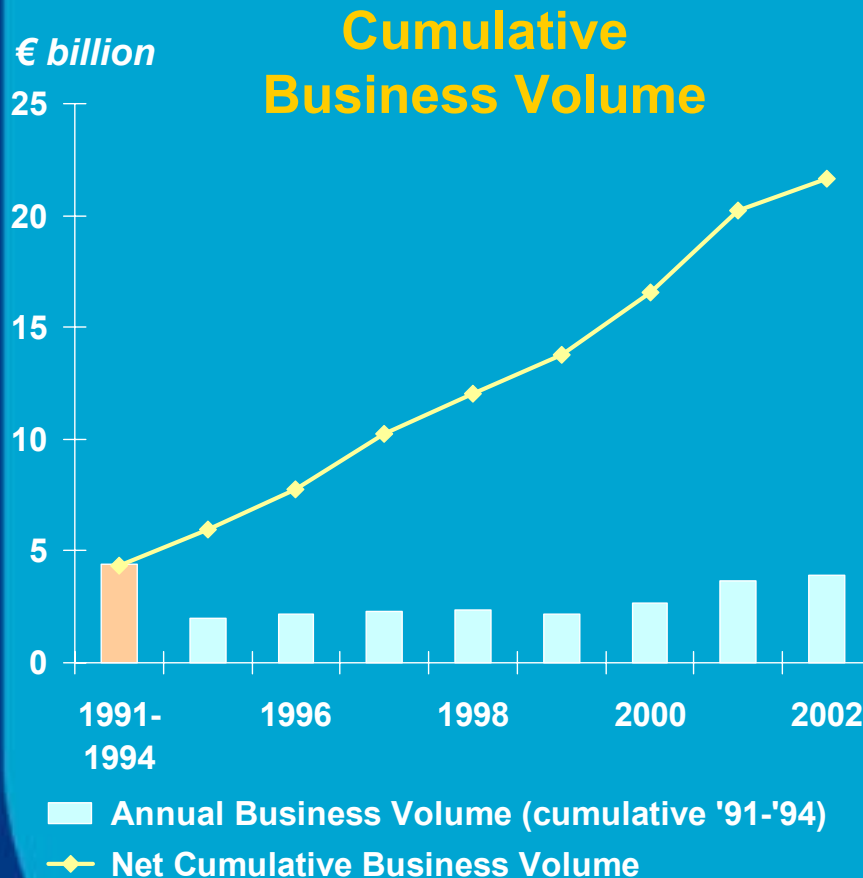


Financing of Russia's Steel Pipe Sector by EBRD: A Case Study



What is the EBRD?



- International financial institution est. 1991, owned by 62 national and supranational shareholders
- Promotes market-based economies in 27 countries in Central & Eastern Europe and the former Soviet Union
- Headquarters in London, 32 local offices including 4 in Russia (Moscow, St Petersburg, Yekaterinburg, Vladivostok)
- Committed cumulatively €21.7 billion for 920 projects to date
- Capital base of €20 billion



What are the EBRD's Objectives?

To promote:

- Transition to free, market-based economies by supporting private and entrepreneurial initiative
- A better investment climate
- Good corporate governance at project, corporate and country levels
- Environmentally sound and sustainable development



EBRD's Key Principles

- **Sound Banking Principle:** Projects financed by EBRD must be financially and commercially sound
 - Appropriate return on investments - a fair balance of risk / reward
 - Client or sponsor committed to the success of the transaction
 - Viable financing structure
- **Additionality:** Operations must be complementary to the private sector
 - Facilitate and mobilise private sector finance but not 'compete' with the private sector
- **Transition Impact:** Projects must provide transition to a market-oriented economy
 - Integrity, corporate governance, transparency



EBRD Projects in Steel and Pipe Sectors in 2002-2003

1. VIZ - Stahl 2
2. Severstal - Arcelor JV
3. Chelyabinsk Tube Rolling Plant



VIZ - Stahl 2

Duferco VIZ Stahl 2

Duferco Viz Stal
Forging New Frontiers



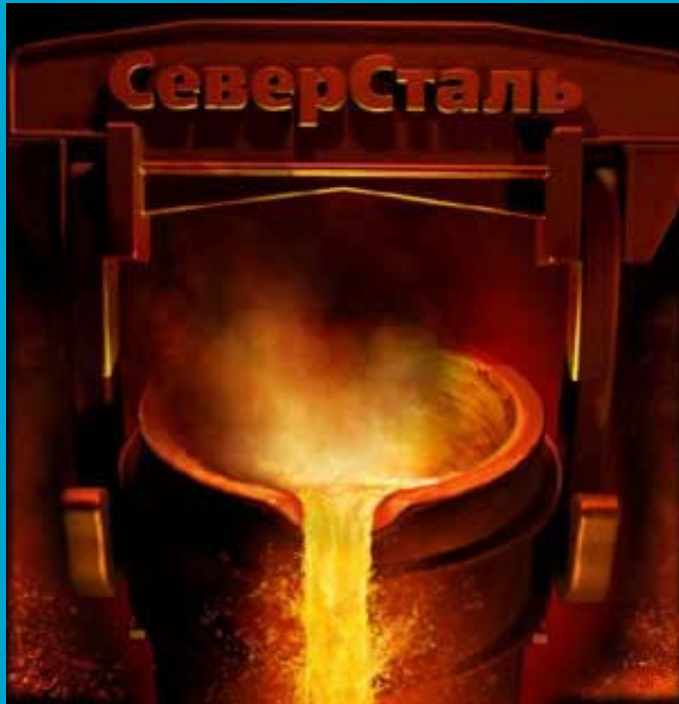
Signed on 25 September 2002

- EBRD Finance: US\$ 14 million
- Portage equity to co-finance the buyout of minority shareholders in VIZ-Stahl by its majority shareholder, Duferco, an international steel group and the only foreign investor in the Russian metallurgical sector.



Severstal - Arcelor JV

Severstal - Arcelor JV



Signed on 11 February 2003

- EBRD 7 year Loan: US\$ 90 million, of which US\$ 33.25 million syndicated with ING Bank, Credit Lyonnais, Raiffeisen Bank and Canadian IFPT
- Creating a joint venture between Arcelor, the biggest global steel producer and Severstal a major Russian steel producer for a greenfield construction of a galvanized steel plant.



Case Study: Chelyabinsk Tube Rolling Plant

Chelyabinsk Tube Rolling Plant



Signed on 20 December 2002

- EBRD Loan: US\$ 50 million
- Long term 6,5 years corporate loan to (i) upgrade of a part of the Company's longstanding mill for large diameter seamless pipe production, (ii) modernise the welded large diameter pipe production facilities, and (iii) implement environmental and energy efficiency programme for 2003.
- Up to US\$ 20 million available for syndication in the next couple of months.



Why finance Pipe sector given the Russian and global over capacity?

- Russia – an attractive pipe market
 - World's largest territory
 - Huge oil and gas reserves
 - Large oil/gas pipeline length – 217,000km (53% of gas and 63% of oil pipelines are more than 20 years old – replacement needs are high).
 - Demand for new pipelines
 - Enough room for all major Russian players in the pipe market
 - Increasing quality demands of the oil/gas sector.



Why Chelyabinsk Tube Rolling Plant?

- One of the 7 largest plants in Russia
- Positive track record after 1998 crisis with EBRD and International Moscow Bank
- High degree of transparency
- Competent and committed ownership and management
- Developed capital investment programme endorsed by international consultants
- Sensible development strategy
- Good financial fundamentals



Major Concerns and Risks

- Environmental - active open hearth furnace
- Capacity increase in an overcapacity environment?
- Dependence on oil/gas sector
- Debt service capacity



Risk Mitigation

- Environmental Action Plan agreed
 - Closure of open hearth furnace and switch to EAF by 2009
 - Implementation of a \$500,000 eco-energy efficiency programme financed out of the loan
- Additional OCTG capacity of up to 75,000 tons per year will substitute production of lower quality pipes. No net increase.



Risk Mitigation (cont'd)

- Although 65% of the company's sales – to oil/gas industry reliant on oil prices, correlation is low - 0.44, while average for Russia - 0.81.
- Financial projections assumed without any incremental cash flows, solely on conservative existing production volumes, at the lowest level for the last 10 years (excluding 1998 crisis).



Results

- Transaction with Chelyabinsk Tube Rolling Plant completed in 4,5 months from 1st meeting to signing the Loan Agreement.
- First project by EBRD in the pipe sector in Russia.
- Positive environmental, corporate governance and economic effect.
- Start of discussions with other major pipe producers.
- Possible follow on projects with Chelyabinsk Tube Rolling Plant.



How to Obtain Finance?

- Provide EBRD with overview of proposed investment
- Commitment to work together
 - clarify role of EBRD
 - mandate to initiate transaction
 - mutual understanding of corporate integrity issues
- Project / business plan and strategy
- Feasibility or market studies (if available)



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