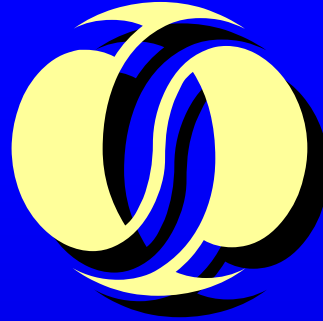




European Bank
for Reconstruction and Development

Financing of Oil and Gas Pipeline Projects

Ashgabat, Turkmenistan
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Topics

1. Recent Developments in CAR Gas Sector
2. Pipeline Infrastructure
3. Our involvement in Kazakhstan, Turkmenistan and Russia
4. How We Can Help
5. Case Studies

Recent Developments

- Gazprom's increased role in CA countries
- Turkmenistan's increasing production
- Kazakhstan's key position to CAC
rehabilitation

Gasprom's Role

- Gazprom has long-term obligations; Production decreases => need for 3rd party gas
- Focus again on the Central Asia, imports to reach 100 BCM in 2015, long-term agreements approach
- Turkmenistan, 2003: long-term agreement
- Uzbekistan, 2002: agreement to off-take 10 BCM annually
- Kazakhstan, 2001: JV KazRosGas (marketing and transportation)

Gasprom's Role

<i>Bcm per year</i>	<u>2003</u>	<u>2005</u>	<u>2010</u>	<u>2015</u>
Kazakhstan	4.3	9.5	17.5	25.5
Uzbekistan	5	10	10	10
Turkmenistan	2	6	80	80
Total	11.3	25.5	107.5	115.5

Source: CERA 2004

Turkmenistan's Increasing Production

- The largest exporter in CAR
- New commitments to Russia and Ukraine
- Reliance on Uzbek transit
- Kazakhstan's Infrastructure is Key
- Large quantities being flared in Western Turkmenistan (CAC-3 is idle)
- TAP (Turkmenistan-Afghanistan-Pakistan) pipeline and its challenges

Turkmenistan's Increasing Production

<i>Bcm per year</i>	<u>2005</u>	<u>2010</u>	<u>2015</u>	<u>2020</u>
Russia	6	70	80	80
Ukraine*	35*	35*	35*	35*
Iran	5	8	8	8
Domestic Use	15	16.2	17.4	18.5
Other Exports	2	4	4	4
Total	63	133.2	144.4	145.5

Source: Cambridge Energy Research Associates

Pipeline Infrastructure



**Still
Relying On
Soviet-era
Pipelines**

Pipeline Infrastructure

- Kazakhstan's role is key
 - CAC is the only link between CAR and Russia running across the Kazakh territory
 - No other new routes avoiding the Kazakh territory are envisaged or feasible in the medium term perspective
 - Rehabilitation of CAC-3 becomes urgently needed

Pipeline Infrastructure

- Kazakhstan: current capacity of 80 BCM; estimated investment requirement USD 1.5 billion
- Uzbekistan: current capacity of 40 BCM; estimated investment requirement of USD 100 million (1st phase)
- Turkmenistan: current capacity of 40 BCM; estimated investment requirement of USD 500 million

Pipeline Infrastructure

- Challenges to project structuring:
 - Multilateral character:
 - Four countries to benefit from its implementation
 - Ownership issues (concessions, consortia, private/public partnerships)
 - Uneven Investment Requirements:
 - varied past maintenance
 - Sources and options of financing yet to be identified, e.g. no guaranteed throughput agreement yet.

Relevant EBRD Projects in Kazakhstan

- Exposure to KazMunaiGas
 - Kenkiyak-Atyrau Oil Pipeline (USD 62 million)
 - Regional Gas Distribution Project (USD 50 million)
 - Atyrau Airport Project (USD 25 million)

Relevant EBRD Projects in Turkmenistan

- Dragon Oil (controlled by ENOC): USD 60 Mm loan facility to develop off-shore oil and gas fields (active)
- TC: Institutional capacity building for oil spill preparedness and response
- Potential: Carbon credit trading facility

Relevant EBRD Projects in Russia

- Transnefteproduct (USD 75 million) – loan to modernize product pipeline system in Russia
- Sakhalin II (part of external financing for USD 12 bn project) – construction of oil and gas pipelines (800 km each) across Sakhalin island
- Gastransit (USD 150 MM) – rehabilitation of Gazprom's gas pipeline to Balkans

How We Can Help

- Vast specific experience in financing pipeline projects (Transnefteproduct, Gastransit, BTC, etc.)
- Good relationships with Gazprom and the Russian Government
- Work with the Turkmen Government and some local producers in Turkmenistan
- A broad range of financing instruments, project structures, etc.

How We Can Help

- Complexity - multiple countries
 - Preferred Creditor Status
 - “Honest broker” for Regional Political Issues
 - (Convertible) Equity
 - Insurance/Guarantees

How We Can Help

- Government Undertakings and Support
 - Intergovernmental Agreements
 - Host government Agreements
 - Tariff Undertakings / Regulations

How We Can Help

- A range of financing instruments
 - Debt/Equity Structures
 - A/B Loan Structure for Syndications
 - Stand-by facilities and Guarantees
 - Structuring of sponsor undertakings

How We Can Help

- Various types of structures
 - Concessions
 - BOT
 - Pre-Privatization and/or Pre-Listing Financing

Case Study: Balkan Gastransit Pipeline Project

- Borrower - Gastransit, a Ukrainian company established by Naftagas Ukraine, Gazprom and Botas
 - 37% Gazprom
 - 37% Naftagaz Ukraine
 - 17% Turusgaz (Botas/ Gazprom JV)
 - 8% Transbalkan (Turkish construction company)

Gastransit Phase I and Phase II (Deal Structure)

	Phase I	Phase II
➤ Amount	US\$52 mln	USD 97 mln
➤ Tenor		
- Grace period		1 year
- Repayment (A-loan)	8 years	11 years
- Repayment B-loan	N/A	8 years

Security

- Security over payments under compression and transportation contracts
- Security over Gas contracts, property, project accounts, compression, transportation contract
- Security over insurances of Gastransit, completion and Performance guarantee and shareholder support agreement

Balkan Gastransit Pipeline Project

– Key Characteristics

- Sponsor driven
 - quality sponsors have an incentive to ensure successful completion and operation
- Through-Put Agreements (ship-or-pay)
 - security agreements in place to ensure repayment of loans
- Co-financing
 - required due to large sums involved
- Environmentally sound project

Case Study: Balkan Gastransit Pipeline

- Tariff income* is used to repay loan
- JV partners provide valid corporate guarantee until technical completion of construction
- Long term ship-or-pay agreements
- EBRD takes full market and political risk after completion

* *tariff income consist of fixed capacity charge payable by shippers to reserve capacity as well variable portion. Tariff can be split further to tariff for transportation and tariff for compression.*

Case Study: Balkan Gastransit Pipeline

- Reasons for EBRD Involvement
 - Improvement in commercial efficiency and reliability of Ukrainian gas pipeline system
 - Proximity to markets
 - “Honest broker” for Regional Political Issues

Questions, Please

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