

ASSET CAPITAL PARTNERS

Maturing Market or Market Bubble?

Financing the Oil and Gas Sector in Russia and the CIS
C5

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Moscow

22-23 September 2005



- 1. Russia – macroeconomic outlook**
- 2. Market trends: longer loan tenors and larger size**
- 3. Need for financing at current oil prices: challenges for financial institutions**
- 4. Deal competition or pricing dumping?**
- 5. New business via innovative credit structures?**
- 6. Asset Capital Partners**

1. Macroeconomic outlook (1)

Investment highlights

- **Russia has achieved economic stability and is poised for continued growth**
 - GDP growing at 7%+ per year
 - Inflation under 12%
 - Strengthening currency
 - Investment grade from all three major credit rating agencies (S&P, Moody's, Fitch)
 - Growing consumer demand and buoyant private consumption
 - Net creditor (i.e. loans to other states larger than Russian federal debt) since 2004
 - Improved trade conditions

- **Improving investment environment**
 - Significant growth in FDI
 - Intensification of strategic investor interest

- **The new reform agenda (for Putin's second term which began in 2004)**
 - Strong economic fundamentals underpinned by aggressive political reform
 - Strong central government will drive reform and economic growth

- **Domestic financing market unable to cope with demand for capital**
 - Domestic banks provided estimated 5% of investment capital in 2003

Source: own research, The Carlyle Group, Ernst & Young

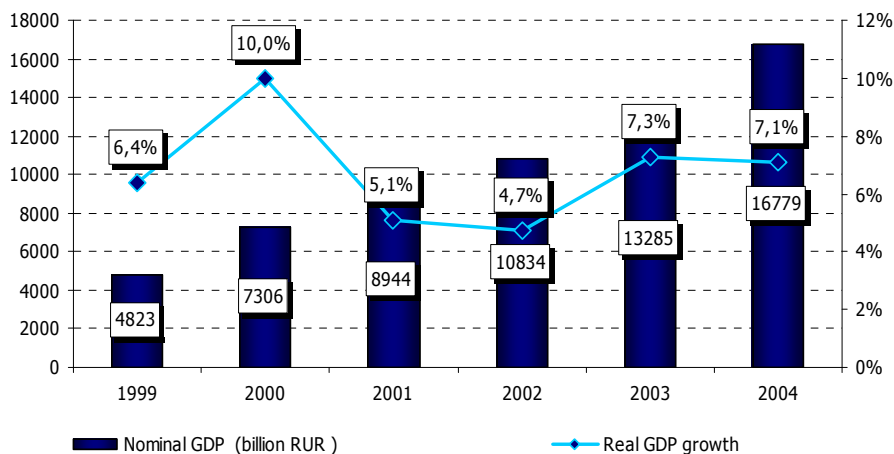


1. Macroeconomic outlook (2)

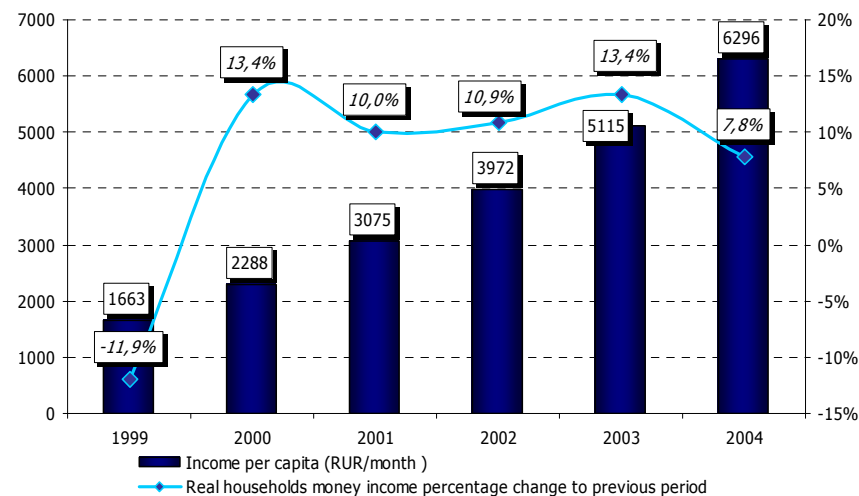
Major trends 2005

- Sixth successive year of impressive GDP growth
 - 7.1 % real GDP growth in 2004 (nom. GDP = US\$ 582 bn compared to German GDP of US\$ 2.7 tr) which is slightly lower than 7.3% growth in 2003 (nom. GDP = US\$ 432.7 bn). The recent slight decrease in GDP growth rates can be explained by the increase of the production costs due to the growth of energy prices, ruble strengthening and substantial wage increase
 - Average GDP growth rate in Russia over the last six years approx. 6.8% – a rate that few other European countries have matched
- Households income increased in real terms by 7.8% in 2004 and the poverty level decreased further
- Despite the political factors, such as YUKOS case, the FDI inflow is at record high reaching up to \$US 9.4 bn per year
- S&P upgraded Russia's sovereign rating to investment grade (BBB-)
- Central Bank reserves (foreign currency and gold) among the largest in the world - \$US 151.6 bn as of July 2005
- Creation of the Stabilisation Fund - as of 1 August 2005 = RUR 721 bn (US\$ 24.44 bn)
- \$US 15 bn advance repayment of Paris Club debt (i.e. state debt) announced for 2005

Nominal and real GDP



Household income



Source: Goskomstat, ICSS, own calculations

... high growth rates and positive dynamics ...

... remarkable macroeconomic indicators ...



1. Macroeconomic outlook (3)

Investments

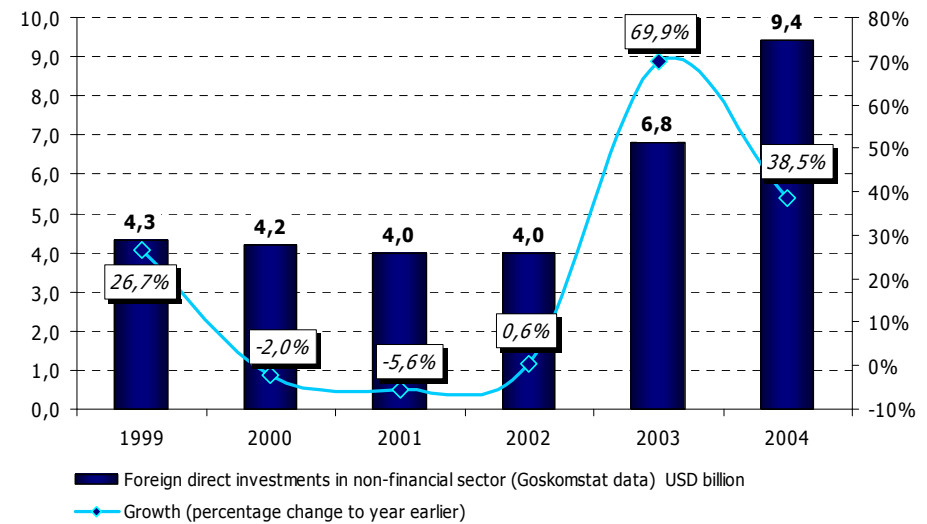
- Substantial increase in investment demand. With capacity by and large fully utilised, growth cannot be sustained without investments
- In 2004 fixed capital investment amounted to RUR 2,729.8 bn (US\$ 94.7 bn) or 16.3% of the GDP. In the first quarter 2005 it amounted to RUR 517.8 bn (\$US 18.63 bn)
- \$US 9.4 FDI in 2004 – 38.9% up from the previous year (\$US 6.8 in 2003). Most of the FDI goes to the fuel and metals sectors of the economy. The foreign investment inflow per capita (ca. \$US 260) is relatively small in comparison to other transition economies

... substantial increase in investment demand ...

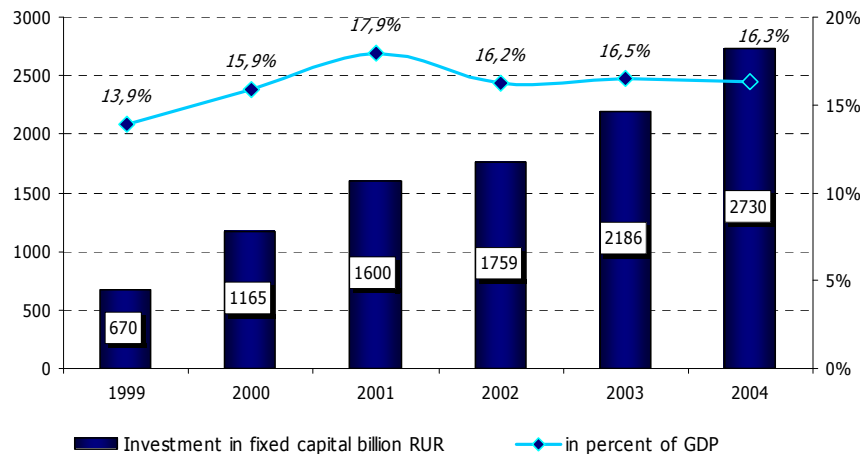
... record high FDI ...



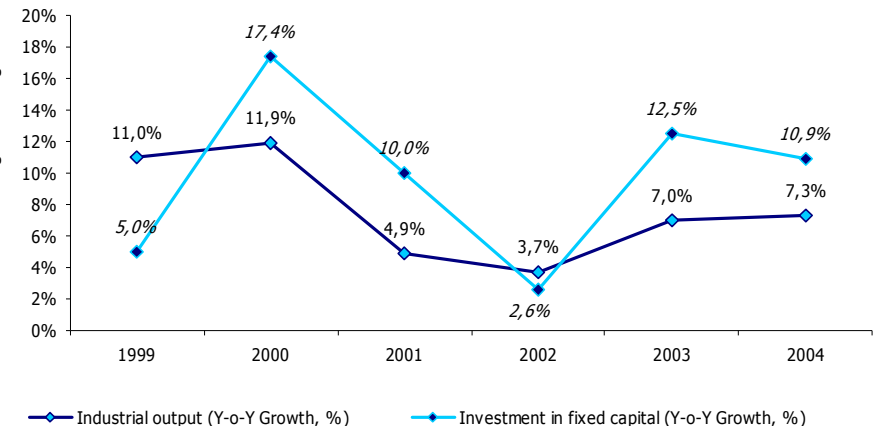
Foreign direct investments in non-financial sector



Fixed capital investment



Industrial output vs. investment in fixed capital



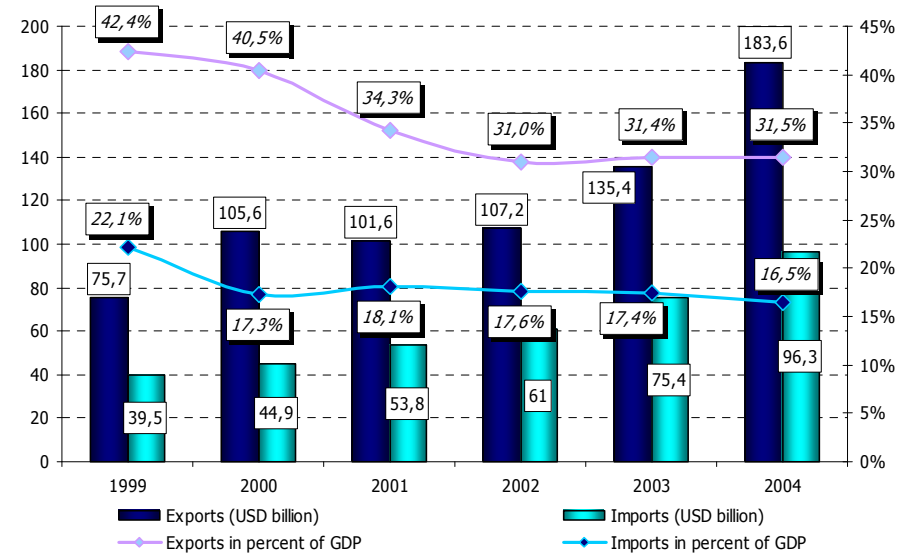
Source: Goskomstat, ICSS, own calculations

1. Macroeconomic outlook (4)

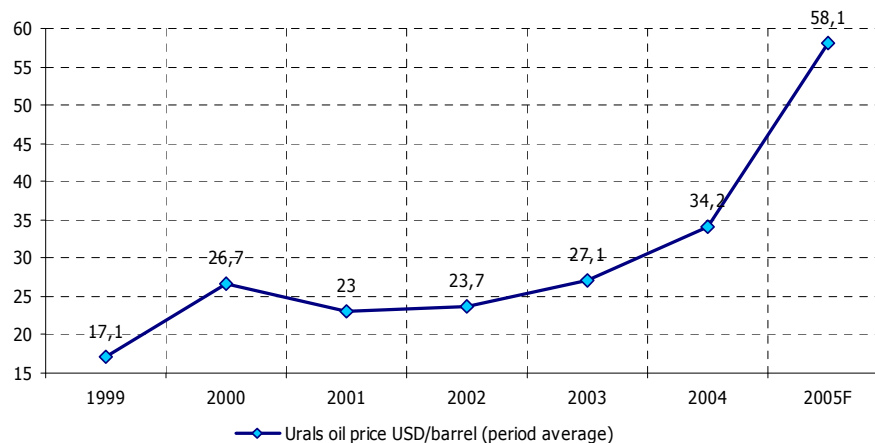
Foreign trade

- Significant increase in the import and export volumes. The main reasons for this are ruble strengthening, increase in real incomes and purchasing power of the population
- In 2004 export = \$US 183.2 bn (up 34.8% from the previous year) and import = \$US 94.8 (up 24.7% from the previous year)
- Positive trade balance increased in 2004 to \$US 88.4 bn compared to \$US 59.9 bn in 2003
- Extremely favorable market situation for Russian exporters. High oil prices

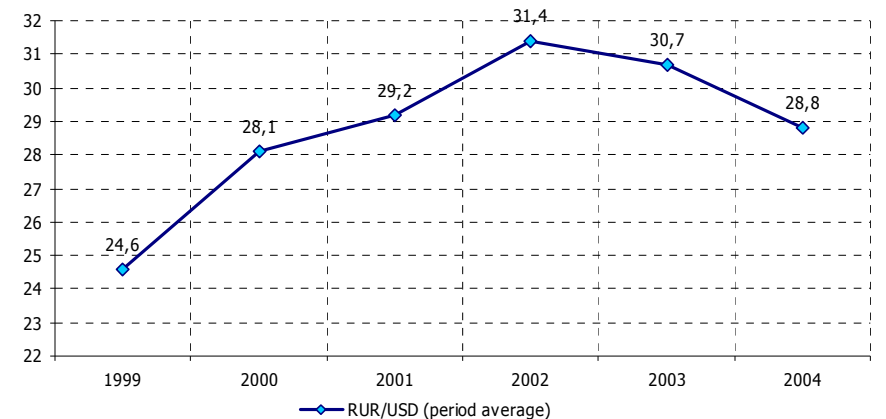
Foreign trade



Oil price



Official exchange rate



Source: Goskomstat, ICSS, own calculations

... enhanced political and economic stability, combined with high oil prices dramatically improved the economics of Russian oil investment ...

... the prices of Russian export goods increased more rapidly than the prices of Russian imports leading to improved trade conditions ...

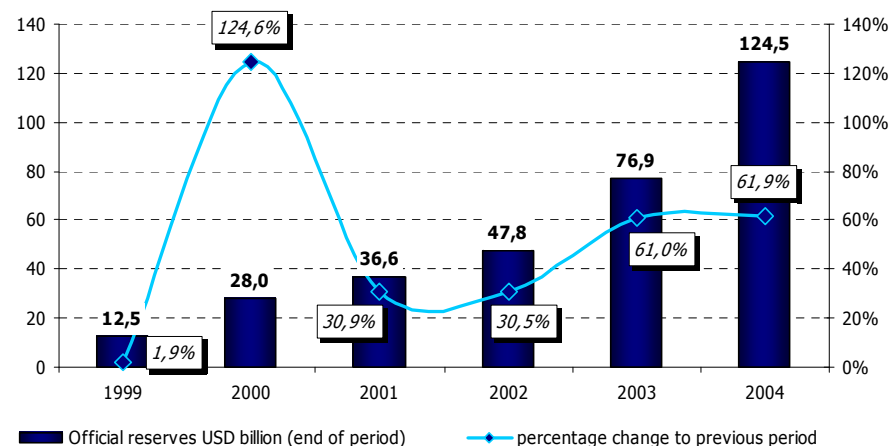


1. Macroeconomic outlook (5)

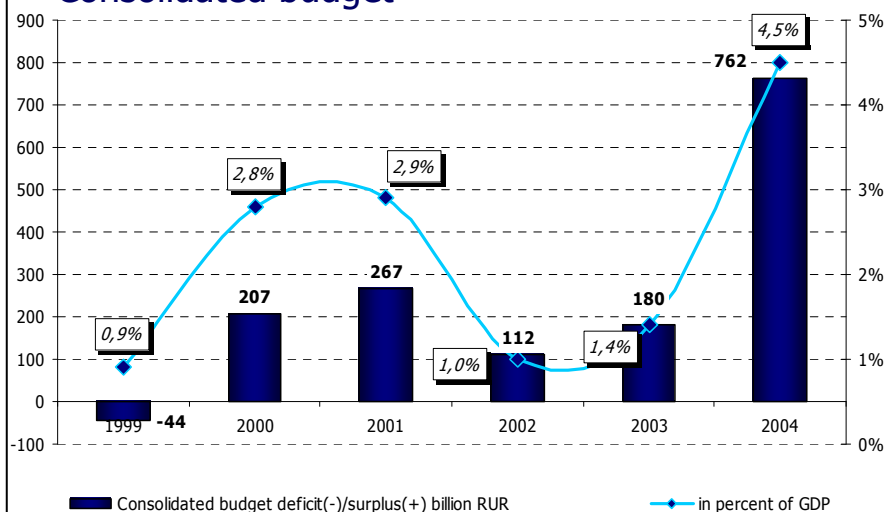
Government finances

- Gold and foreign exchange reserves at historical highs: more than US\$ 151.6 bn in Q2 2005
- Budget surplus in 2004 = RUR 731 bn or 4.4% of GDP
- Stable growth of taxation income
- Stabilisation Fund as of Aug 2005 = RUR 721 bn (only RUR 106 bn in Feb 2004). It was established in February 2004. The Fund is financed from the natural resources extraction tax and crude oil export duties when the price of Urals-grade oil exceeds \$20 per barrel. Above the 500-billion-ruble ceiling, the Government is free to spend revenues for purposes agreed with the Federal Assembly
- Advance repayment of the Paris Club debt in 2005

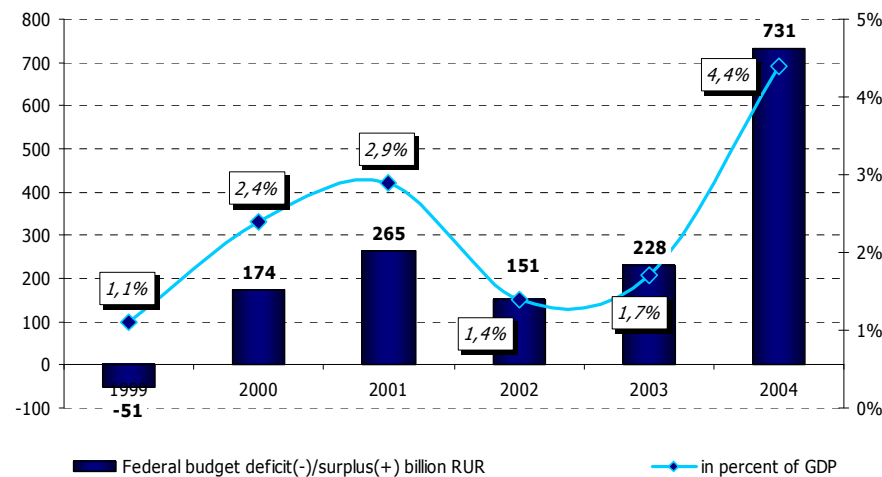
Central Bank hard currency and gold reserves



Consolidated budget



Federal budget



Source: Goskomstat, ICSS, own calculations

... large official reserves...

... establishing of stabilisation fund ...

... substantial budget surplus for several consecutive years ...

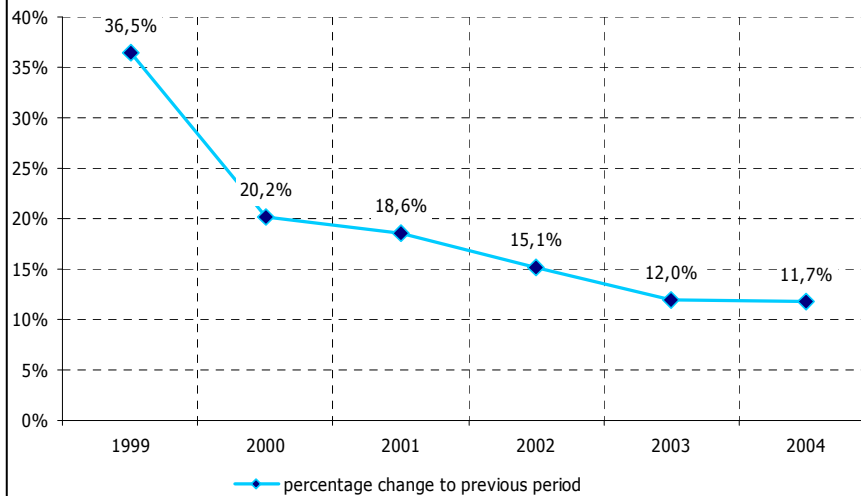


1. Macroeconomic outlook (6)

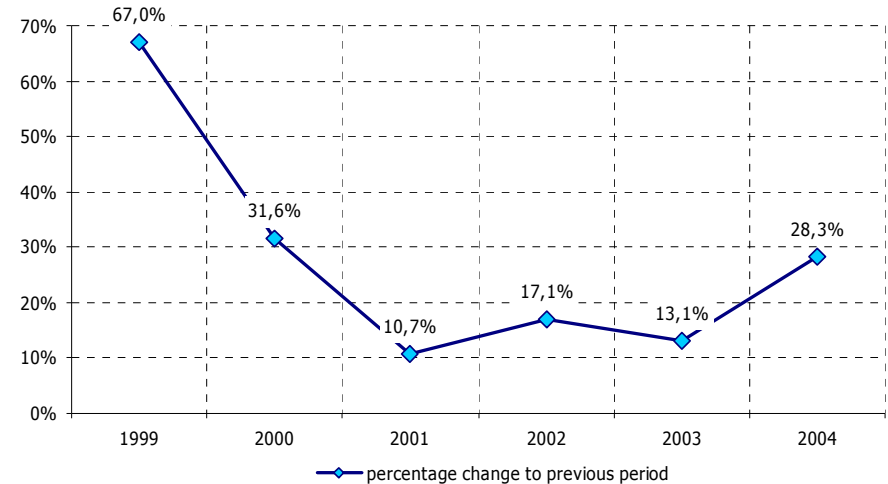
Inflation

- Inflation decreased from above 20% in 2000 to ca. 12% in 2004
- At the end of 2004 inflation was 11.7% which was slightly above the Government target
- The inflation for the first five months of 2005 was 7.1%
- The official inflation forecast for 2005 is set at not more than 10%

Consumer price index



Industrial producer price index



Source: Goskomstat, ICSS, own calculations

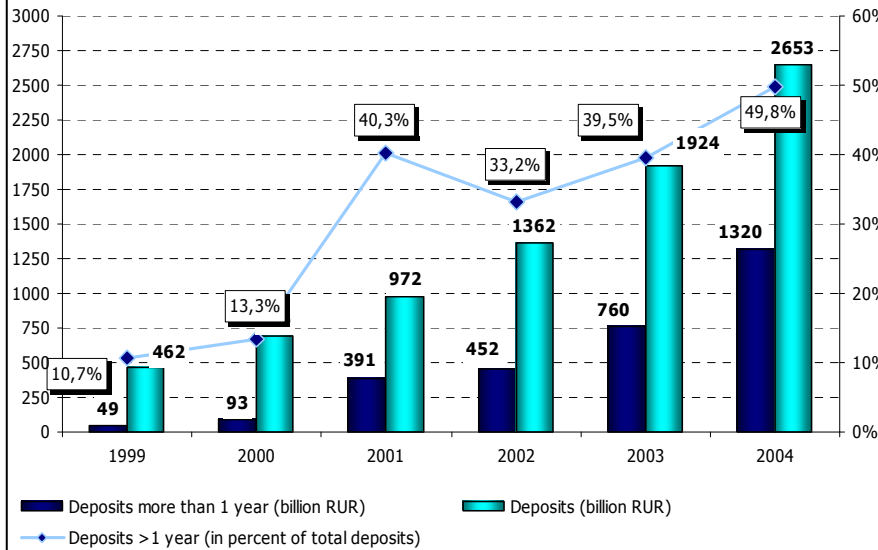
Great improvement starting 2000



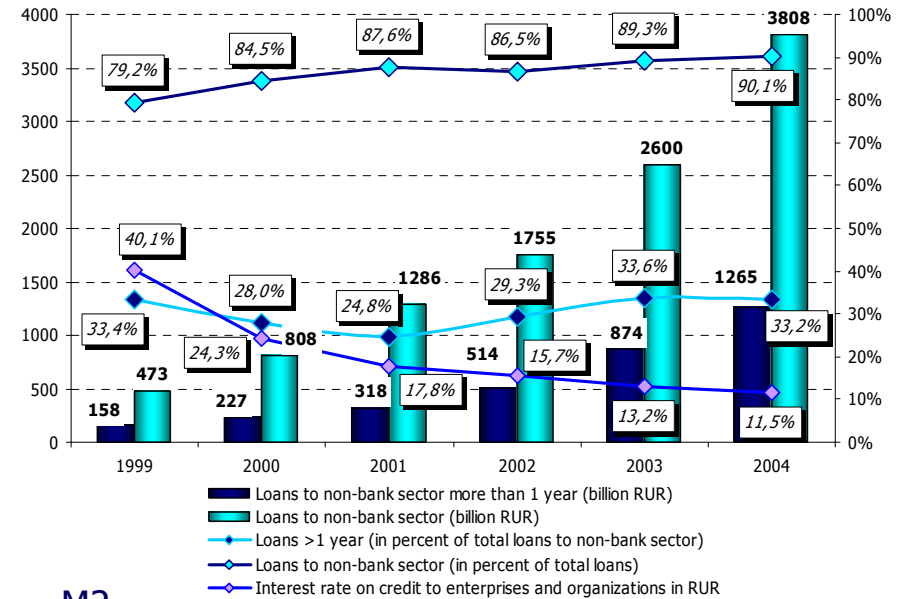
1. Macroeconomic outlook (7)

Credit sector and money supply

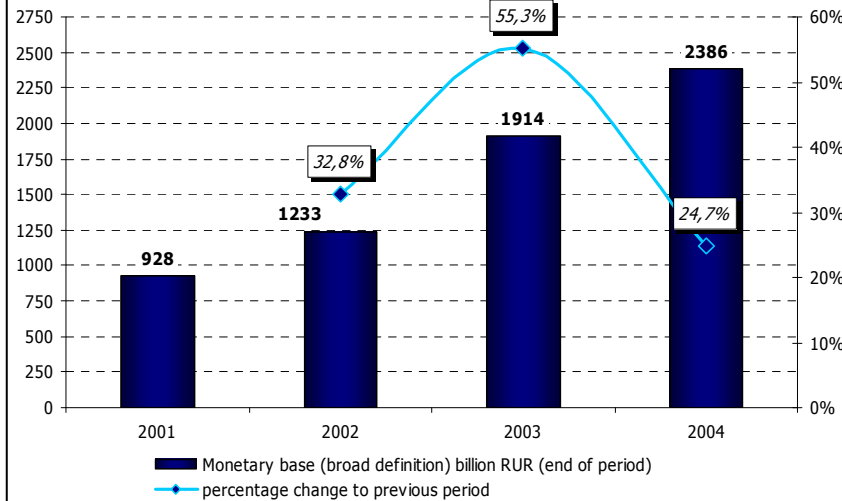
Deposits



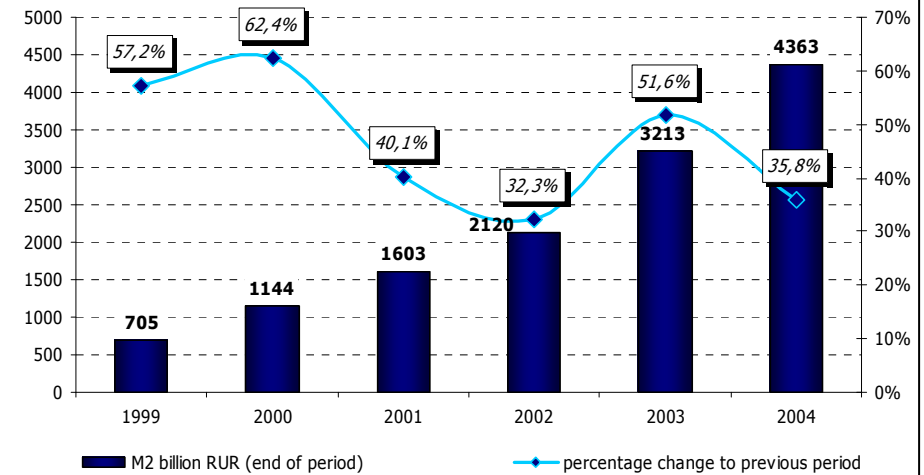
Loans to non-bank sector



Monetary base (broad definition)



M2



Source: Goskomstat, ICSS, own calculations

Clear growth in long-term deposits

Interest rate goes down while loan volumes increase

M2 doubled since 2002



2. Market trends: longer loan tenors and larger size (1)

Date	Borrower Name	US\$ mm	Margin	Mty	Purpose	Instrument	Arrangers
Jun 2003	Lukoil Perm	80	LIBOR:350.00 bp	6 years	REF	ALOAN, BLOAN	EBRD, ABNAM, BANK NV, BNPP, DZBANK, COMERZ, WESTLB
Aug 2003	Transnefteproduct AK	75		5 years	WCA	ALOAN, BLOAN	EBRD, RZB, NXBP, COMERZ
Sep 2003	Siberian Oil Co OAO - Sibneft	412	EURIBOR:215.00 bp; LIBOR:300.00 bp	2,5 yrs and 4,5 yrs	GEN,REF	TL	BNPP,WESTLB, CITIGR
Sep 2003	Yukos Oil Co OAO	1 000	LIBOR: 150.00 bp LIBOR: 175.00 bp	3 yrs and 5yrs	TF, GEN	TL	CITIGR,Credit Lyonnais SA,HSBCGP, SG,KBCB,COMERZ,DB; ING, BNPP,UFJ
Nov 2003	Rosneft OAO	150		5 years	TF	TL	NXBP, RZB, RAIFMOS
Nov 2003	Lukoil OAO	765	LIBOR: 200.00 bp LIBOR: 250.00 bp	5 yrs and 7yrs	TF, REP	TL	ABNAM, CITIGR
Dec 2003	Nizhnekamskneftekhim OAO	67	EURIBOR:425.00 bp	5 years	TF	TL	CITIGR
Jan 2004	Gazprom OAO	50		6 yrs 8m	TF	TL	DB
Jan 2004	Gazprom OAO	10		5 yrs 8m	TF	CRF	DB
Jan 2004	LUKoil OAO	100		1 year	GEN	TL	HSBCGP, ABNAM, UFJNED
Jan 2004	LUKoil OAO	150		1 year	GEN	TL	HSBCGP, ABNAM, UFJNED
Mar 2004	Archneftegeologya JSC	25		3 years	TF	TL	BNPP
Apr 2004	Gazprom OAO	200	LIBOR:275.00 bp	3 years	GEN	TL	ABNAM, BNPP, CALYON, SG, UFJGR, WESTLB, COMERZ, MIZU, SMBCORP, DNB
Apr 2004	Gazprom OAO	1 100	LIBOR:210.00 bp	6 years	REF,TF	TL	CALYON, KFW, DRBLSA, SPIMI, BAYLAN, COMERZ, SG, ING, CITIGR, DB, DEPBK, KBCB, RBS
May 2004	RITEK	150			TF	TL	NXBP
Jun 2004	Tatneft OAO	188		6 months	TF	TL	BNPP
Jul 2004	Gazprom OAO	200	LIBOR:275.00 bp	3 years	GEN	TL	ABNAM, BNPP, CALYON, SG, UFJGR, WESTLB, COMERZ, MIZU, SMBCORP, DNB
Jul 2004	Rosneft OAO	500	LIBOR:220.00 bp	5 years	TF,GEN	TL	ABNAM, HVB, SG, CALYON, COMERZ, DRBLSA, JPCHASE, KBCB, MNB, NXBP, UFJ
Sep 2004	Gazprom OAO	1 100	LIBOR:200.00 bp	6 years	REF,TF	TL	ABNAM, BOTM, BAYERN, CALYON, COMERZ, DEXIAG, DZBANK, FORT, HSH, HVB, ING, KBCB, NXBP, RBS, SGCI, SMBCORP, UFJGR, WESTLB
Oct 2004	Petrol Complex	250		1 year	GEN	TL	CITIGR, HSBCGP, ING, RZB
Nov 2004	Siberian Oil Co OAO - Sibneft	160	LIBOR:175.00 bp	2 years	TF	EC	ABNAM
Dec 2004	Gazprom OAO	100	LIBOR:250.00 bp	3 years	GEN	TL	BNPP
Dec 2004	Rosneft OAO	800	LIBOR:200.00 bp	5 years	TF	TL	ABNAM, BARCLAY, CALYON, COMERZ, DB, HVB, ING, JPMLC, KBCB, NXBP, SG, UFJ, BAWAG, BBVA, FORTISB, HSH, NORDLB, SMBCORP
Dec 2004	Tyumen Oil Co OAO - TNK	1 000	LIBOR:140.00 bp	5 years	TF,GEN	TL	ABNAM, BNPP, CITIGR, CALYON, DRKW, MIZU, NXBP, SMBCEU, WESTLB
Apr 2005	Siberian Oil Co OAO - Sibneft	200	LIBOR:160.00 bp	3 yrs 3m	TF	CRF	RZB, BAYERN, HSH
Apr 2005	Transneft OAO	250	LIBOR:115.00 bp	3 years	REP,GEN	TL	BARCLAY, ABNAM, CITIGR, COMERZ, ING, SGCI, SACHSEN, BACREDT, FORTISB, MIZU, SMBCORP, BOTM, WESTLB, BAWAG, LRP, SEBMER, UFJGR, INVKB, SBINDA
May 2005	Gazprom OAO	700	LIBOR:125.00 bp	3 yrs 3m	REF,TF	TL	ABNAM, BAYERN, CALYON, COMERZ, MIZU, SGCI, SMBCORP, WESTLB, DNNNOAS, HVB, NXBP, SPIMI, DZBANK, FORT, KFW, LBW, SEBMER
May 2005	Gazprom OAO	272	LIBOR:150.00 bp	5 years	REF,TF	TL	ABNAM, BAYERN, CALYON, COMERZ, MIZU, SGCI, SMBCORP, WESTLB, DNNNOAS, HVB, NXBP, SPIMI, DZBANK, FORT, KFW, LBW, SEBMER
Jun 2005	Regional Oil Consortium	159		4 yrs 6m	TF,GEN	CRF	BNPP
Jun 2005	White Nights	117		4 yrs 6m	TF	EC	BNPP
Jul 2005	Tyumen Oil Co OAO - TNK	600	LIBOR:90.00 bp	5 years	TF	TL	ABNAM, CALYON, CITIGR, BAYERN
Jul 2005	RITEK	60	LIBOR:90.00 bp	3 years	REF	TL	COMERZ, NXBP, BAYERN, DRKW, SGCI, SMBCORP
n/a	Rosneft OAO	150		1 yr 4m	TF	TL	HVB, SG
n/a	Varyeganneft	200	LIBOR:500.00 bp	4 years	TF,GEN	TL	BNPP, COMERZ, HVB, MNB
n/a	Rosneft OAO	300		5 years	TF	EC	BNPP
n/a	Russneft	300	LIBOR:200.00 bp	5 years	GEN	CRF	BNPP, BCENE, CSFBL, HVB, MNB, NXBP
n/a	LUKoil OAO	180			GEN	TL	EBRD
n/a	Rosneft OAO	2 000	LIBOR:180.00 bp	5 years	TF,REP	EC	ABNAM, BARCLAY
n/a	Rosneft OAO	7 300			ACQ	BF	ABNAM, BARCLAY, BNPP, DRKW, JPMLC, MSTAN
n/a	Yenisey	100		4 years	GEN	CRF	COMERZ
n/a	Tyumen Oil Co OAO - TNK	500		3 years	GEN	TL	HSBCGP, SMBCEU, WESTLB
n/a	GoOil ZAO	75		5 years	TF	CRF	HVB

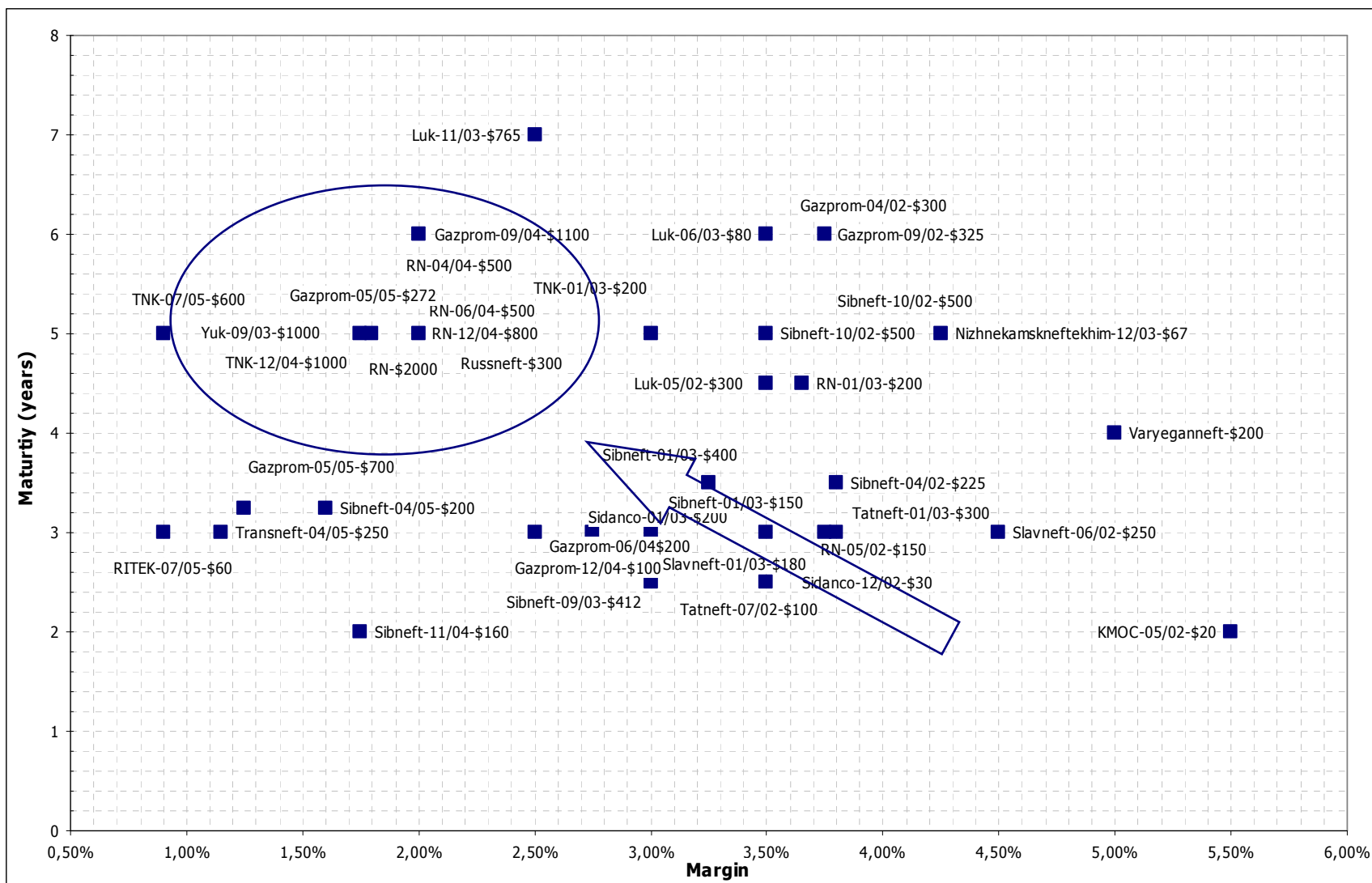
ACQ	Acquisition
GEN	General corporate
REF	Refinancing
REP	Debt repayment
TF	Trade financing
WCA	Working capital

ALOAN	A-Loan
BC	Buyer credit
BF	Bridge facility
BLOAN	B-Loan
CRF	Credit facility
EC	Export credit
MEZ	Mezzanine loan
REV	Revolving credit
TL	Term loan

- Trend: financing of second and third tier oil and gas companies, but still very little limited recourse deals, e.g. resource based lendings or project financing



2. Market trends: longer loan tenors and larger size (2)

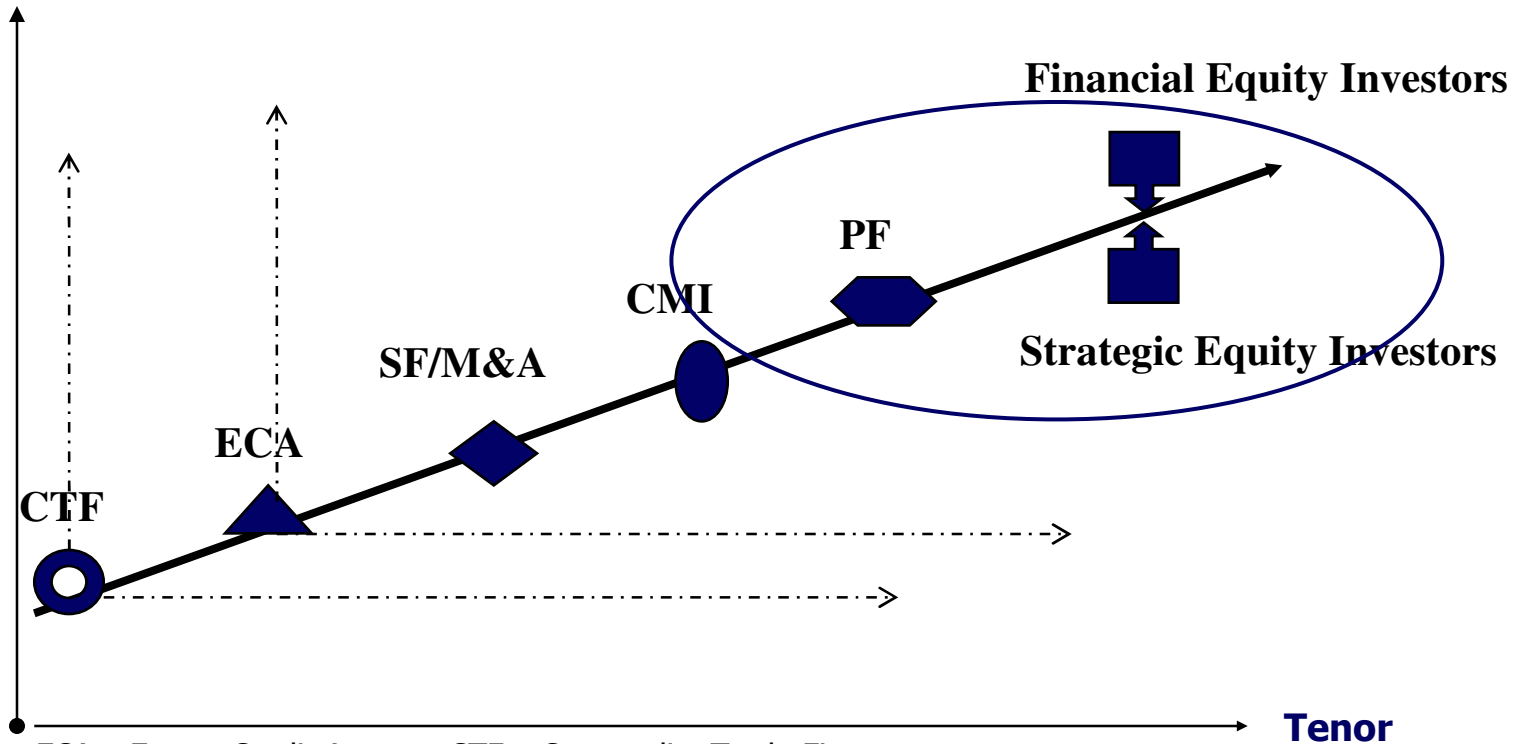


- Current trend: maturities over 7 years for secured loans and over 10 years for capital market instruments (e.g. 30 years Gazprom bond)
- Pricing competition: margin under 100bps soon?



Evolution of financing instruments in the Russian oil sector

Complexity und Investment Size
(with risk adjustment)



ECA – Export Credit Agency; CTF – Commodity Trade Finance;
SF/M&A – Structured Finance/Mergers & Acquisitions;
CMI – Capital Market Instruments (bonds, commercial papers);
PF – Project Financing



3. Need for financing at current oil prices: challenges for financial institutions

- **Why secured if unsecured is cheap?**
 - Declining margins and longer tenors

- **Borrowers are cash rich**
 - No “silver lining” due to high oil and gas prices

- **Limited choice of transactions and projects**
 - Shooting for “white elephants”?



4. Deal competition or pricing dumping?

- **Foreign banks face lack of attractive deals**
 - Central and Eastern Europe is with EU
 - Latin America and Africa are behind Russia (in credit terms)

- **Growing local rouble market**
 - Competition from cash/assets rich Russian banks

- **New typical borrower profile: second tier companies on a move**
 - Blue chips credit limitations: too much for borrowers (conservative existing financial covenants) and banks (credit exposure)

- **New lenders coming**
 - Changing credit profile



5. New business via innovative credit structures? (1)

- **Transition era: between corporate and project financing**
- **Majority of banks still not prepared for true project financing, i.e. loans secured by project assets and receivables only**
- **Shift to more aggressive credit structures:**
 - US\$ to RUR: from export to domestic receivables
 - Offshore to onshore account structures
 - Trade financing based structures to project / asset based structures with limited or no recourse, incl. acquisition and resource based financings
- **Need for specific financial and industry know-how**
- **Credit innovation is a must: work on your credit polices and educate your credit committees**



5. New business via innovative credit structures? (2)

- **Main advantages of project financing for the borrower:**
 - Off-balance sheet structures possible
 - Larger investment volumes
 - Longer tenors
 - Higher leverage
 - More flexibility: tailor made repayments
 - Cost saving potentials
 - Risk sharing
 - Transparency and better monitoring



5. Introduction to Asset Capital Partners

- **Asset Capital Partners** is a globally operating investment banking firm based in Munich and Moscow



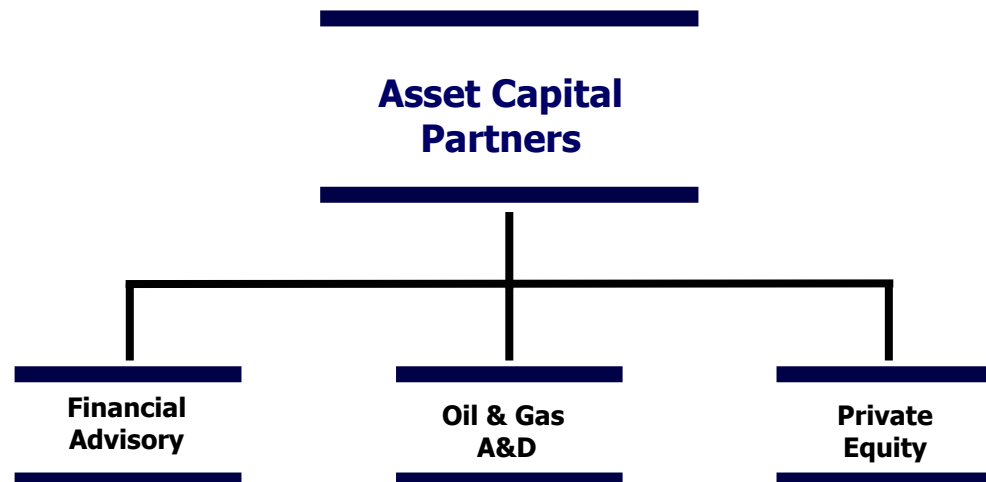
- Given the partners' proven track record **Asset Capital Partners** has a special focus on Russia and other CIS countries
- We provide investment, commercial banking and private equity services for asset based industries, particularly the oil & gas, mining, power and infrastructure sectors



5. Introduction to Asset Capital Partners (2)

Activities

- **Asset Capital Partners** offers a wide range of investment banking services:
 - Financial advisory with regard to debt, mezzanine and equity
 - Acquisitions and divestiture (A&D) services in the oil and gas sector
 - Private equity services, including fund management and direct equity investments



5. Introduction to Asset Capital Partners (3)

Founders

- **Asset Capital Partners** was established as a spin off from the private equity and corporate finance division of HVB Group, one of the leading European banks
- The company's founders Hansjörg Gonser, Vladimir Matias, Jan-Hendrik Röver and Marc Wallenstein have successfully worked as a team for more than 7 years and have a combined financing and industry experience of almost 40 years
- All founders are executive partners of **Asset Capital Partners**

Experience

- The partners' expertise covers the whole spectrum of financing solutions from equity over mezzanine to senior debt
 - Thorough senior debt know how and track record as well as unique investment track record and reputation in Russia and other CIS countries, resulting inter alia in the No. 1 arranger position in 2002 and „Deal of the Year“ awards in 2001 and 2002
 - Quasi-equity financing experience in the form of asset based mezzanine investments
 - Substantial private equity know how and track record as the partners represented the first institutional fund-of-funds-investor exclusively focused on asset based investments





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