

ASSET CAPITAL PARTNERS

Project Financing – Becoming Reality

The Russian CFO Summit
Growth Funding Forum: Capital-raising Strategies for Corporates
Adam Smith Conferences

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Moscow

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Macroeconomic outlook: 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**
 - 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 2004



Russian banking system

- Relatively small Russian banks
 - Sberbank (100% state-owned; assets 2004: US\$ 50 billion)
 - Vnestorgbank (100% state-owned; assets 2004: US\$ 11 billion)
 - Gazprombank (100% owned by Gazprom; assets 2004: US\$ 7 billion)
 - Alfa Bank (assets 2004: US\$ 6 billion)

- Banking crisis in 1998 and again (on a smaller scale) in 2004 (11 banks disappeared)

- No long term financing available from Russian banks due to limited interbank market liquidity
 - In principle loan terms of 3-4 years maximum; however, loan tenors are generally becoming longer
 - Limited mortgage lending (needs for state support provided through the Agency for Housing Mortgage Lending)

- High loan margins for all creditors except first tier borrowers (Gazprom, Rosneft, Transneft, Norilsk Nickel) for whom margins have reduced dramatically; however, loan margins are generally declining

- Little experience with structured financings such as acquisition finance, project financing or derivatives



Financing of Russian oil & gas transactions trends (1)

- International banks
 - From offshore accounts to onshore accounts
 - From US\$ to RUR (and consequently from export to domestic receivables)
 - From trade financing based structures to project / asset based structures with limited or no recourse, incl. acquisition and resource based financings

- Corporate financings
 - Many transactions fully financed by company's equity, but move to acquisition financings
 - Alternatively often loans in the form of full recourse corporate financing
 - Russian banks use little structure documentation and require only limited security (limited mostly to corporate guarantee, accounts and payment instructions, and power to receive funds)
 - Corporate bonds available to first tier companies (e.g. Gazprom, Rosneft, Norilsk Nickel), becoming reality to second tiers



Financing of Russian oil & gas transactions trends (2)

- Pre-export financing / hybrid structures
 - Focus on export receivables and reserves base of producing companies

- Project finance
 - Offered mostly by international banks
 - Very few transactions so far

- Acquisition financing
 - Only offered by international banks, not yet by Russian banks
 - Not yet available on a non-recourse basis
 - Should develop in the near future



Loan market trends in the Russian oil & gas sector (1)

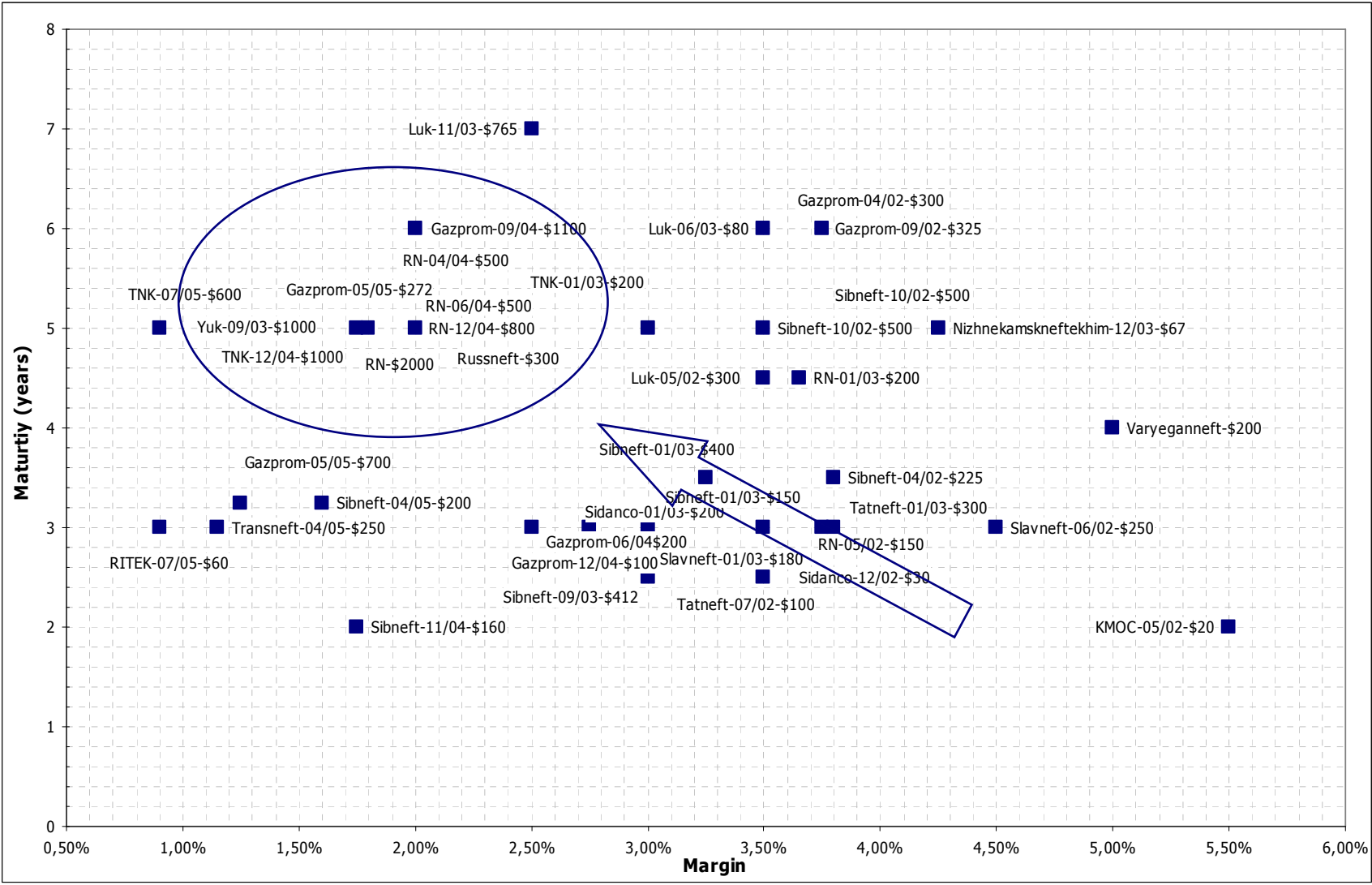
Date	Borrower Name	US\$ mm	Margin	Mty	Purpose	Instrument	Arrangers
Jun 2003	Lukoil Perm	80	LIBOR:350.00 bp	6 years	REF	ALOAN, BLOAN	EBRD, ABNAM, BANK NV, BNPP, DZBANK, COMERZ, WESTLB
Aug 2003	Transnefteproduct AK	75		5 years	WCA	ALOAN, BLOAN	EBRD, RZB, NXBP, COMMERZ
Sep 2003	Siberian Oil Co OAO - Sibneft	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	CITIRG
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	Archneftegeolgya 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, JPCCHASE, 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, JPMPLC, 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, DNNOAS, 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, DNNOAS, 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, JPMPLC, 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	Goil 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



Loan market trends in the Russian oil & gas sector (2)



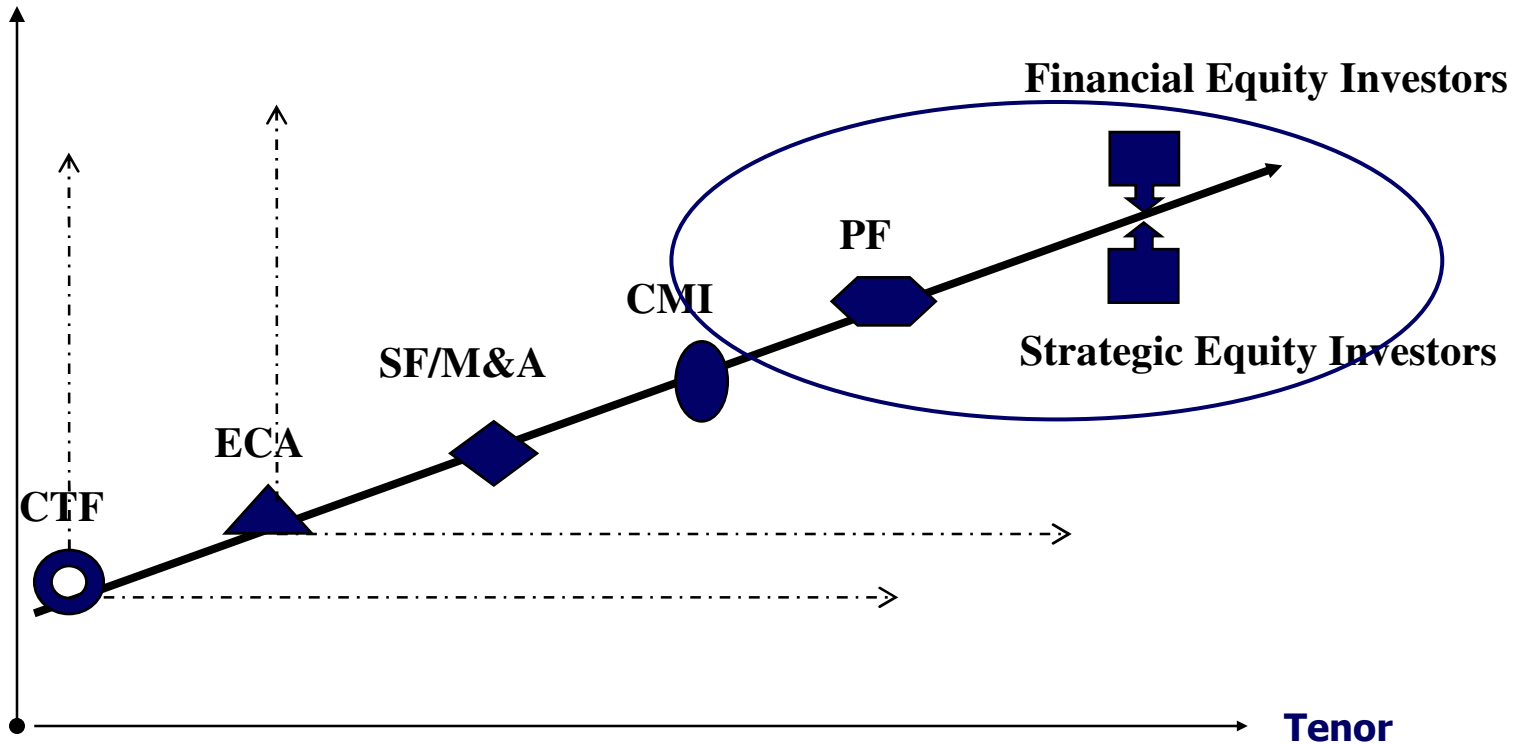
Loan market trends in the Russian oil & gas sector (3)

- Longer loan tenors and larger size
- Maturities over 7 years for secured loans and over 10 years for capital market instruments (e.g. 30 years Gazprom bond)
- Financing of second and third tier oil and gas companies, but still limited choice and innovation: borrowers and banks prefer proved credit instruments (i.e. corporate and trade finance based loans), very little limited recourse deals (e.g. resource based lendings or project financing)
- Pricing competition: margin under 100 bps soon?



Evolution of financing instruments in the Russian oil & gas sector

Complexity and Investment Size
(with risk adjustment)



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



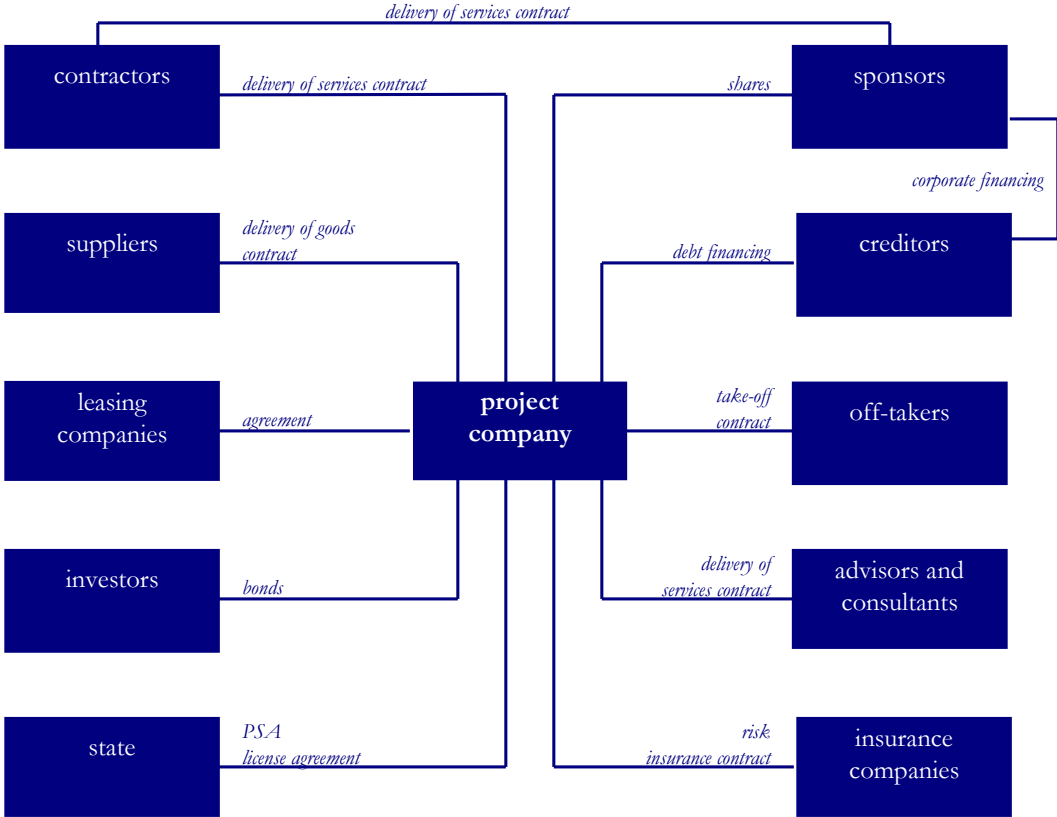
Special features of project financing

- Project financing is a relatively new financing instrument used for realisation of new high-cost middle and large sized projects, particularly in the asset-based industries (oil & gas, mining, power, infrastructure)
- A special purpose vehicle is created (= project company):
 - banks provide the financing to the project company directly
 - project company has all rights and incurs all obligations with regard to the project realisation, it manages the project, acts as party in all project related agreements (e.g. off-take contracts, EPC contract, etc)
- Limited or no recourse to the project sponsors:
 - off-balance-sheet financing
 - the debt is serviced from the project company's future cash flows
 - the sponsors usually take up the construction completion guarantees
 - in case of project failure, the losses of the project sponsors are limited to their investments into the project company



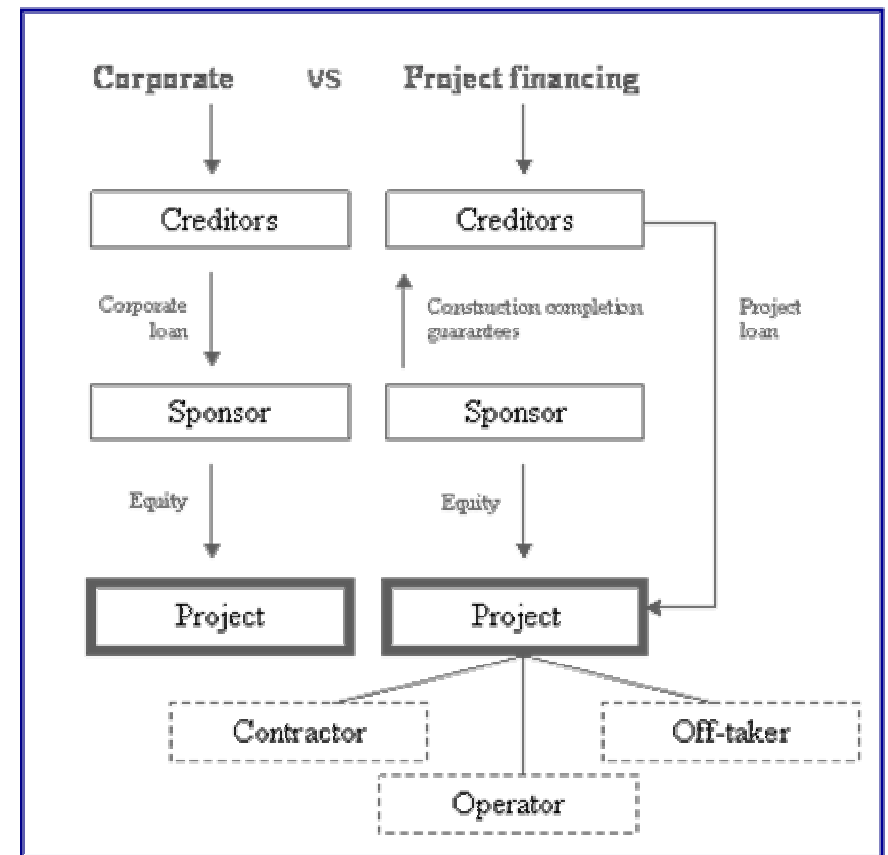
Key parties of project financing

- Sponsors / investors
- Project company
- Arrangers of the financing
- ECAs / MLAs
- Financial, legal and other advisors, independent experts
- State authorities
- Contractors
- Suppliers, off-takers
- Insurance companies
- Transportation companies
- Operating and managing companies



Main differences from corporate financings

- Clear isolation of project assets
- Debt is repaid from future project cash flows
- After completion of the construction phase (when sponsors may be required to provide the construction completion guarantees), responsibility of project sponsors limited to their equity contributions
- Risk sharing between all project parties



Advantages and disadvantages of project financing

- Longer and more complicated preparation stage
- More complex structure
- Larger transaction costs and fees
- Larger security volumes required
- Restrictions to operating flexibility

But!

- Longer tenors
- Larger investment volumes
- Higher leverage
- Limited responsibility of the sponsors
- Off-balance-sheet structures possible
- Risk sharing between all project parties
- Transparency and better monitoring
- More flexibility: tailor made repayments
- Cost saving potentials



Risks and instruments of their mitigation (1)

- Credit risks
 - Adequate debt-to-equity ratio
 - Adequate security
 - Insurance contracts

- Technological risks: completion risk, performance risk, resource risk
 - Reliable EPC contractor
 - EPC contract provisions: turn-key contract, fixed date, completion test
 - Use of proven technologies
 - Independent reserves audit, adequate concession tenor, reserve tail

- Economical risks: cost overrun risk, supply and marketing risks, price risks, inflation risk, casualty loss risk, ecological risk
 - Fixed price contracts
 - Long term supply contracts
 - Long term off-take contracts with take-or-pay or take-and-pay obligations
 - Use of derivatives: forward contracts, futures, options
 - Use of hard currencies in contracts
 - Contingency contributions
 - Insurance contracts



Risks and instruments of their mitigation (2)

- Political and country risks
 - Political risk insurance
 - Involvement of international finance organisations
 - Government support (comfort letter)

- Currency transferability and convertability risks
 - Use of hard currency
 - Currency export permits
 - Use of off-shore hard currency accounts

- Legal risks: risk of inability to receive licenses, risk of documentation validity, risk of legislation ambiguity
 - Comprehensive due-diligence process
 - Inclusion in loan agreements of conditions precedent

- Force-majeure risk
 - Insurance



Requirements to project parties

- Project sponsor shall
 - have experience in similar projects
 - have high creditworthiness
 - be able to provide security if required
 - be able to secure long term contracts
 - conduct a comprehensive feasibility study

- EPC contractor shall
 - be a well known and respectable company
 - have extensive experience in similar projects
 - use proven technologies

- Independent experts shall
 - be well known and respectable companies



Project financing in the Russian oil & gas sector

Project financing structure can well be applied in the Russian oil & gas sector due to a number of positive sector features:

- Oil & gas projects' assets are clearly isolated and can be easily used to establish a new independent project company
- With the beginning of the exploitation stage, oil & gas projects are capable to generate constant cash flow (=> reduced credit risks)
- Large reserves base is available (=> lower resource risk)
- Constantly growing demand for Russian oil & gas, also from Western European and Asian countries (=> very low marketing risks)
- Domestic demand is far below the current production volumes, which gives way to extraordinary export potential. This in turn secures hard currency revenues (=> lower currency related risks)
- Oil & gas projects are usually long-term high-cost projects, and it may be impossible to attract financing on acceptable terms in other forms



Case studies

- SeverTEK
 - Description: development of the Yuzhno-Shapkinskoye oil field in Komi
 - Year: 2002
 - Sponsors: Lukoil and Fortum
 - Total investments volume: over US\$ 355 million (thereof debt US\$ 200 million)
 - Tenor: 6.5 years
 - Margin: construction stage – 6 month LIBOR + 300 bps, exploitation stage – LIBOR + 475 bps
 - Lead arrangers: EBRD and HVB

- RussNeft-Bryansk
 - Description: oil terminal near Bryansk with the capacity of 5 million tonnes per year
 - Year: 2005
 - Sponsors: RussNeft
 - Total investments volume: over US\$ 90 million (thereof debt US\$ 63 million)
 - Tenor: 4 years
 - Lead arrangers: HVB and IMB



Introduction to Asset Capital Partners (1)

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

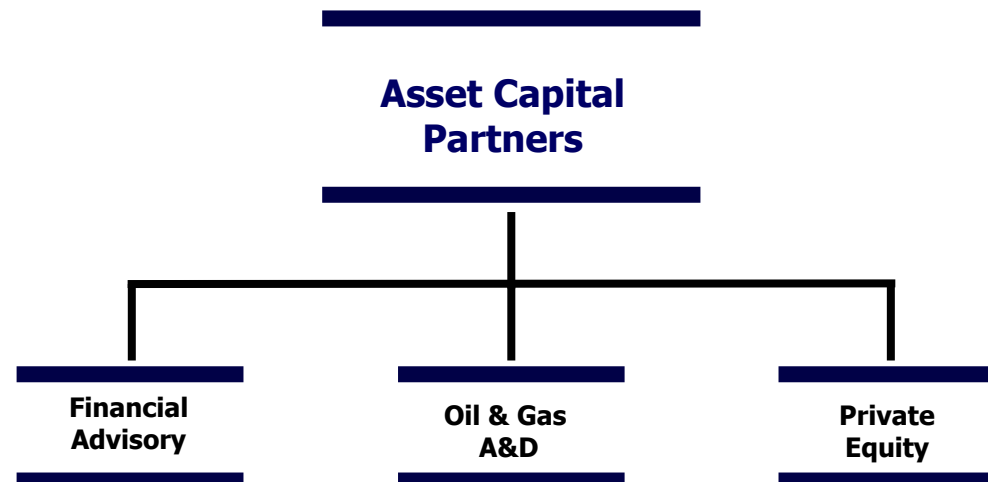


- Given the partners' proven track record, **Asset Capital Partners** has a special focus on Russia and other CIS countries
- We provide investment, commercial banking and private equity services for asset based industries, particularly the oil & gas, mining, power and infrastructure sectors



Introduction to Asset Capital Partners (2)

- **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




Introduction to Asset Capital Partners (3)

- **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 managing partners of **Asset Capital Partners**

- 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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