

Sale of RWE Unit to Fridman Unopposed by German Government

By [The Moscow Times](#)

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FRANKFURT — German utility company RWE is to sell its oil and gas unit DEA to investors led by Russia's second-richest man Mikhail Fridman, giving up a profitable part of its business in a bid to emerge from a deep energy industry crisis.

Fridman's investment vehicle LetterOne has hired investment bank Rothschild as a political advisor for the deal, sources said, an unusual move in M&A deals that becomes necessary if government approval is in doubt.

The deal comes as relations deteriorate between Russia and the West over Moscow's seizure of Ukraine's Crimea region, and a source said Rothschild had undertaken some lobbying ahead of the transaction in Berlin.

"The timing of the deal could be better indeed, but I reckon there will not be much opposition as the Russian state is not involved," said a senior industry source.

Other investors in LetterOne include fellow billionaires Alexei Kuzmichev, Petr Aven, Andrei Kosogov and German Khan, who, together with Fridman, controls Russia's largest privately held lender Alfa Bank, a source familiar with the matter said.

LetterOne was also advised by buyout group Pamplona Capital Management and Morgan Stanley, sources familiar with the transaction said, adding Pamplona did not act as a co-investor.

However, Pamplona's head Alex Knaster is one of the financial backers of the DEA transaction and also acted as a lead negotiator, two sources said, adding that the Russian-born manager has strong ties with Fridman, having served as Alfa Bank Chief Executive from 1998 to 2004.

Morgan Stanley, Rothschild and Pamplona declined to comment.

RWE said Sunday that it had informed the German government about the transaction and received no indication that it would be opposed to the deal.

A spokeswoman for Germany's Economy Ministry said Monday that Europe's biggest economy was not worried that the deal would be a threat to natural gas supplies.

Russia's Alfa Group said last year it would invest at least \$20 billion in global oil and gas projects through LetterOne after pocketing \$14 billion from selling its stake in TNK-BP to Russian state oil major Rosneft.

Analysts and investors welcomed news of the 5.1 billion euro (\$7.1 billion) price of the deal, first announced late on Sunday, which was above the 3.5 billion to 5 billion range sources said was offered in the first bidding round.

Fridman's L1 Energy fund will gain control of stakes in 190 oil and gas licensees or concessions in Europe, the Middle East and North Africa, giving him a say in oil and gas production in several major European countries including Germany.

Fridman was one of the "group of seven" businessmen who funded former Russian President Boris Yeltsin's re-election bid in 1996.

Some analysts argue that DEA is an important part of RWE and the sale will rob it of one of its biggest profit contributors in what chief executive Peter Terium has described as the worst crisis in the history of energy supply.

"We frequently criticized the transaction in general as it takes away one of the few future growth drivers of the company," said Equinet analyst Michael Schaefer.

DEA made EBITDA of 938 million euro last year, accounting for 9 percent of RWE's total.

RWE posted its first net loss since 1949 earlier this month, hit by weak European energy demand, 30.7 billion euro in debt and a surge in renewable energy capacity that has pushed coal and gas-fired plants out of the market.

The deal values DEA at about 5.4 times EBITDA, including assumed debt, a discount to the 6.3 times average for the European oil and gas exploration and production sector, according

to StarMine.

DEA produced more than half of its total 2012 oil and gas output in Germany, while Norway accounted for more than a quarter. Egypt accounted for 12 percent.

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