



## OMZ Finance

OMZ's experience with trade-financing local customers

31 January, 2003

Munich, Germany

# Today's presentation

- Brief overview of OMZ's business
- OMZ challenges and how OMZ Finance could address them
- OMZ Finance - the link between the bank and the customer
  - Structure of the deals
  - Terms
- Participating banks
- OMZ Finance Challenges

OMZ is the largest heavy machinery holding in Eastern Europe and has a dominant position in several business segments

| <b>Business Segment</b>               | <b>2002 Sales, '000 USD</b><br>(preliminary numbers) | <b>% of total sales</b> |
|---------------------------------------|--|-------------------------|
| Oil equipment (OILEQ)                 | 113,000  | 28.7%                   |
| Mining equipment (MINEQ)              | 39,000   | 9.9%                    |
| Metallurgical equipment (METEQ)       | 47,500   | 12.1%                   |
| Shipbuilding (SHIP)                   | 32,000   | 8.1%                    |
| Nuclear power plant equipment (NPPEQ) | 72,500   | 18.4%                   |
| Specialty steel (STEEL)               | 49,000   | 12.4%                   |
| Others                                | 41,000   | 10.4%                   |
| <b>TOTAL</b>                          | <b>394,000</b>                                       | <b>100%</b>             |

## OMZ overview

# OMZ has grown substantially over the last few years

- Growth at OMZ has been both organic and through several key acquisitions

| USD '000          | 1999      | 2000    | 2001    | 2002    |
|-------------------|-----------|---------|---------|---------|
| <b>Sales</b>      | 93,829    | 241,024 | 313,116 | 394,000 |
| <b>Net income</b> | (132,045) | 339     | 6,010   | NA      |

# OMZ markets the following equipment:

|                                      |   |
|--------------------------------------|---|
| <b>Oil equipment</b>                 | Stationary and mobile oil and gas drilling rigs, mobile equipment for well drilling (including secondary holes) and repairs, components for offshore drilling platforms, sets of drilling equipment for onshore and offshore drilling, drilling tools |
| <b>Mining equipment</b>              | Roller-bit drilling machines, walking excavators (draglines), mining shovels, grinding and crushing equipment   |
| <b>Metallurgical equipment</b>       | Continuous casting and rolling-mill machinery, sintering and indurations, blast-furnace and press-forging equipment   |
| <b>Shipbuilding</b>                  | Air-cushioned landing craft and multipurpose, hovercraft, patrol boats, hydrofoil ships and hydrofoil boats, passenger, cargo and merchant fleet vessels, diesel-electric submarines, floating cranes   |
| <b>Nuclear power plant equipment</b> | Primary circuit equipment for nuclear power installations with pressurized water reactors, spent nuclear fuel transport containers  |
| <b>Specialty steel</b>               | Vacuum-treated castings, electroslag re-melting, vacuum <sub>5</sub> -arc re-melting, forgings, castings, sheets  |

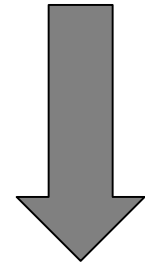
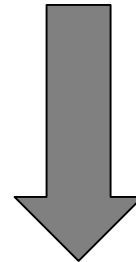
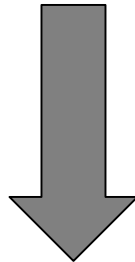
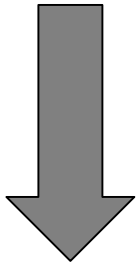
# OMZ faces certain problems due to the nature of its business

**Long production lead times**

**Relatively high value of products**

**High cost of capital at OMZ**

**Cash-constrained customers**



**Significant working capital requirement**

- large inventory
- relatively high accounts receivable

# OMZ's customers barely finance our work in progress

| USD '000                | 2001    | Turnover Ratios | Days |
|-------------------------|---------|-----------------|------|
| <b>Sales</b>            | 313,116 |                 |      |
| <b>Inventory</b>        | 184,214 | 1.4             | 255  |
| <b>Deferred revenue</b> | 183,084 |                 |      |
| <b>A/c receivable</b>   | 50,563  | 7.2             | 50.5 |

## Our Needs

# The mining equipment segment is a prime candidate for financing

|                            | <b>Quarry equipment</b><br>(excavators / shovels)  | <b>Walking Excavators</b><br>(Draglines) | <b>Crushers and grinders</b> |
|----------------------------|--|--|------------------------------|
| Average contract           | 4-5 units  | 1-2 units                                | 20-40 units                  |
| Actual deliveries per year | 1-3 units  |  | 2-5 units                    |
| Avg. price per unit        | \$2-\$6mn  | \$10-\$20mn                              | \$0.5mn                      |
| Production lead time       | 6-15 months  | 2-3 years                                | 6-9 months                   |
| Payment Terms              | 30% prepayment; Balance paid in installments throughout the production cycle => 100% of contract price paid by delivery date |  |                              |
| Delinquency                | Practically none   |  |                              |



# OMZ's oil equipment business would benefit greatly from trade financing availability for its clients

- We see more and more oil companies spinning-off their drilling operations as separate drilling subcontractors. These companies are cash-strapped and would require financing if we are to continue our cooperation with them.

|                        | <b>Drilling equipment</b>  |
|------------------------|--|
| Average contract       | 2-4 units  |
| Actual deliveries p.a. | 1-3 units  |
| Avg. price per unit    | \$3-\$6mn (range: \$0.4-\$14mn)  |
| Production lead time   | 6-12 months  |
| Payment Terms          | 30%-70% pre-payment<br>Balance paid in installments up until delivery. |
| Delinquency            |  |

## Our Needs

# Shipbuilding is a growing business for OMZ

|                        | <b>Commercial ships</b>   |
|------------------------|---|
| Average contract       | Min 2 units, usually 5-10 units   |
| Actual deliveries p.a. | 2-5 units   |
| Avg. price per unit    | \$3-\$13mn  |
| Production lead time   | 12-18 months  |
| Payment Terms          | 30% prepayment, Balance guaranteed by letter of credit / bank guarantees, fully paid by delivery date |
| Delinquency            | Practically none  |

# OMZ is poised for significant growth in the next 3-5 years

- **External Factors**

- High economic growth in the last 3 years has led to an increased demand for capex in the domestic industrial sector
- Russia and the CIS have a massive installed industrial base in dire need of modernization and technical upgrade.

- **Internal Factors**

- OMZ has a dominant domestic market share in almost all business segments
- There is a great familiarity with and technical support network for OMZ's equipment throughout Russia, CIS and the rest of Eastern Europe
- OMZ has managed to maintain a low-cost advantage to its international competitors.



**OMZ needs to support its customers with trade finance services in order to turn this potential into reality**

# OMZ Finance

- An OMZ sponsored initiative which establishes a relationship between OMZ's domestic clients and several local banks (local branches of foreign banks) in order to provide trade financing services to these clients and facilitate the execution of the financing deals.

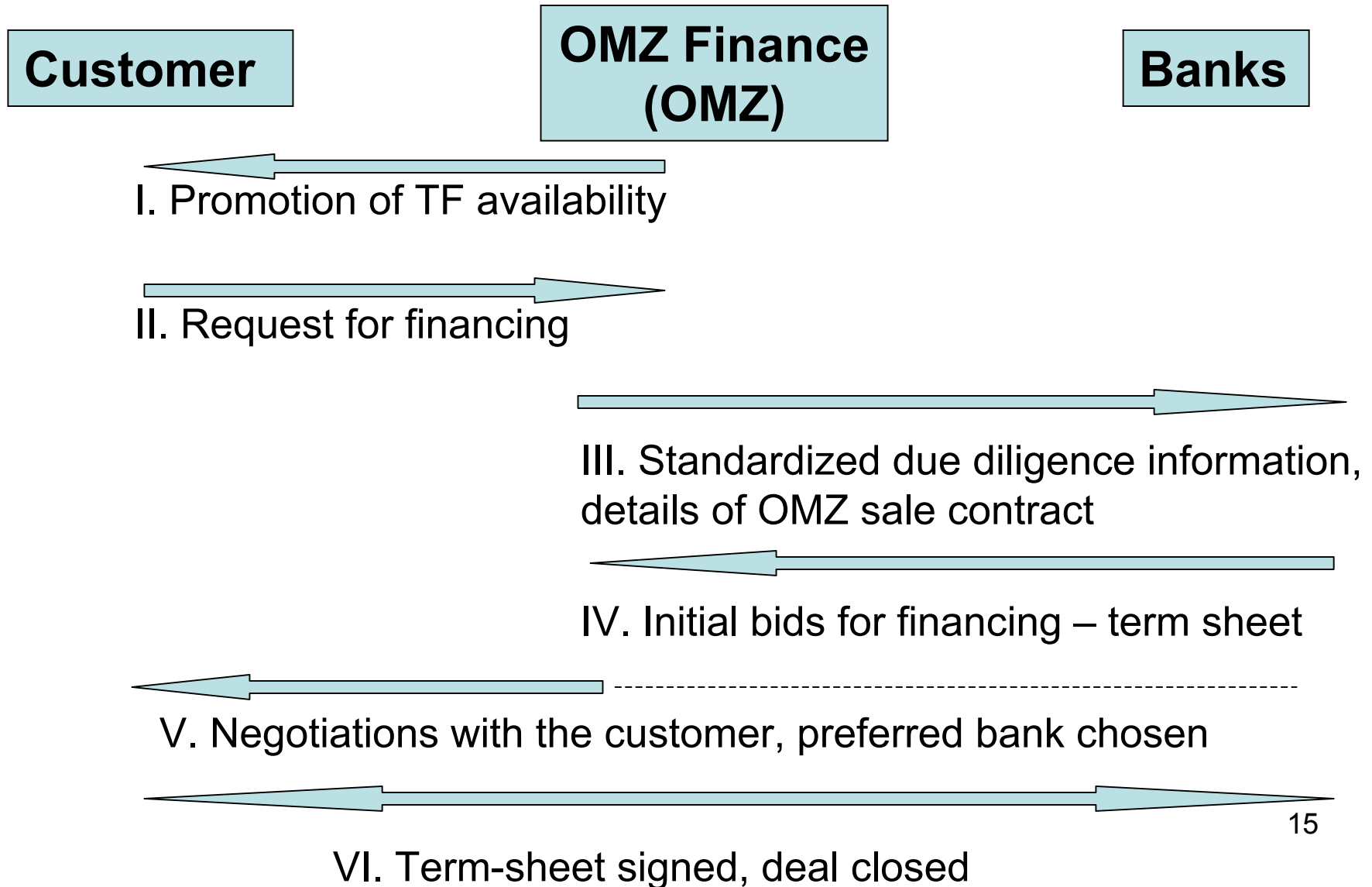
# Participating Banks

- **CommerzBank**
- **International Moscow Bank**
- **NATEXIS Banque Populaire**
- **ING Bank**
- **Raiffeisen Zentral Bank**
- **ABN Amro Bank**
- **Standard Bank**
- **London Forfaiting**

# OMZ Finance will help us achieve two important goals

1. Keep / gain back customers for whom financing is the major factor in their purchasing decision
2. Increase OMZ's financial efficiency, fund working capital from sales rather than through debt; turn as many accounts receivable into deferred revenue as possible.

# OMZ Finance - the link between the bank and the customer



# Typical trade financing terms to OMZ's domestic clients

|                  |   |
|------------------|---|
| Financing amount | Up to 80% of OMZ sale contract amt.                                     |
| Maturity         | 2.5 - 3 years   |
| Grace period     | 12 months   |
| Interest         | LIBOR + 4%-7%   |
| Arrangement fee  | 0.5% - 1.5% of financing amt.   |
| Security         | Stock or equipment pledge<br>(1.2-1.5 x financing amt.)                 |
| Other conditions | Maintain an account at financing bank<br>with a minimum monthly balance |



# OMZ Finance is in the process of closing its first large deal

|                           |                                     |
|---------------------------|-------------------------------------|
| Buyer:                    | Syrian Petroleum Company            |
| Borrower:                 | Uralmash                            |
| Contract Amount:          | \$41.5mn for four drilling stations |
| Pre-export financing for: | \$30mn                              |
| Maturity:                 | 14 months                           |
| Interest:                 | LIBOR + 5.5%                        |
| Security:                 | Stock or equipment pledge           |

# Current challenges for OMZ Finance

- **Credit lines taken up**
  - many customers have reached their credit line limit at participating banks
- **Few credit-worthy customers**
  - Customers are often in difficult financial situation or have had bad credit history in the past and banks are unwilling to finance
- **Existing Customers preferred**
  - Banks prefer to work mostly with existing clients of theirs and evaluating a new client takes a long time

# OMZ Finance

Thank you for your questions!

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