

CIS Bond Congress

Trends in the CIS Cross-Border Debt Markets

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Trends in the CIS Cross-Border Debt Markets

Presentation to CIS Bond Congress

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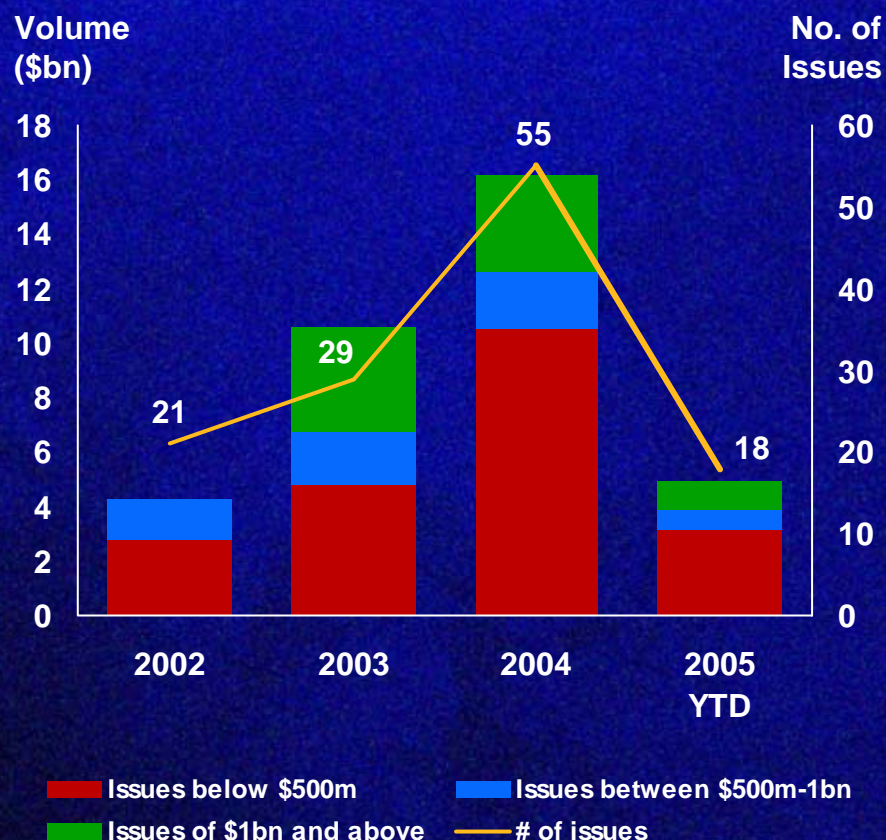


CIS Eurobond Market in 2002-2005

CIS Eurobond Market in 2002-2005

Continued Growth

CIS Eurobond Developments



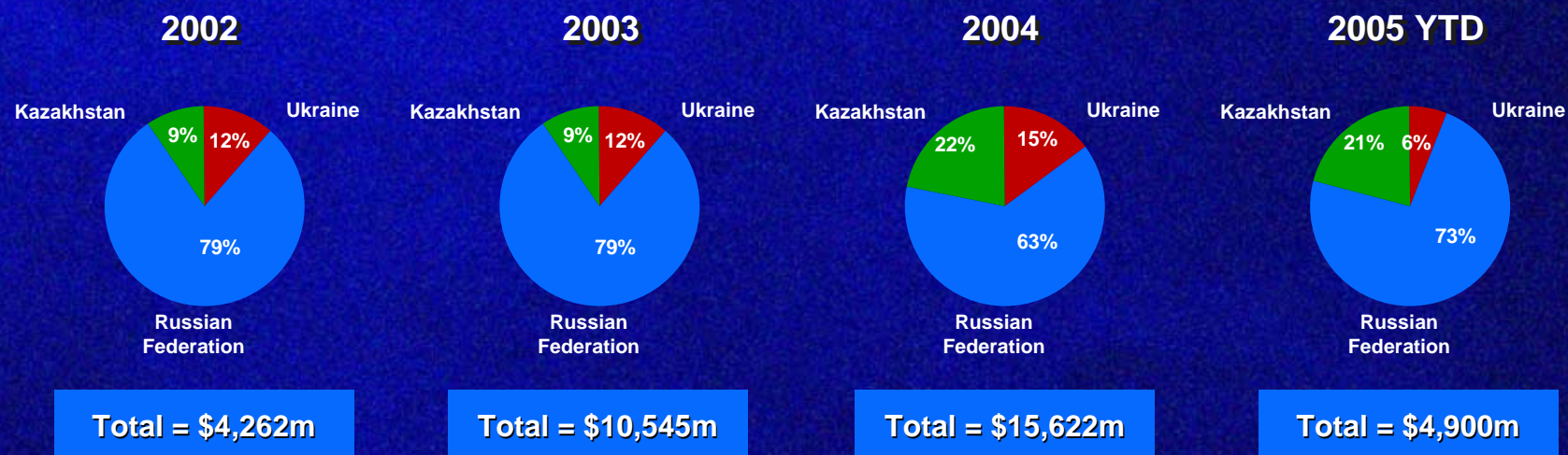
Source: Bondware, Merrill Lynch
Note: Excluding Aries

Market Overview

- Significant increase in Eurobond issuance since 2002
- Favourable borrowing conditions for CIS issuers (improved credit quality, growing confidence in emerging markets, low international interest rates)
- 2004 volume growth was 53%, while in 2005 volume levels are not expected to change considerably
- Most of the “newcomers” to the Eurobond market in 2003-2005 were large CIS banks
- US dollar remains the main currency of denomination

CIS Eurobond Market in 2002-2005

Regional Split

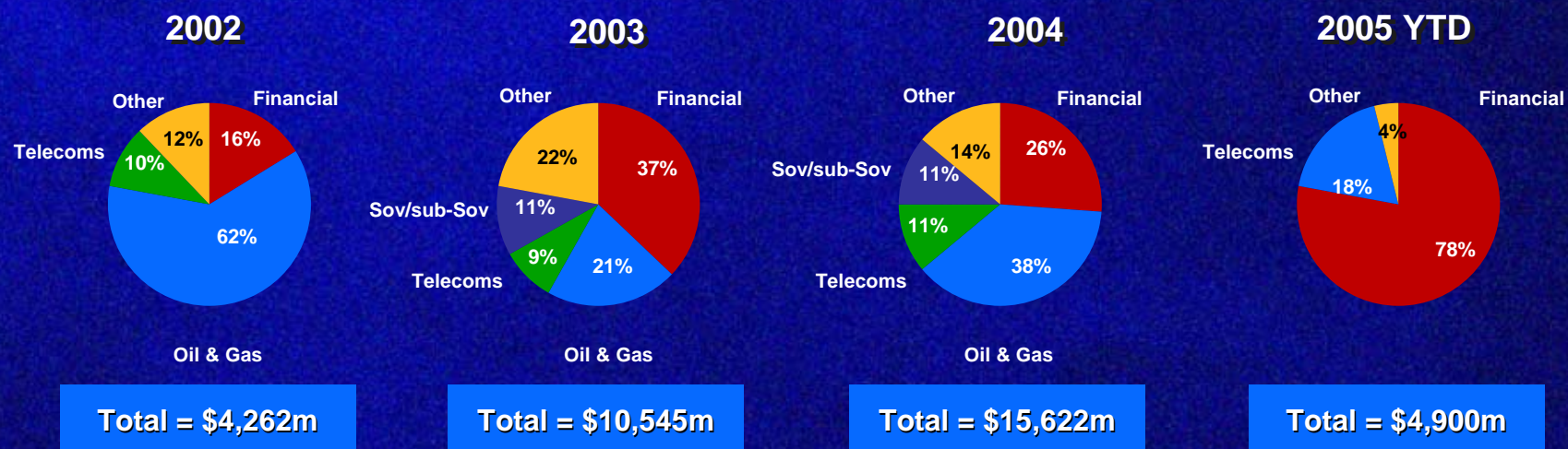


- At present only Russia, Kazakhstan and Ukrainian issuers have been borrowing internationally with Russia clearly dominating
- The average tenor of bonds increased to 5.9 years in 2004 and 5.5 years in 2005 YTD
- There has been an increase in issues with 7-10 year maturity, but the prevailing maturity remains between three to five years (standard for debut issues)
- The average issue size is declining: \$272 million in 2005 YTD compared to \$311 million in 2004 and \$364 million in 2003

Source: Bondware, Merrill Lynch
Note: Excluding Aries

CIS Eurobond Market in 2002-2005

Industrial Split



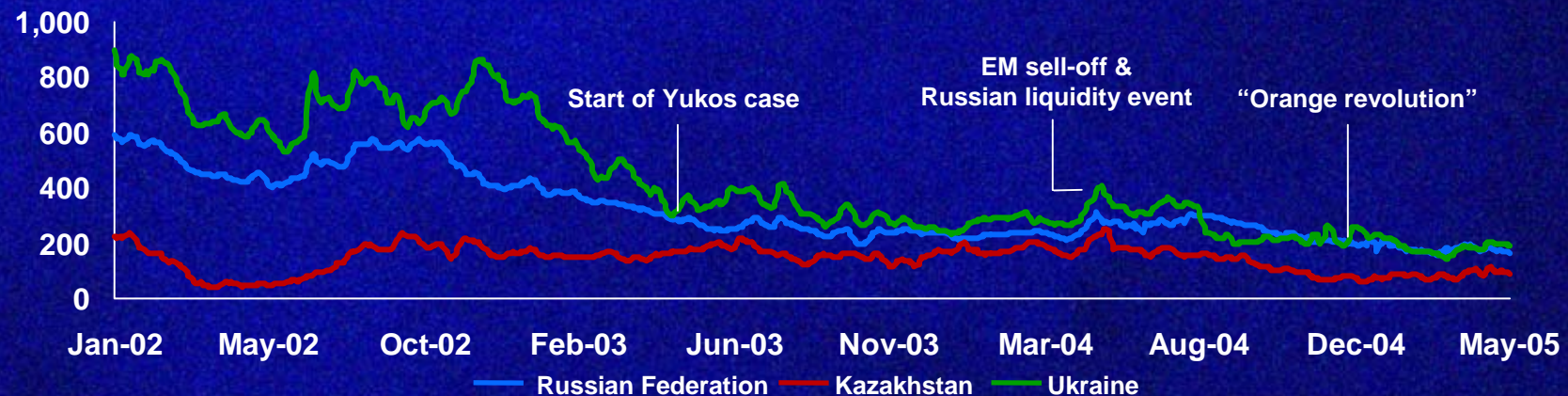
- In 2002, oil and gas companies were the main borrowers in the market. In 2003-2005 the industry was fuelled by significant internal funding caused by high oil prices and grew slower than the market, especially in the Russian Federation
- Most of the issuers that tapped the market for the first time in 2003-2004 were banks, telecoms and metals & mining companies
- So far in 2005 the market has been heavily dominated by banks and telecoms

Source: Bondware, Merrill Lynch
Note: Excluding Aries

CIS Eurobond Market in 2002-2005

Yields Performance

Spread on USD Eurobond indices (Merrill Lynch Index), bps

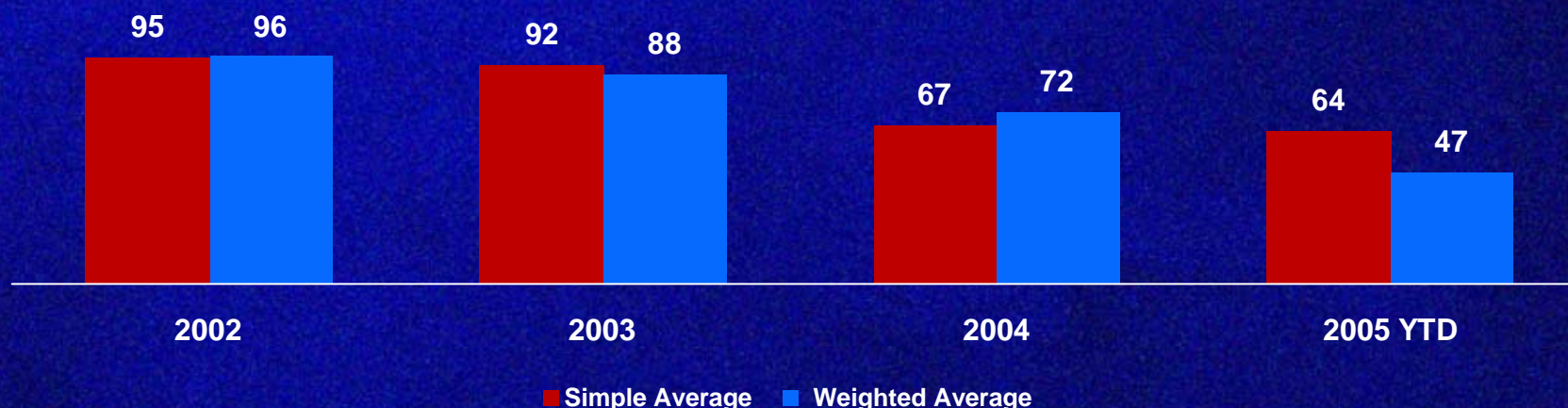


- Improved credit fundamentals and abundant liquidity in the market led to a gradual decrease in CIS spreads since 2002
- EM sell-off after the change in the wording of Fed's statement contributed to the widening of CIS spreads in April and May 2004
- Russian banking liquidity event and the Yukos case kept the spreads at higher levels during the summer 2004
- Ukrainian “Orange revolution” did not cause a significant spread widening
- Spread levels remained stable in 2005, despite a large number of rating upgrades which could have been outweighed by constantly increasing Fed rate

CIS Eurobond Market in 2002-2005

Decreasing Fees

Average fees on CIS Eurobond issues, bps



- Increased competition among banks has put downward pressure on bookrunners' fees, which have almost halved since 2002
- The lowest bookrunners' fees are in Kazakhstan (2004-05 average of 48 bps), followed by the Russian Federation (68 bps) and Ukraine (82 bps)
- CIS Eurobond fees are now lower than average comparable high-yield fees that non-investment grade issuers pay in the West

Source: Bondware
Note: Excluding Aries

CIS Eurobond Market in 2002-2005

Improving Ratings

Recent credit rating developments of select CIS companies



- Russia and Kazakhstan, as well as Eurobonds of some large CIS banks, have recently received investment grade ratings from both S&P and Moody's
- Credit ratings of Ukraine and Ukrainian companies have been rapidly improving and might soon catch up with their CIS neighbours

Source: Bondware
Note: Excluding Aries

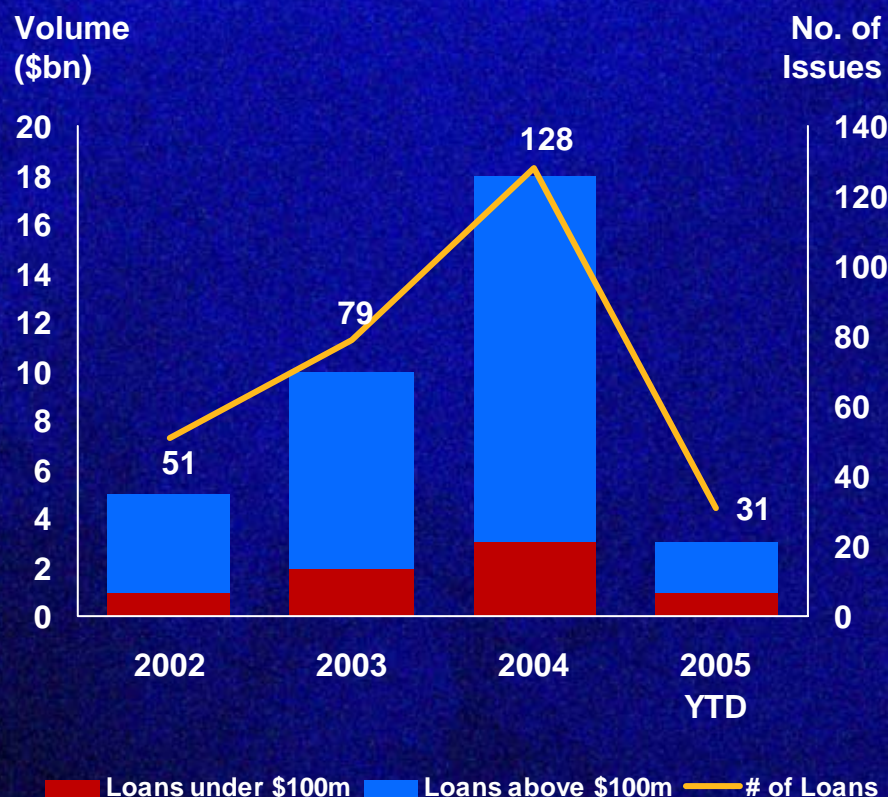


CIS Syndicated Loan Market in 2002-2005

CIS Syndicated Loan Market in 2002-2005

Snapshot

CIS Syndicated Loan developments



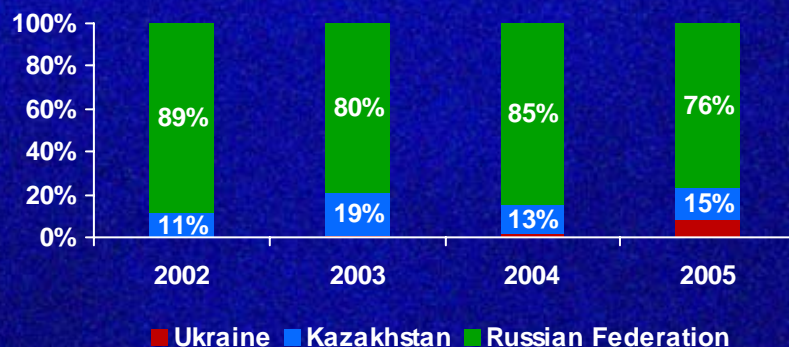
Market Overview

- Syndicated loan market exists only in USD and EUR, but not in local currencies
- The size of the market has been steadily increasing throughout 2002-2004, but may experience a slowdown in 2005
- Low global interest rates, improving credit history and an increasing number of lenders competing for higher yields drive borrowing costs down
- One of the main developments in 2004-2005 was the gradual shift to unsecured deals
 - ▶ In 2002 84% of all deals were secured, as opposed to 17% in 2005 YTD
 - ▶ Margins on secured loans are typically lower than on the unsecured ones

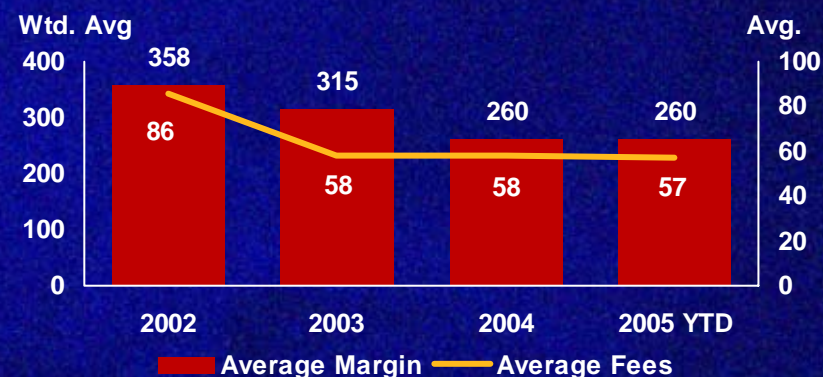
CIS Syndicated Loan Market in 2002-2005

Margins and Fees

Regional Split 2002-2005 YTD⁽¹⁾,bp



Average Margin and Fees 2002-2005 YTD, bp



Market in review

| | 2002 | 2003 | 2004 | 2005 YTD |
|------------------------------------|-------|--------|--------|----------|
| Total Volume (\$m) | 5,220 | 10,078 | 18,234 | 2,778 |
| No. of Loans | 51 | 79 | 128 | 31 |
| No. of Issuers | 39 | 63 | 91 | 29 |
| Loan Average Size (\$m) | 102 | 127 | 143 | 89 |
| Average Maturity (years) | 2,04 | 2,04 | 2,04 | 2,02 |
| Average Margin (bp) ⁽¹⁾ | 358 | 315 | 260 | 260 |
| Approx. Arrangers' Fee (bp) | 86 | 58 | 58 | 57 |
| Percentage Secured (%) | 84% | 79% | 42% | 17% |

Source: Loanware, Merrill Lynch

(1) Average for both secured and unsecured loans



Forecast for 2005

Forecast for 2005

CIS Eurobond Market Outlook

- Market volume
 - ▶ Expected to remain at 2004 levels, due to the improved financial profile of CIS borrowers, but increased Fed rate
- Number of deals
 - ▶ To grow by 10-20%, due to new issuers coming to the market with smaller size issues
- Issuers
 - ▶ Expanding beyond top 20 in each sector in Russia and beyond obvious blue chips in Kazakhstan and Ukraine
- Industries
 - ▶ More banks and telecoms
 - ▶ Strong oil & gas pipeline for 2H 2005
- Fees to remain stable
- Further spread tightening likely to be limited, but growth in absolute interest rates
- Companies with strong links to the government and lower implicit political risks would enjoy strong investor interest

Forecast for 2005

CIS Eurobond Market Outlook (cont'd)

- Existing CIS countries likely to be soon joined by sovereigns from:
 - ▶ Azerbaijan
 - ▶ Byelorussia
 - ▶ Georgia
- Issuers become more sophisticated:
 - ▶ Very strong interest in new forms of securitisation
 - ▶ Subordinated debt capital & equity-backed bonds are on radar-screens
- New investor bases
 - ▶ More 144a issues for frequently-reporting companies
 - ▶ Greater Asian interest for higher-rated quasi-sovereigns
 - ▶ Non-EM interest for secured and “wrapped” transactions
- Cross-border borrowings within CIS are expected

Forecast for 2005

Positive Catalysts and Key Risks to CIS Debt Market

Potential Positive Catalysts

- Incremental strategic inflows to Emerging Markets asset class
- Expected further upgrades of CIS countries by S&P, Moody's and Fitch
- Consolidating political power
- Issuers continue to report high cash flow due to commodity prices

Key Risks

- Investor overweight positions imply vulnerability to potential shocks
- High dependence on world commodity prices
- The governments' tighter control on strategic industries
- Signs of slowing growth and higher inflation in Russia
- "Headline risks" after Yukos and potential re-privatisations in Ukraine

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