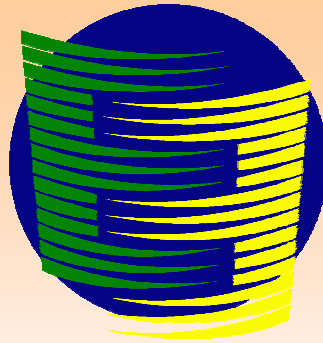




RISK MITIGATION AND BANKING THE RISKS – AND THE ECT ROLE (Session Chairman's remarks)

Dr. Andrei A. Konoplyanik
Deputy Secretary General, Energy Charter Secretariat

**Conference on “Risk Reduction in the Energy Sector”
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FINANCING ENERGY PROJECTS: FROM EQUITY TO DEBT FINANCING

Equity/debt financing ratio:

Pre-1970's = $\sim 100 / \sim 0$

Nowadays = $\sim 20-40 / \sim 60-80$,

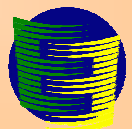
f.i. most recent:

BTC pipeline = $30 / 70$

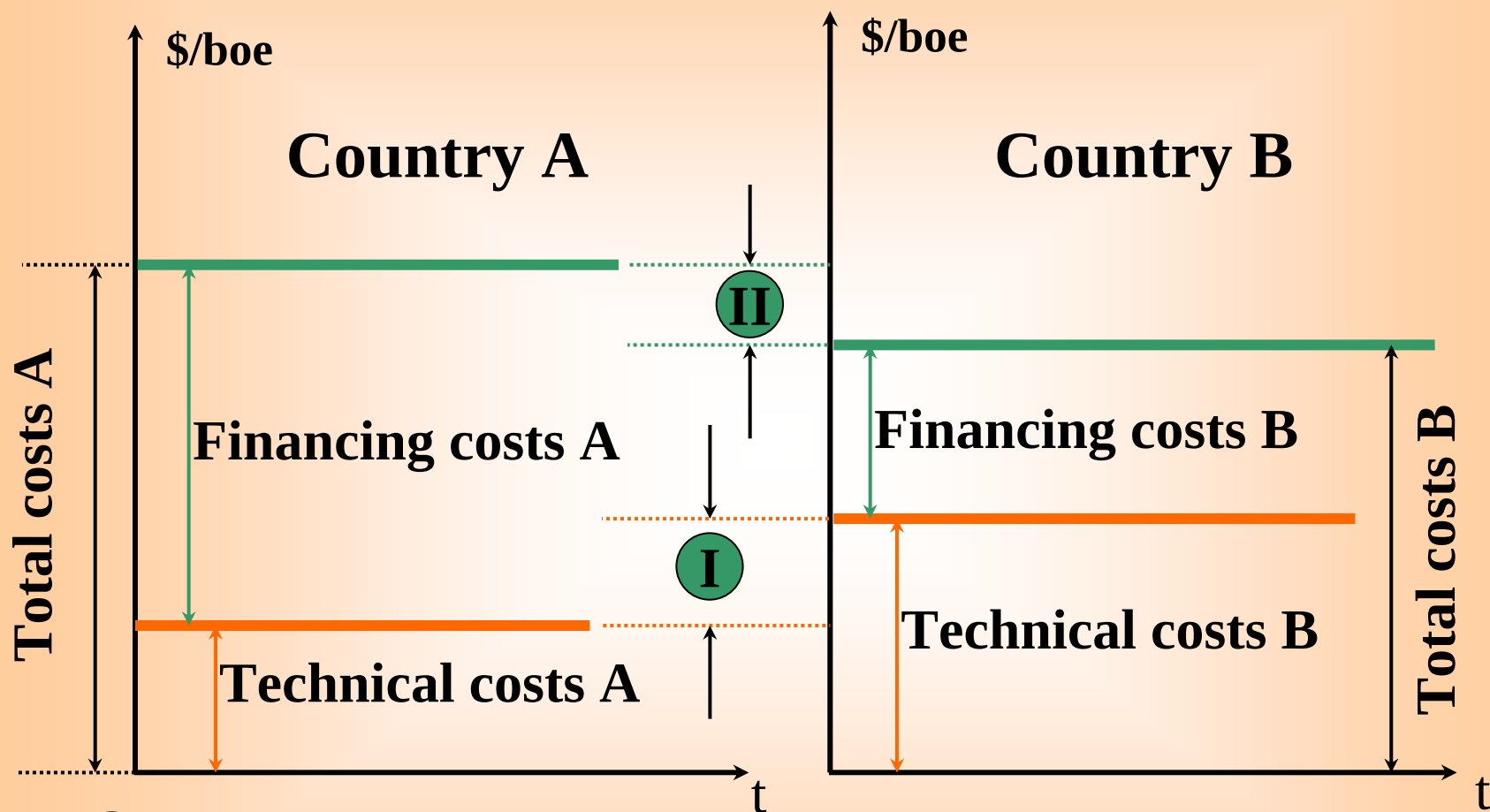
Sakhalin-2 (PSA) = $20 / 80$

(2 fields+pipeline+LNG plant)

- ➔ Increased role of financial costs (cost of financing) of the energy projects
- ➔ Availability and cost of raising capital = one of major factors of competitiveness with growing importance in time

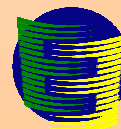


“NATURAL” VS. FINAL COMPETITIVE ADVANTAGES OF ENERGY PROJECTS



I “Natural advantage” of country A over country B

II Final competitive *disadvantage* of country A over country B



ECT IS BUSINESS-ORIENTED TREATY (how it works)

ECT/Legislation → ↓ risks → ↓ financing costs (cost of capital) = ① →
 ↑ inflow of investments (i.e. ↑ FDI, ↓ capital flight) → ↑ CAPEX → ↓ technical costs = ② →
 ① + ② = ③ → ↑ pre-tax profit → ↑ IRR (if adequate tax system) → ↑ competitiveness →
 ↑ market share → ↑ sales volumes → ↑ revenue volumes

ECT provides multiplier legal effect in diminishing risks with consequential economic results in cost reduction and increase of revenues and profits

