big name advisory board that includes former BP chief executive Lord John

Browne.

The fund will be part of a new international corporate investment vehicle, LetterOne Group, which will also include the group's telecommunications assets.

Altimo, Alfa's telecommunications arm, which has assets worth $15 billion in Europe, Asia and Africa, will continue to operate separately. LetterOne Group will make and manage new acquisitions.

Alfa Group saw $14 billion transferred to its current account in March when Rosneft, in its bid to become the world's largest oil company, bought out Alfa's 25 percent share in TNK-BP. This sum will form the basis of the new company's capital, though the company may also invest other funds.

Equipped with such a nest egg, L1 Energy wants to control the companies that it will acquire, an industry source said. While not necessarily attempting to simply recreate the TNK-BP that they sold, the fund is not interested in minority shares and is likely to put huge resources into a small number of investments and attempt to grow their value, the source said.

"Alfa Group has an exceptional track record of value creation in the energy sector and we look forward to [replicating] our success internationally," German Khan said, as cited in Alfa's statement.

In an interview with Reuters, Stan Polovets, who will be on the advisory board, spoke of five or six investments over the coming years, with a global focus that includes Russia. Analysts have cast doubt on whether the fund will be able to find projects up for sale in Russia that match its investment criteria.

The company unveiled an all-star advisory board including Lord Browne, Andrew Gould, Jim Hackett and Stan Polovets. The board will advise on L1 Energy's overall strategy, potential investment opportunities, as well as review post-investment performance and governance.

Lord Brown, now a partner at Riverstone, a private equity fund with an energy focus, headed BP from 1995 to 2007. He also acted as an adviser to the British government during Gordon Brown's premiership.

Andrew Gould is chairman of BG Group and was chairman and CEO of Schlumberger, an oil services company, from 2003 to 2012.

Jim Hackett is also a partner at Riverstone and is a former executive chairman of Anadarko Petroleum Corporation and its former CEO from 2003 to 2012.

Stan Polovets, chief executive of the Alfa-Access-Renova Consortium (AAR), will serve as lead member of the advisory board with responsibility for managing the relationship between the board, management and shareholders. He will be based in New York.

L1 Energy is likely to continue to expand the board. Khan has brought in headhunters Korn/Ferry for the task, Reuters reported.

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