

ASSET CAPITAL PARTNERS

«Maturing Market or Market Bubble?»

Vladimir Matias

The Russian and CIS Oil & Gas Investment Forum

The Energy Exchange

30 November - 2 December 2004

Moscow

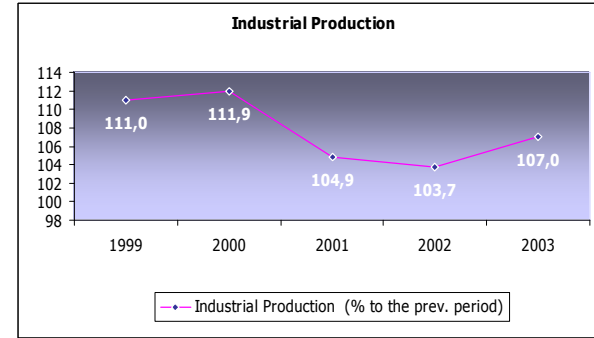
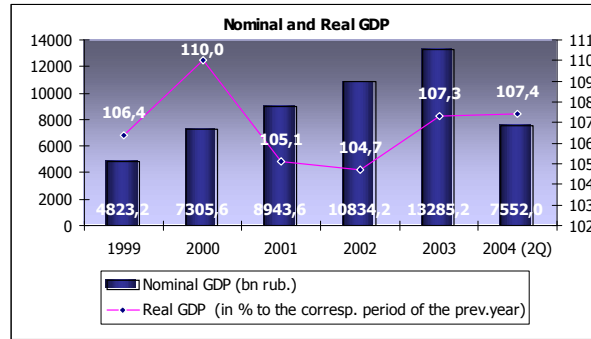
- 1. Market trends: longer loan tenors and larger size**
- 2. Need for financing at current oil prices: challenges for financial institutions**
- 3. Deal competition or pricing dumping?**
- 4. New business via innovative credit structures?**
- 5. Asset Capital Partners**



Russian Economy

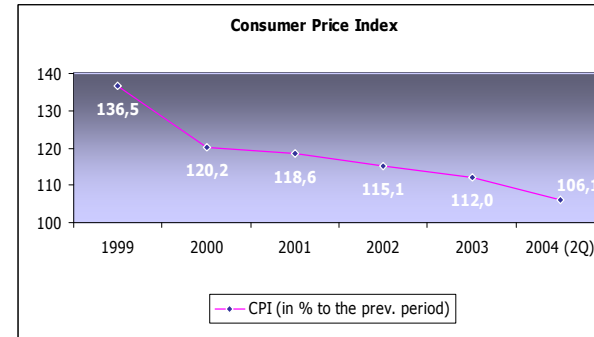
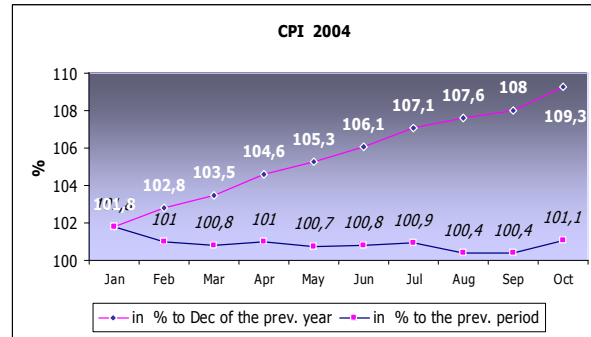
Major trends

- Fifth successive year of relatively impressive GDP growth
 - 7.3 % GDP growth in 2003 (US\$ 432.7 billion) [4.7 % in 2002(US\$ 345.0 billion)]
 - Average GDP growth rate in Russia over the last five years approx. 6.6 % – a rate that few other European countries have matched.



Source: Goskomstat, own calculations

Inflation



Source: Goskomstat, own calculations

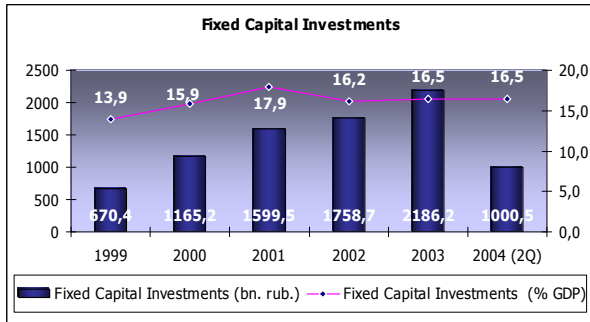
- Improvement => Fall from above 20 % in 2000 to appx. 12 % in 2003;

... remarkable macroeconomic indicators ...



Russian Economy

Investments

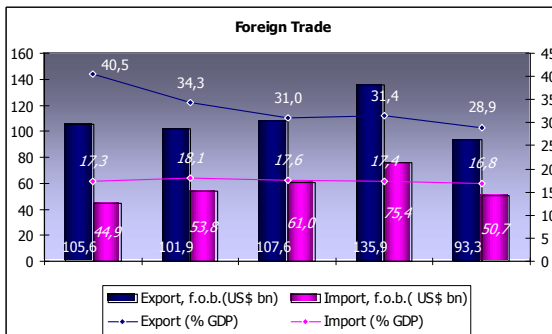


Source: Goskomstat, own calculations

■ Substantial increase in investment demand. With capacity by and large fully utilised, growth could not be sustained without investment.

■ In 2003 fixed capital investment amounted to US\$ 71 billions or 16.5% of the GDP. In the first 2 quarters 2004 this indicator was equal to US\$ 34.7 billions.

Foreign Trade



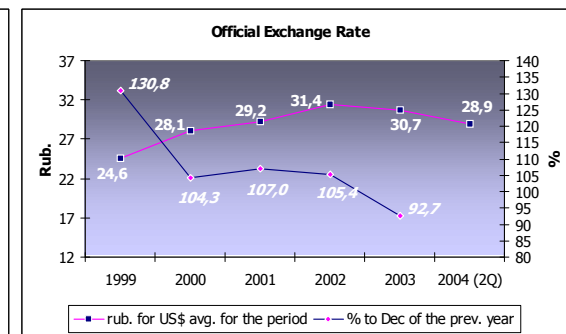
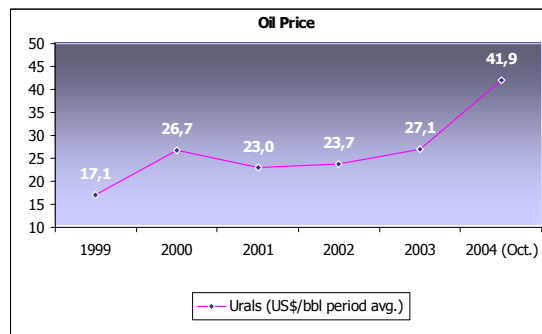
Source: Goskomstat, Central Bank, own calculations

■ Significant increase in the import and export volumes (Main reasons: ruble strengthening, increase in real income and purchasing power of the population)

■ In 2003 Export (f.o.b.) = US\$ 135.9 bn and Import (f.o.b.)= US\$ 75.4.

■ According to Central Bank data: positive trade balance in Jan-Aug 2004 = US\$ 51.2 bn (30.3% increase to the same period in 2003)

■ High oil prices.

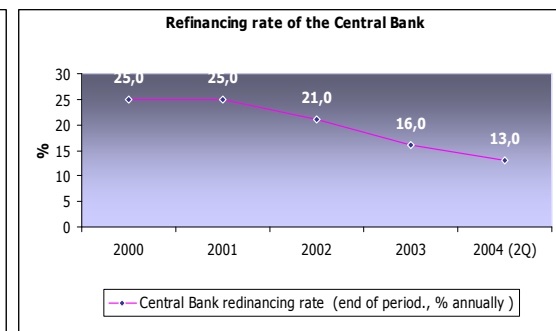
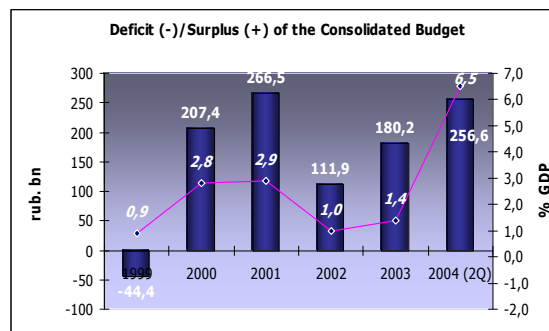
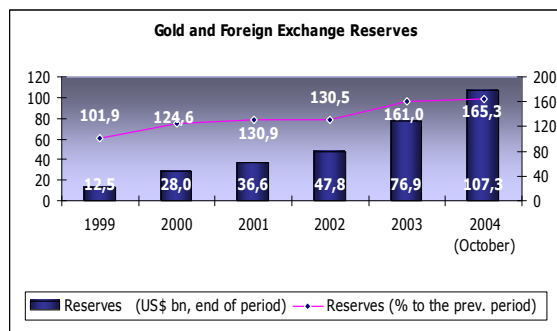


... enhanced political and economic stability, combined with high oil prices dramatically improved the economics of Russian oil investment...



Russian Economy

Government Finances



Source: Goskomstat, own calculations

- Gold and foreign exchange reserves at historical highs: more than US\$ 107 billion in 2004
- Stable growth of taxation income
- Stabilisation fund in Oct 2004 = 349.7 bn rub. (only 106 bn rub. in Feb)
- Marked decline in official poverty levels. Real disposable incomes in Russia grew by 14.5 % in 2003, and real wages increased by 10.4 %



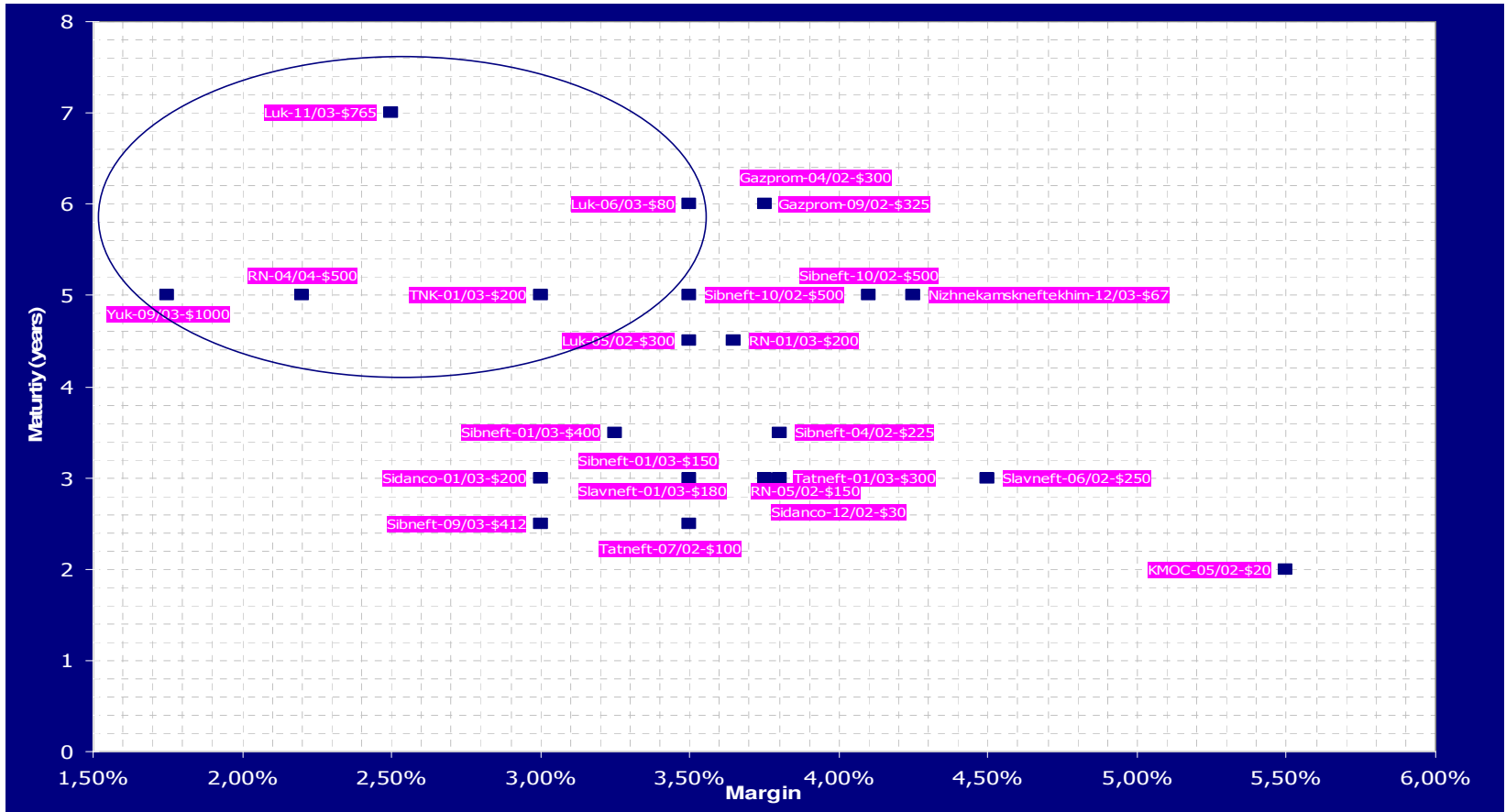
1. Market trends: longer loan tenors and larger size (i)

Date	Borrower	Type	Status	Amount (US\$ mm)	Maturity	Pricing	Arrangers
03 June 2003	Lukoil-Perm	Refinancing	Bilateral	80	6 years	LIBOR:350,00 bp	EBRD, ABN-AMRO Bank NV, BNP Paribas, DZ Bank AG, Commerzbank AG, WestLB AG.
28 August 2003	Transnefteproduct AK	Working Capital	Bilateral	75	5 years	Undisclosed	EBRD,RZB, Natexis Banques Populaires SA, Commerzbank AG
12 September 2003	Siberian Oil Co OAO - Sibneft	Refinancing; General Corporate	Secured	412	2.5 years and 4.5years	EURIBOR 215,00 bp ; LIBOR 300,00 bp	BNP Paribas, Citygroup Inc., WestLB AG
24 September 2003	Yukos Oil Co OAO	Trade Financing ; General Corporate	Secured	1000	3 and 5 years	LIBOR 150,00 bp and LIBOR 175,00 bp	Citigroup inc.; Credit Lyonnais SA; HSBC; SG; KBC Bank NV; Commerzbank AG; Deutsche Bank AG; ING Bank NV; BNP Paribas; UFJ Group
06 November 2003	Rosneft OAO	Trade Financing	Secured	150	5 years	Undisclosed	Natexis Banques Populaires SA; RZB; Natexis Banques Populaires (Moscow); Raiffeisenbank Austria ZAO
11 November 2003	Lukoil OAO	Trade Financing; Debt Repayment	Secured	765	5 and 7 years	LIBOR 200,00 bp and LIBOR 250,00 bp	ABN-AMRO Bank NV; Citygroup Inc.
16 December 2003	Nizhnekamskneftekhim OAO	Trade Financing	Secured	67	5 years	EURIBOR 425,00 bp	Citigroup inc.
30 January 2004	Lukoil OAO	General Corporate	Self-Arranged	250	1 year	Undisclosed	Lukoil OAO
04 March 2004	Rosneft OAO	General Corporate	Bilateral	150	1 year 4 months	Undisclosed	HVB Group
23 March 2004	Archneftegeologiya JSC	Trade Financing	Secured	25	3 years	Undisclosed	BNP Paribas
15 April 2004	Rosneft OAO	Trade Financing	-	500	5 years	LIBOR 220,00 bp	ABN-AMRO ; SG; HVB Group

- **Limited choice and innovation: borrower and banks prefer proved credit instruments, i.e. corporate and trade finance based loans**



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

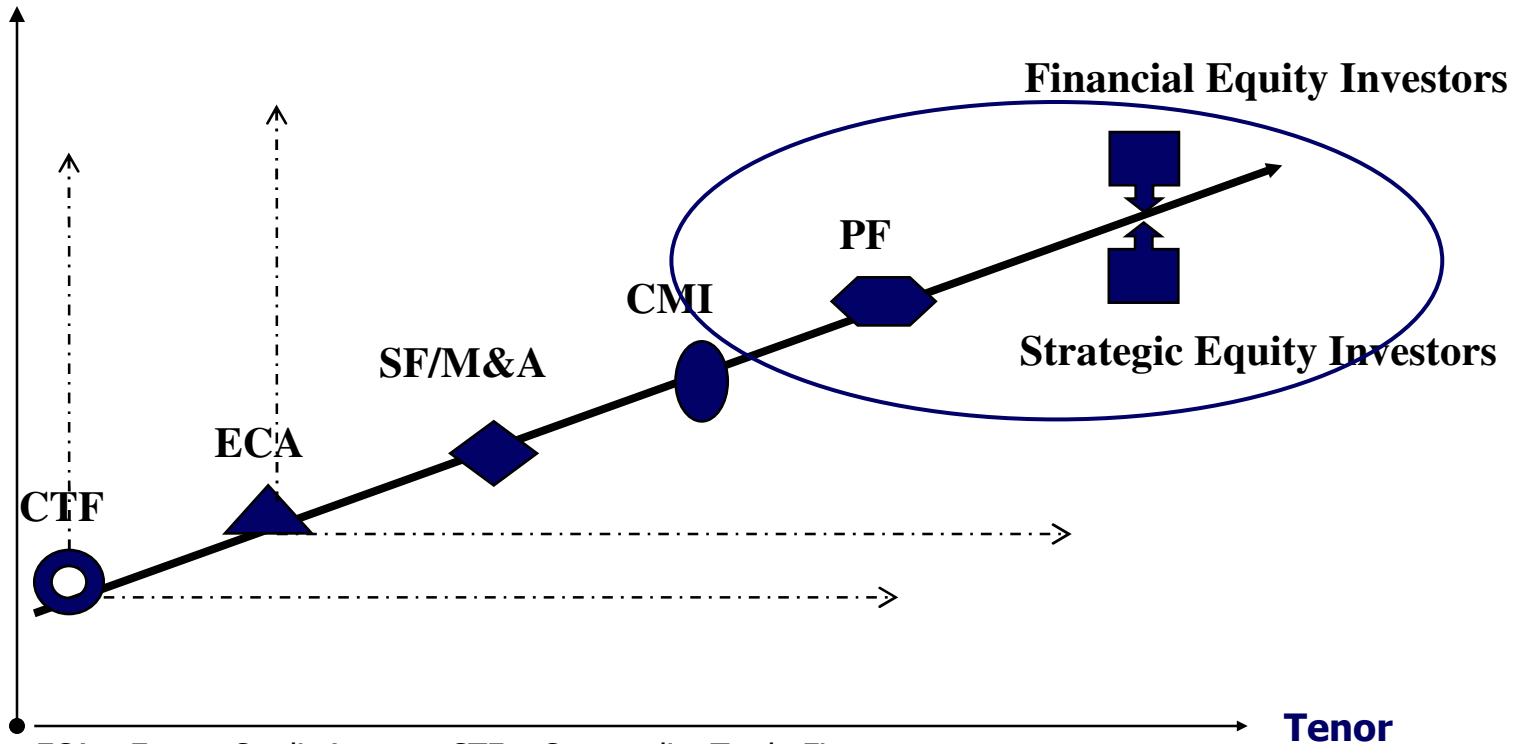


- **Current trend: maturities over 7 years for secured loans and over 10 years for capital market instruments (e.g. 30 years Gazprom bond)**
- **Pricing competition: margin under 100bps soon?**



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

2. 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”?



3. 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



4. New business via innovative credit structures? (i)

- **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**



4. New business via innovative credit structures? (ii)

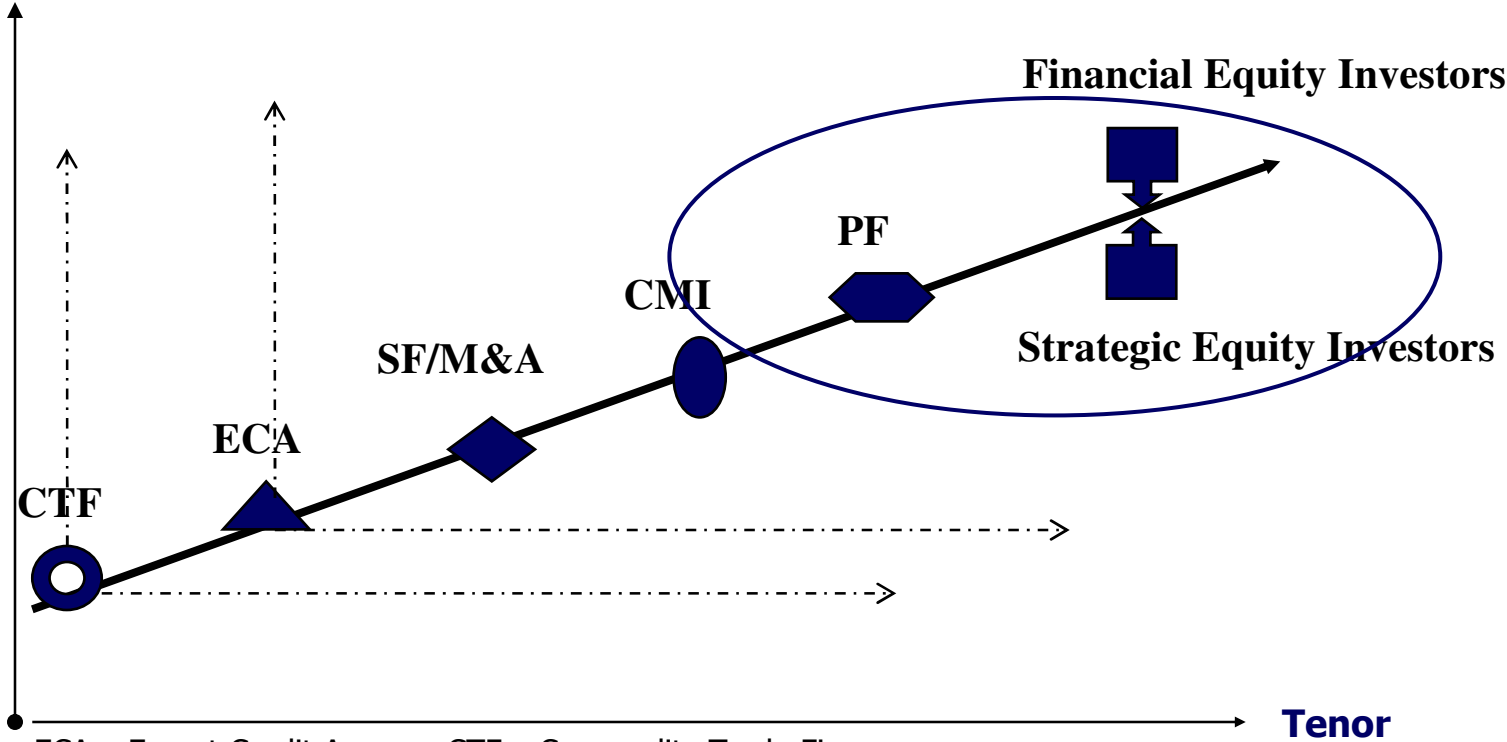
■ Main advantages of project financing for the borrower:

- 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



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Introduction to Asset Capital Partners

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



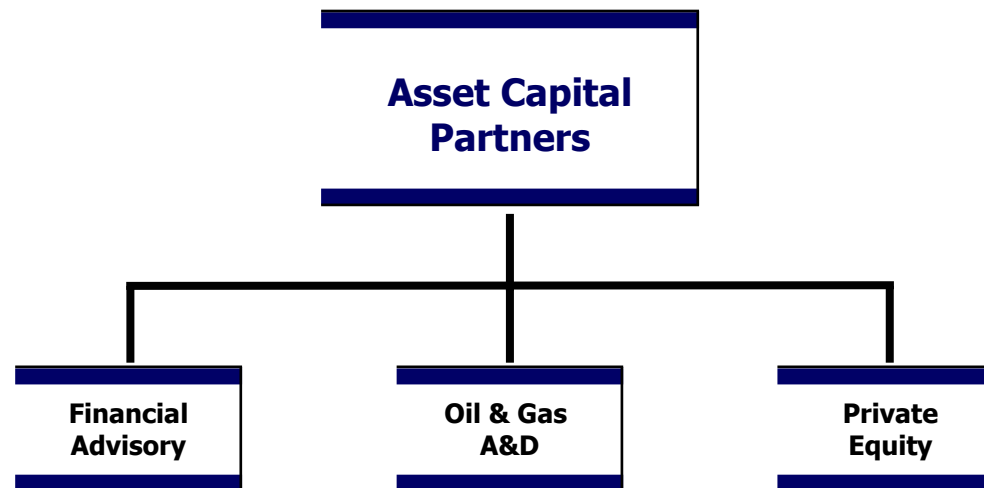
- Given the partners' proven track record **Asset Capital Partners** has a special focus on Russia and other CIS countries
- **Asset Capital Partners** provides investment banking and private equity services for asset based industries, particularly the oil & gas, mining, power and infrastructure sectors



Introduction to Asset Capital Partners (cont'd)

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



Introduction to Asset Capital Partners (cont'd)

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 5 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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