

M&A NEWS**Urals Energy announces sale of its non-core assets in the Komi Republic**

Urals Energy, a leading independent exploration and production company with operations in Russia, reported the sale of some of its non-core assets in the Komi Republic.

As announced on 28 November 2007, the company is in the process of streamlining its portfolio to focus on its major assets in East Siberia. In furtherance of these objectives the company sold some of its assets in the Komi Republic of Russia to a private third party buyer for a gross price of US\$ 93.5 million payable in cash, adjusted for current working capital. The principal asset sold is Dinyu Limited Liability Company, but also included are Russian limited liability companies Michayuneft, Nizhne Omrynskoye Neft, Verchne Omrynskoye Neft and Voyvozh Neft. The total proved and probable reserves for Dinyu and Michayu, according to the company's most recent reserves report by DeGolyer & MacNaughton, are 21.8 million barrels of oil. According to the Russian State reserves records, Nizhne Omrynskoye, Verchne Omrynskoye and Voyvozh contain 27.8 million barrels of oil under C1+C2 categories.

Following the completion of this transaction both parties intend to continue further cooperation, with Urals Energy marketing the oil produced from the fields owned by the companies sold, charging a marketing fee to cover its costs in connection with the oil sales.

The rationalization of these non-core assets will enable the company to concentrate more of its technical, financial and human resources on its East Siberian assets, including the Dulisminskoye field, acquired in 2006, and its

Trends in Private Equity

The following article was prepared by Asset Capital Partners on the basis of material prepared by Almeida Capital, own data and other information available from open sources.

Over the past ten years, private equity has developed into an important asset class in Europe, and total private equity investments have seen an almost continuous increase since 1996.

In order to promote international private equity investment and attract investors, an encouraging legal and fiscal environment is necessary. The regulatory frameworks for private equity, however, vary across Europe. The United Kingdom, for example, has an environment that is generally acknowledged to be one of the most favourable in Europe. At the same time, it has always stood out for the highest level of private equity investment and fundraising in Europe.

Private Equity in Russia

A few years ago there were around 20 active players on the private equity market in Russia, but the number has now dramatically increased. Many players expect some consolidation in the sector.

In the past decade, the industry in Russia has grown substantially: the number of general partners doubled, total assets under management exceeded US\$ 5 billion (from less than US\$ 500 million).

The volume of private equity in the Russian M&A more than doubled to US\$ 5 billion in 2007. While its share of overall M&A is still quite low at 4.5%, it could reach 8-10% over the next few years as the equity market runs out of steam.

Use of leverage

Most Russian private equity/venture capital deals tend to be early or expansion stage, with buy-outs only starting to emerge. Last year heralded Russia's first leveraged buy-out deal when UK firm Lion Capital acquired Russian third largest fruit juice maker Nidan Soki in a deal valuing the company at

previously announced acquisition of up to 39.5% of Taas-Yuriakh Neftegazodobycha ("Taas").

The net proceeds of the sale will be used to support the continued development of the company's assets and for general corporate needs.

The company continues to evaluate possible disposals of other non-core assets.

Leonid Dyachenko, Chief Executive Officer, commented: "The sale of these assets demonstrates Urals' commitment to the stated strategy of streamlining its portfolio to focus on East Siberia. We can now deploy our resources to exploit fully the excellent assets we have in that region."

22 April 2008

West Siberian raises US\$ 170 million

West Siberian Resources Ltd. has agreed to raise approximately US\$ 170 million (SEK 1.006 billion) through a private placement of 258 million new common shares issued as SDRs. The SDRs were placed with qualified investors at a subscription price of SEK 3.90 per share.

In the private placement, 258 million shares were subscribed, equal to approximately 8.0% of the company's outstanding shares, post issue. The total number of outstanding shares/SDRs in the company will increase to 3,230,568,280 with a total share capital of US\$ 161,528,414, following the private placement.

In total, the private placement will raise gross proceeds of approximately US\$ 170 million. The proceeds from the private placement, together with operational cash flow and additional debt capital, will be used to finance the reconstruction of the Khabarovsk Refinery, to finance the company's upstream capital expenditure program and for general corporate purposes.

"In the coming years, we aim to

US\$ 500 million. Given the desire for diversified exit opportunities and an evolving and increasingly sophisticated management class, increasing numbers of buy-outs seem inevitable. Industry specialists anticipate Russia becoming a leveraged buy-out market in two to three years.

In order for buy-outs to become a fixture of private equity in Russia, as they are in more mature markets in the West, the accessibility and use of leverage in transactions will need to increase dramatically.

Source of capital

The Russian private equity scene has been dominated by local investors for over a decade, but now big-game international funds are coming. There are a few funds in Russia with assets under management of more than US\$ 1 billion. One of the major funds in Moscow is the US private equity firm TPG (Texas Pacific Group), having set up a shop a year ago. Several other major houses such as Blackstone and Permira are rumoured to be scouting in Russia for investment opportunities.

Russian limited partners are becoming an important source of capital for Russian private equity funds (34% in 2006 compared with 22% in 2005). The richer people become the more they tend to become interested in private equity investments. Following recent events on global commodity markets (oil and gas, metals etc.), the Russian economy has seen large dollar inflows which partially were allocated among private investment funds. Almost all Russian billionaires have already established their own investment funds or so-called family offices. Many of the new private equity funds established in Russia use financial resources of rich individuals who wish to diversify their investments. Russian investors often attract reputable western investment bankers as fund managers, which is favorable for the funds' reputation and track record.

European and North American limited partners continue to be the primary source of funding for private equity in Russia (30% and 25% respectively).

Investors based in Asia and the Middle East (e.g. GIC Real Estate, Singapore investment into PIK projects) do not yet represent a major source of funds – both pegged in at approximately 5%.

invest to increase crude oil production considerably and upgrade the Khabarovsk refinery to significantly improve refining margins. Now that we have agreed to raise US\$ 170 million in equity capital, we are well positioned to proceed with our investments plans", commented Maxim Barski, Managing Director of West Siberian Resources.

Morgan Stanley and Carnegie acted as joint bookrunners in connection with the offering.

21 April 2008

Itera wins a license auction in the Chita region

OOO Arctic Development, part of the international group of companies (MGK) Itera, has won an exploration license auction for Aspatsky coal field located in Zabaikalsky region. The auction was held by Chita region subsoil agency.

According to the Chairman of Itera's Board of Directors Igor Makarov, the high interest in the exploration and development of the Aspatsky block was caused by significant resource potential and strategic location of the block.

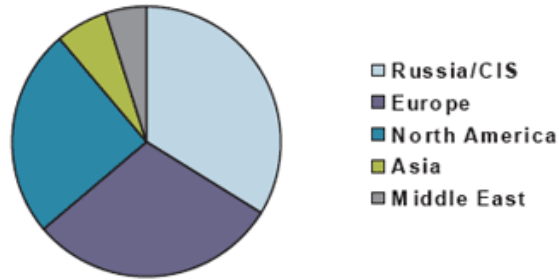
"The deposit could form the source of power supply for further development of the unique deposits of copper, iron ore, gold, platinum and nickel located in the Chita and Irkutsk regions", commented Igor Makarov.

Aspatsky field is located in the north of the Chita region and contains 2.2 billion tons of mineral coal and up to 180 billion cubic meters of methane.

21 April 2008

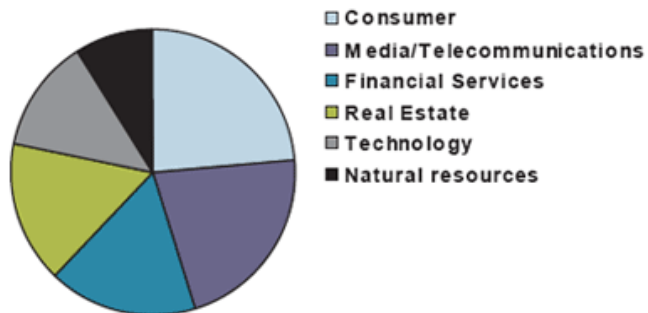
Sentry Petroleum to acquire Kyrgyzstan exploration interests

Sentry Petroleum Ltd. has entered into a conditional joint venture agreement with Monitor Energy Limited with regard to Monitor Energy's petroleum exploration licenses in Kyrgyzstan.



Sectors receiving investments

- Retail and consumer businesses receive nearly 25% of Russian private equity investment, thanks to Russia's growing economy and burgeoning middle class
- The media and telecommunications sector is also a strong contender for Russian private equity investments (over 20%)
- Predictably, given heightened awareness of political risk, private equity does not invest heavily in natural resources
- Financial services, real estate and technology promise to remain popular among private equity players



In recent years, private equity investors started to pay more attention to the Russian infrastructure sector. Several private equity infrastructure funds were recently established or announced by Russian and international private equity players, i.a.:

- Renaissance Capital and MacQuarie Bank, Australia (initially US\$ 150-200 million, then up to US\$ 2-3 billion fund), November 2007
- UFG Asset Management (RUR 75 million)
- Troika Dialog (US\$ 1 billion), 2008

Russia is forecasted to be the second largest country for

The company advises that the agreement is conditional on a 90 day financing due diligence provision. At any time prior to the expiration of the 90 day period, Sentry may choose not to proceed with the agreement. All obligations and interests contained therein are not enforceable by and between the parties until the expiration of the 90 day period or Sentry's waiver of the termination clause.

Speaking on the agreement, Sentry Petroleum's Chief Executive Officer Alan Hart advised, "I stress that the agreement is conditional. We are confident that the investment community will favourably endorse the opportunity and support what we view as a significant potential addition to our rapidly evolving oil and gas portfolio."

Speaking on the potential of Kyrgyzstan, Sentry Petroleum's President Raj Rajeswaran commented, "The country of Kyrgyzstan is still largely unexplored for petroleum and sits surrounded by a vast oil and gas region. If the agreement is consummated it will provide Sentry with significant exploration potential. We expect to affirm our obligations within the 90 day provision period."

12 April 2008

infrastructure investments after China over the next five years. It is expected that, within the next five years, total investments into Russian infrastructure through investment funds shall exceed US\$ 15-20 billion. Main reasons for this are the following:

- Significant underinvestment over the last 15 years
- Transition from commodity to industry driven growth of the Russian economy
- Large scale construction projects prior to the 2014 Winter Olympic Games in Sochi and the 2012 APEC Forum triggering regional development

Deal size

The average size of deals involving buy-outs has reached US\$ 26 million in 2007 from US\$ 8 million in 2005:

- over 50% of the deals are valued at the range of US\$ 10-20 million,
- ca. 25% of the deals at over US\$ 20 million,
- ca. 25% of the deals at less than US\$ 10 million.

This is relatively small compared to private equity deals in other markets, but deal sizes are anticipated to grow, particularly as fund sizes and Russian businesses continue to grow. The Russian Association of Venture Investment is forecasting that the size of the average transaction could reach US\$ 50 million this year.

Reasons for write-off

General lack of corporate transparency, corruption and negative investor perception are most often regarded as barriers to growth. Untrustworthy and inadequate (non-common sense driven) partners, i.e. principals and shareholders in portfolio companies, create the primary reason for writing off deals. Lack of added value or lack of financial control as well as weak deal structures and macroeconomics are other leading reasons for deal write-offs.

FINANCIAL ADVISORY NEWS

NOVATEK's Board of Directors approves US\$ 800 million syndicated term loan facility

OAO NOVATEK announced that the company's Board of Directors has approved a US\$ 800 million unsecured syndicated term loan facility.

The loan facility is obtained for general corporate purposes including funding the 2008 capital expenditure program.

The facility has a three year tenor with an 18 month repayment grace period and is to be repaid in quarterly installments. The loan facility pays an initial margin to LIBOR of 1.25% per annum for the first 18 months and rising to 1.50% per annum thereafter.

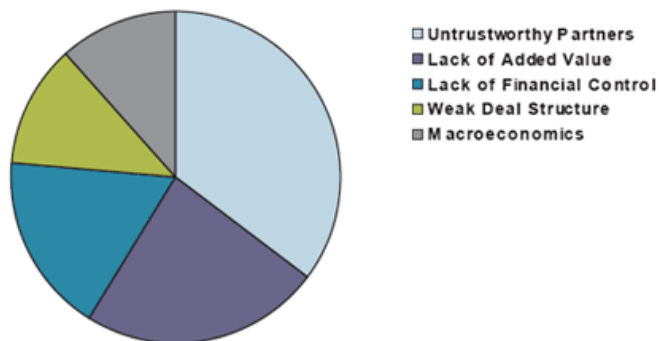
The loan is guaranteed by the company's subsidiaries – OOO NOVATEK-TARKOSALENEFTEGAS and OOO NOVATEK-YURKHAROVNEFTEGAS.

The facility is arranged and fully underwritten by BNP Paribas, CALYON, Citibank International plc and Sumitomo Mitsui Banking Corporation Europe Limited. The Facility Agreement was signed on 21 April 2008.

OAO NOVATEK is Russia's largest independent gas producer and the second-largest natural gas producer in Russia. Founded in 1994, the company is engaged in the exploration, production, processing and marketing of natural gas and liquid hydrocarbons.

The company's upstream activities are concentrated in the prolific Yamal-Nenets region, which is the world's largest natural gas producing area and accounts for over 90% of Russia's natural gas production and 20% of the world's gas production.

22 April 2008



Expected rate of return

On average, a 35% rate of return is anticipated: 50% of private equity investors expect a 25-35% rate of return and 26% expect a 45% or more rate of return.

Resume

Clearly, much of Russia's private equity landscape remains uncharted territory. However, it still bears a high potential for investors. Foreign investors intrigued by the country's growth and potential are cautiously mapping their routes as Russia and the CIS continue their evolution. Opportunity abounds but so are challenges, which range from lack of transparency to macroeconomic concerns to links between government and business. But Russia is regarded as one of the few growth areas left for private equity along with China, India and Latin America.

Most recent conferences where ACP was invited as a speaker

- Second Banking Forum CIS Countries & Eastern Europe**
 Congress Management Network
 Vienna, 24-27 April 2008
 Vladimir Matias: Global credit crunch: myth or reality? Influence on the Russian banking system and economy
<http://bankingforumvienna.com/>
- Roundtable on improving the legislative framework for secured credits and financial market development organised by the Bank Committee of the Russian State Duma within a joint project of KfW, the Ministry of Finance and the State Duma on the legislation reform**
 Russian State Duma
 Moscow, 23-24 April 2008
 Jan-Hendrik Roever: The reform of Russian security rights in movable assets

Upcoming conferences to which ACP is invited as a speaker

- The First International Forum "Oil and Gas Service and Equipment - Russian Experience and International Co-operation"**
 Congress Management Network, Integra, Association of Oil and Gas Equipment Producers
 Tyumen, 28-31 May 2008
<http://www.oilgasservice.com/index.php?index=home>
- Russia and CIS Oil & Gas Investment and Finance Forum**
 C5
 London, 16-17 June 2008
 Vladimir Butyaga: Raising Capital by the Russian Mid-Size Oil and Gas Companies via Private Placement and IPO
<http://www.c5-online.com/OilGasFinance.htm>

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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