

# ASSET CAPITAL PARTNERS

## «Maturing Market or Market Bubble?»

Vladimir Matias

**Long Term Financing for the Oil & Gas Sector in Russia and the CIS**

**EF International Conference**

**16-17 June 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**

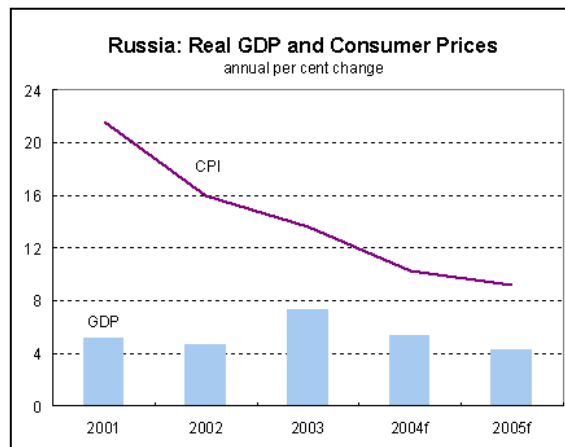


... remarkable macroeconomic indicators ...

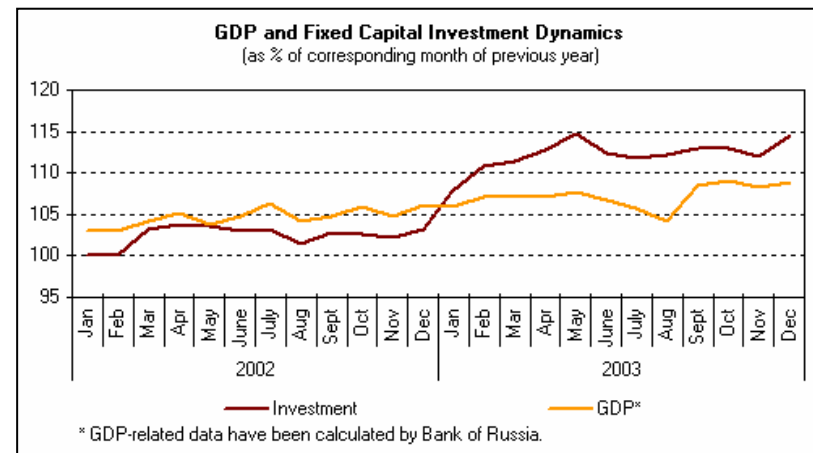
... enhanced political and economic stability, combined with high oil prices dramatically improved the economics of Russian oil investment...

## Russian Economy

- Fifth successive year of relatively impressive GDP growth
  - 7.3 % GDP growth in 2003 (4.3 % in 2002)
  - Average GDP growth rate in Russia over the last five years approx. 6.6 % – a rate that few other European countries have matched.
- Russia's macroeconomic accounts all remained in surplus
- 2003 inflation rate improved => Fall from above 15 % in 2002 to 13.6 % in 2004; inflation is forecast to fall to 10.3 % in 2004
- Gold and foreign exchange reserves at historical highs: more than US\$ 80 billion in 2004
- Marked decline in official poverty levels. Real disposable incomes in Russia grew by 14.5 % in 2003, and real wages increased by 10.4 %
- Substantial increase in investment demand. With capacity by and large fully utilised, growth could not be sustained without investment. According to Goskomstat, fixed investment increased by 12.5 %, a huge improvement over the 2.6 % in the previous year



Source: Economist Intelligence Unit: Actuals and Forecasts March 2004



Source: Bank of Russia

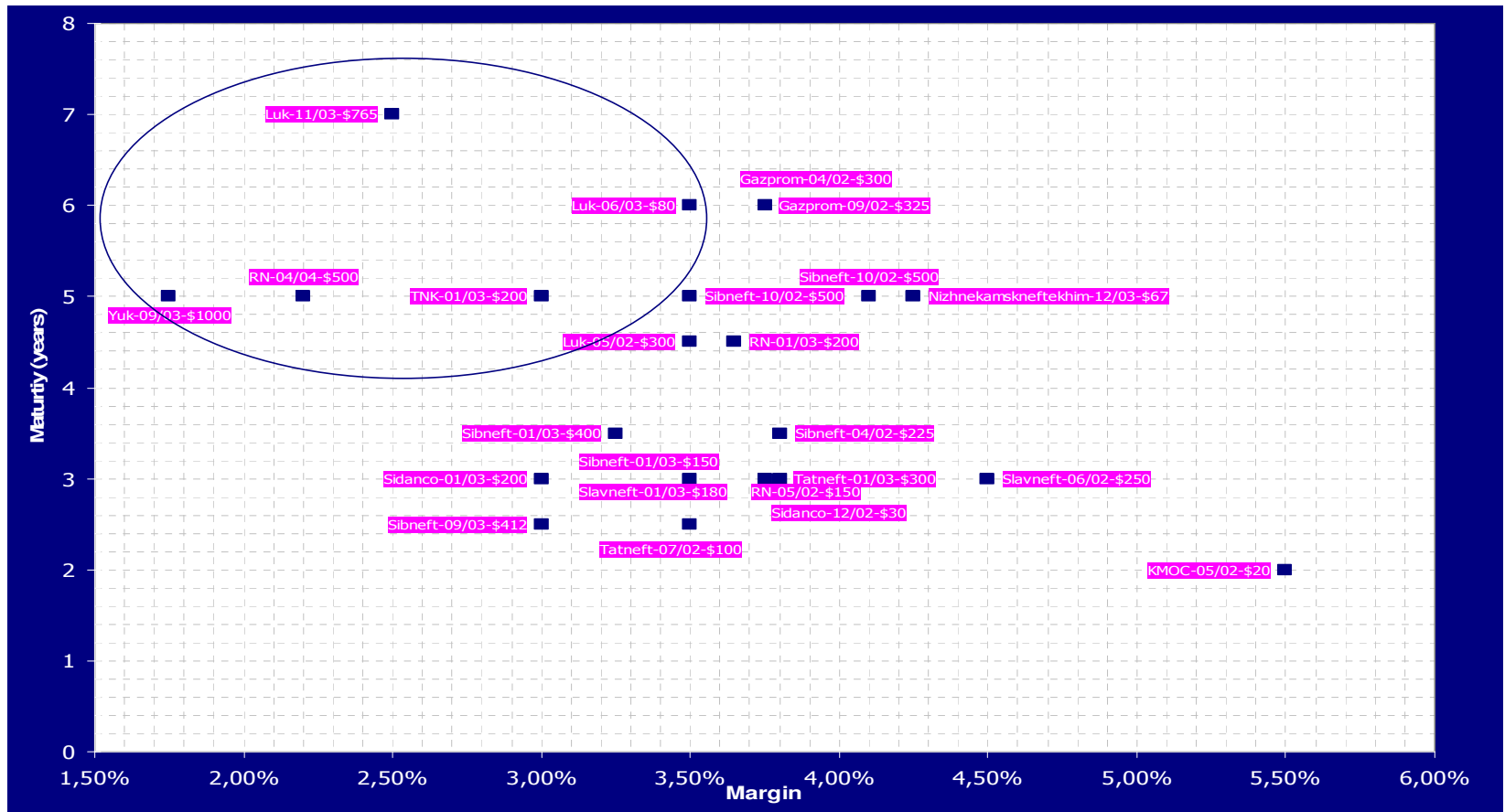
# 1. Market trends: longer loan tenors and larger size (i)

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)

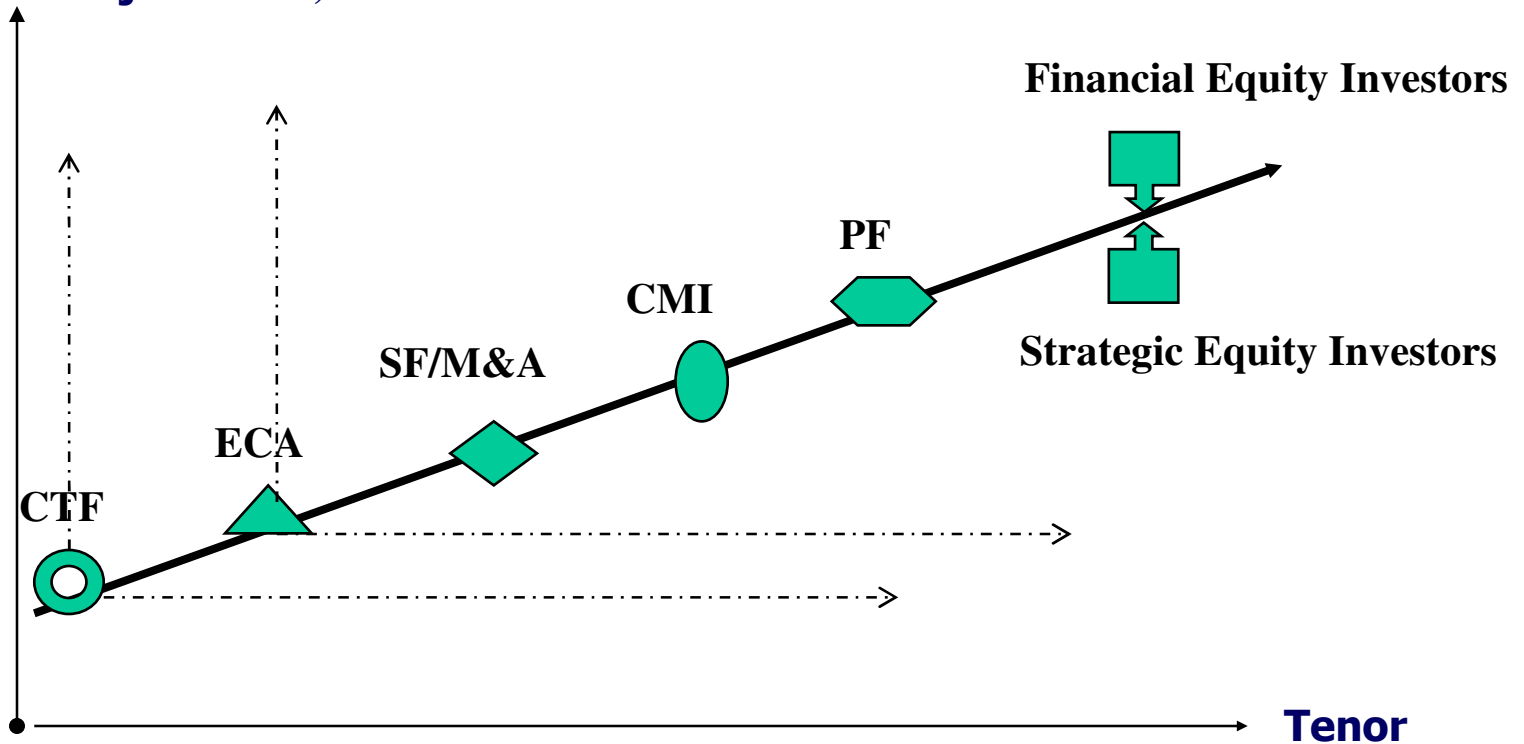


- **Current trend: maturities over 7 years for secured loans and over 10 years for capital market instruments (e.g. 30 years Gazprom bond)**
- **Pricing competition: margin under 100bps soon?**



# 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)

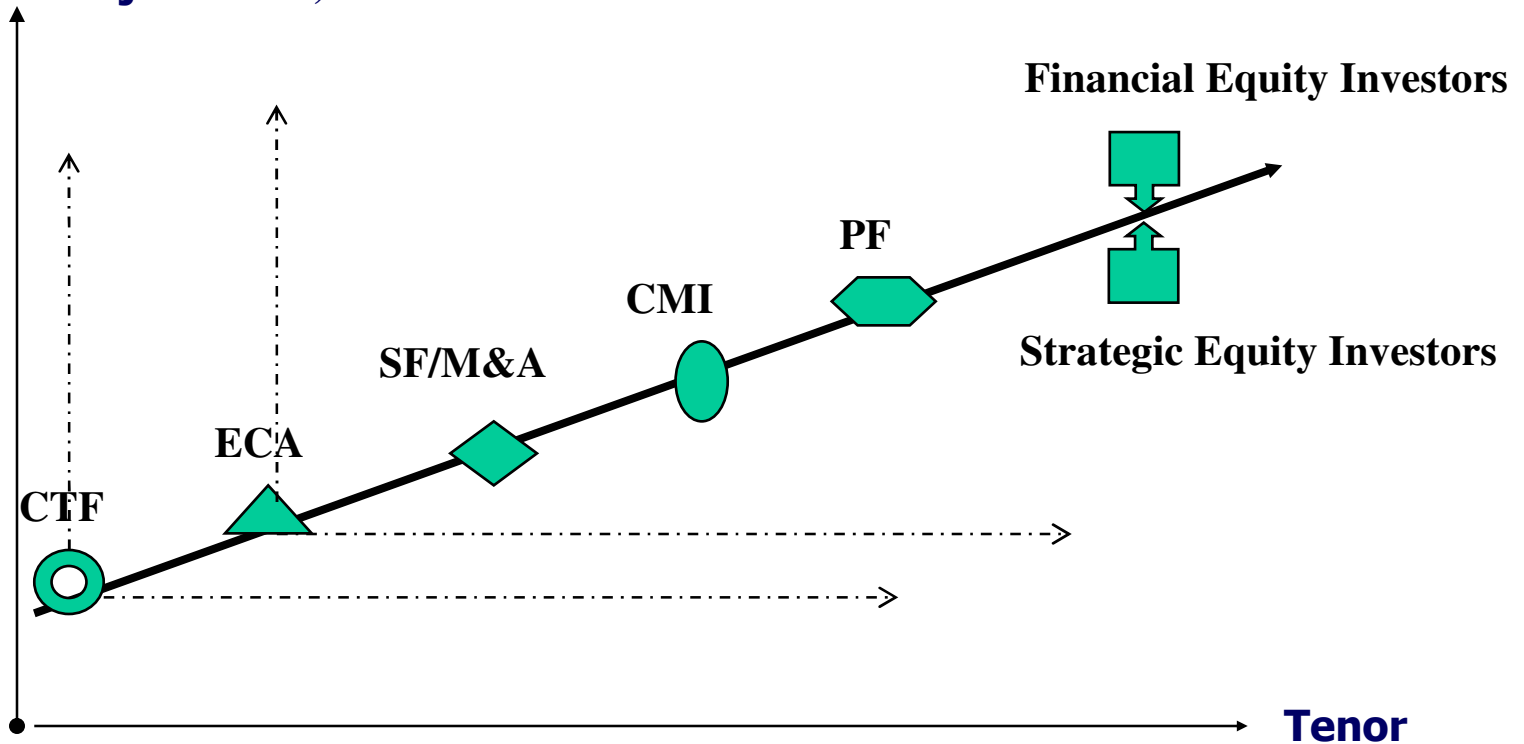
### ■ Main advantages of project financing for the borrower:

- 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



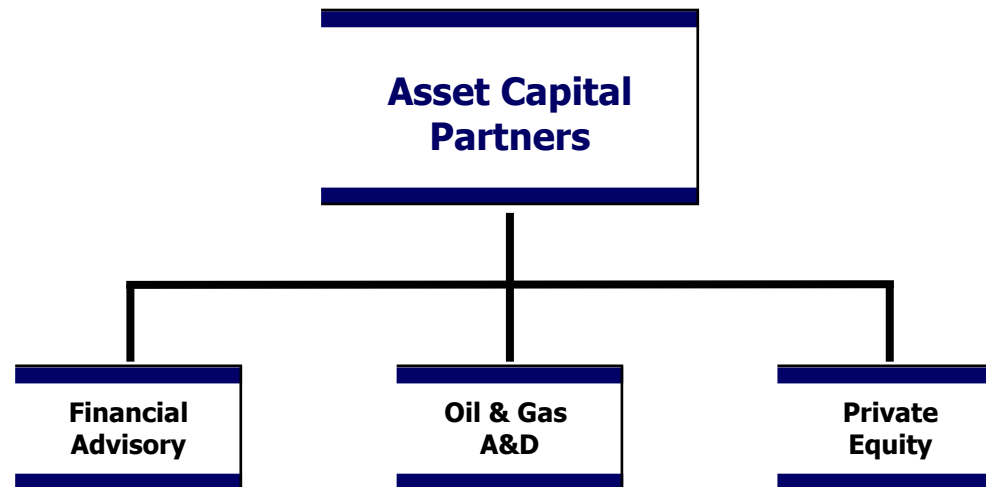
- Given the partners' proven track record **Asset Capital Partners** has a special focus on Russia and other CIS countries
- **Asset Capital Partners** provides investment banking and private equity services for asset based industries, particularly the oil & gas, mining, power and infrastructure sectors



## 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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