

# Avangard & Partners

Investment Plan 2017

*“Reconditioning Facility for  
Small Diameter Pipes”*



# Summary

“**Avangard LLC**” is a new company who have recently agreed with **Gazpromneft** to build and operate a new facility for the reconditioning of pipes returned from the Russian oil fields and to be located on an existing site at Noyabrsk City, Russian Federation.

Primarily it will service the needs of **Gazpromneft** for pipes returned from the Siberian area which following reconditioning will be reintroduced back into the production systems with major savings to the client.

The project is deemed “Fast Track” by GAZPROMNEFT as they have a mandate to source new suppliers within the area due to a long ongoing dispute with the only other local supplier.

The site is owned by the Principal share holder in the new company with over 15 years of work experience with companies related to **GAZPROMNEFT** including the rail transportation of oversize and heavy loads within the Russian Federation.

- The sole Principal/Shareholder of the Company is Mrs. Ekaterina Milman (citizen of Russian Federation)
- Mr. Konstantin Milman (citizen of Russian Federation) acting under a Power of Attorney from the above Principal for the taking of all major decisions in the of Company’s development.

# summary

To develop and operate the new facility it is planned for **Avangard** to conclude a new partnership with **IDI Systems BV** , located in the Netherlands.

**IDI Systems BV** is a company established to enter into such agreements and is part of the **WKBH GROUP** of companies well established in the manufacture of equipment for such operations.

Under this agreement **Avangard** and **IDI** would jointly construct a facility and execute the work where:

- **Avangard** would provide the land, buildings, utilities, manpower, and local management.
- **IDI** would manufacture the equipment, deliver and commission such equipment and provide the operational knowhow.

To conclude the proposed development the partners are jointly seeking financial facilities for a period of between 3 to 5 years of **EUR 8,000,000**.

Once funding is secured then **Gazpromneft** will award a 3 year contract to **Avangard** with the potential to extend this for a further 2 years subject to performance.

The following presentation relates to the proposed development and details the process, location of the facility ,competition, contract arrangements, financial needs, investment costs, projected P&L and balance sheet covering the next 5 years.

# Process flow



Pipe Entry



Coupling Removal



External Cleaning



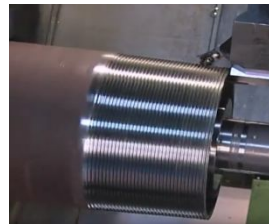
Internal Cleaning



Internal Inspection



Hydro Pressure Testing



Re Threading



End Cutting



NDT Inspection

End Cutting

Labeling



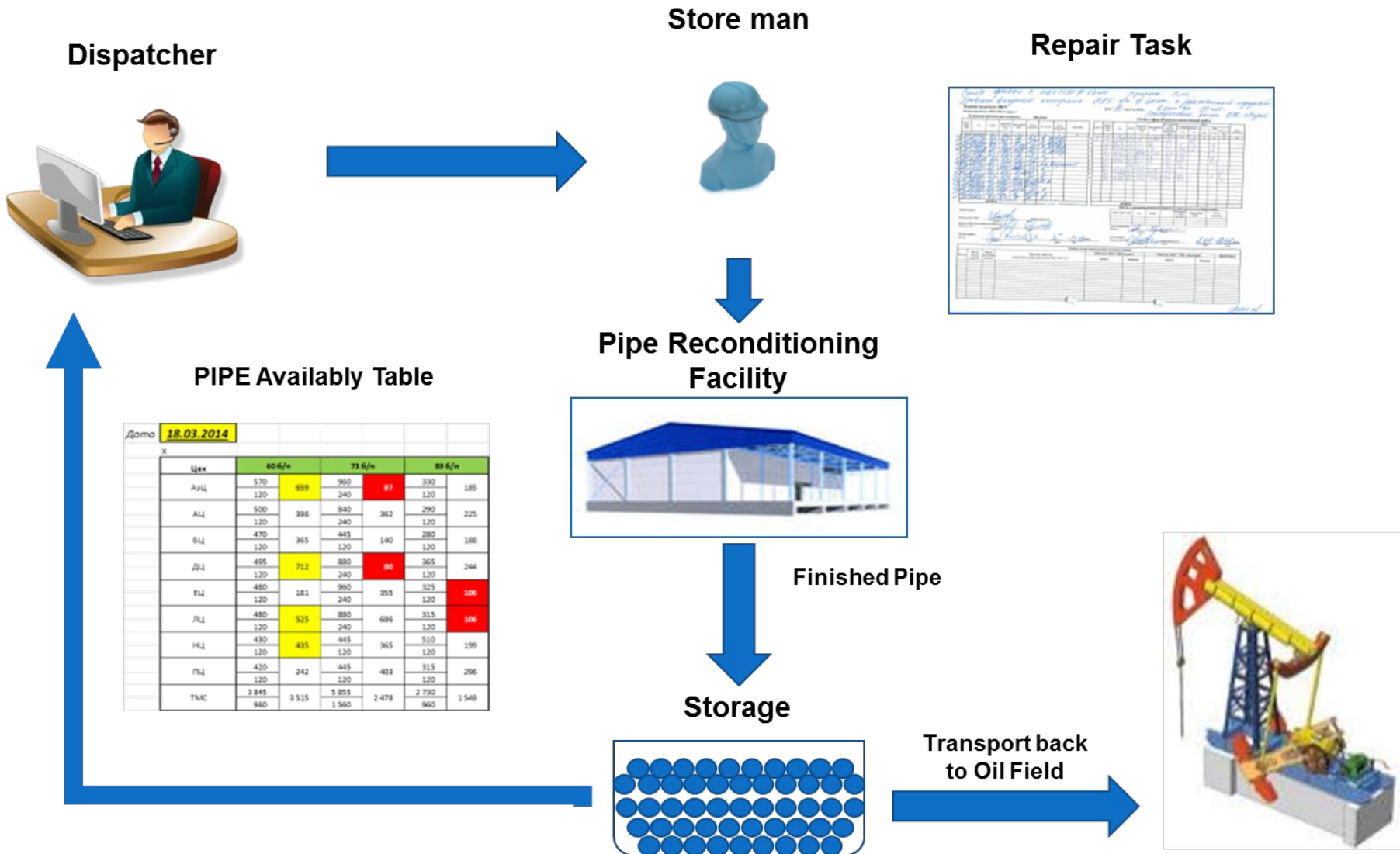
Finished Product





# Management Process

## Overall Management of Pipe Reconditioning Process



# Management of Inventory



Pipe inventory is maintained using unique state-of-the-art "1C" Software

The screenshot displays the '1C' software interface for 'Управление фондом ГНО' (Management of the GNO Fund). The interface is organized into several main sections:

- Справочники (Reference Lists):** Includes 'Номенклатура ГНО' (GNO Nomenclature), 'Виды ГНО' (GNO Types), 'Диметры ГНО' (GNO Diameters), 'Типы ГНО' (GNO Types), 'Группы прочности ГНО' (GNO Strength Groups), 'Транспорт' (Transport), 'Тарифы на перевозки ГНО' (GNO Transport Tariffs), 'Экспедиторы' (Expeditors), 'Бригады ремонта скважин' (Well Repair Brigades), 'Приемы движения ГНО' (GNO Movement Receipts), 'Приемы ремонта скважин' (Well Repair Receipts), 'Виды работ по ГНО' (GNO Work Types), 'Состояния ГНО' (GNO States), 'Типы скважин' (Well Types), 'Контрагенты' (Contractors), 'Подразделения контрагентов' (Contractor Divisions), 'Пользователи (автор, эмитор)' (Users (Author, Emitter)), 'Организации' (Organizations), 'Подразделения организаций' (Organization Divisions), 'Склады (места хранения)' (Warehouses (Storage Places)), 'Комплекты буровой трубы' (Drill Pipe Kits), and 'Внешние файлы по разборке отклонений' (External Files for Deviation Disassembly).
- Оперативные работы (Operational Work):** Includes 'Подведение баланса' (Balance Calculation), 'Буровая труба' (Drill Pipe), and 'Инвестиционная программа' (Investment Program).
- Журналы (Logs):** Includes 'Журнал документов ГНО' (GNO Documents Log), 'Поступление ГНО' (GNO Receipt), 'Отгрузка ГНО' (GNO Shipment), 'Перемещение ГНО' (GNO Movement), 'Ремонт собственными силами' (Self-Performed Repair), 'Корректировка остатков ГНО' (GNO Inventory Adjustment), 'Ремонты скважин' (Well Repairs), 'Завоз вывоз ГНО' (GNO Import/Export), 'Установка цен на работы и запчасти по ремонту ГНО' (GNO Repair Work and Parts Pricing), 'Реестр по ОВТП' (OVTB Register), 'Установка цен на запчасти по ОВТП' (OVTB Parts Pricing), 'Подготовка на списание ГНО' (GNO Disposal Preparation), 'Производственная программа' (Production Program), 'Инвентаризация ГНО на складах' (GNO Warehouse Inventory), 'Корректировка серийных номеров' (Serial Number Adjustment), and 'Корректировка завоз-вывоз ГНО' (GNO Import/Export Adjustment).
- Отчеты (Reports):** Includes 'Универсальный отчет по регистрам документов ГНО' (GNO Documents Register Universal Report), 'Анализ перевозок ГНО' (GNO Transport Analysis), 'Ведомость по остаткам ГНО' (GNO Inventory Statement), 'Анализ движения ГНО' (GNO Movement Analysis), 'Анализ ГНО на ремонте' (GNO Repair Analysis), 'Движение ГНО по объектам' (GNO Movement by Objects), 'Мониторинг выбраковки ГНО' (GNO Scrap Monitoring), 'Соответствие документов ГНО' (GNO Document Compliance), 'Анализ состояний документов ГНО' (GNO Document Status Analysis), 'Анализ отбраковки документов ГНО' (GNO Document Scrap Analysis), 'Анализ документооборота ГНО' (GNO Document Flow Analysis), 'Отчет по производственной программе' (Production Program Report), 'Анализ ремонта собственными силами' (Self-Performed Repair Analysis), 'Анализ инвентаризации ГНО' (GNO Inventory Analysis), and 'Списание ГНО' (GNO Disposal).
- Анализ документов ГНО (GNO Document Analysis):** Includes 'Документооборот ГНО' (GNO Document Flow), 'Регистры выполненных работ' (Completed Work Registers), 'Управление реестрами' (Register Management), 'Регистры документов ГНО' (GNO Document Registers), and 'Реестр документов ГНО' (GNO Document Register).
- Отчеты (Reports):** Includes 'Журнал операций ГНО' (GNO Operations Log), 'Производственный отчет по движению ГНО' (GNO Movement Production Report), 'Анализ ГНО на бурении' (GNO Drilling Analysis), 'Документы не в реестрах ГНО' (GNO Documents Not in Registers), and 'Отчет по контрольным картам Шихота' (Shikota Control Cards Report).

# *The Reconditioning Process*

- Pipe will be collected from the field sites and transported to the rehab facility.
- Pipe will be stored at the facility ready for reconditioning.
- Pipe will enter the facility where the following processes will follow;
  1. Remove the pipe end coupling by using a coupling removal machine.
  2. The external surface will be cleaned with high pressure washing.
  3. The pipe will then be subjected to internal cleaning.
  4. The internal surface will be checked with a internal sizing mandrel
  5. The pipe will then pass to a station where the threaded section (opposite the coupling end) will be cut off.
  6. The pipe will then pass through a NDT (non-destructive pipe body testing of oil-well tubing) where the result will determine if the pipes are acceptable, namely the body and remaining threaded end section. If the end is damaged it shall be cut from the pipe, after the pipe will pass to the end threading machines. Any rejects at this point will be removed from the plant.

# **The Reconditioning Process (Cont)**

7. Pipes will be rethreaded at both ends (if required), where this operation will take place at two separate positions
8. After rethreading the pipe shall be subjected to Hydrostatic pressure testing, where the end will be sealed and water solution will be pumped into the pipe, where the pressure will be varied to 700 Bar and checked for any defects.
9. Acceptable pipe will be labeled and exit the plant for storage (rejected pipes shall be removed from the plant)
10. Pipe will be stored within the facility prior to transporting back to the client's site.



# *The Reconditioning Facility*

Incoming Pipe condition



Coupling Removal

# *The Reconditioning Facility*

External washing



Internal washing



# *The Reconditioning Facility*

Internal Mandrel (Drift)



Threaded End Cutting





# *The Reconditioning facility*



NDT (Inspection)



# *The Reconditioning facility*

Coupling End Cutting (if required) →



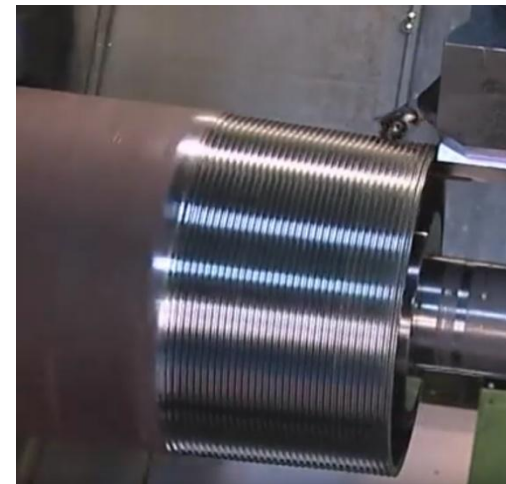
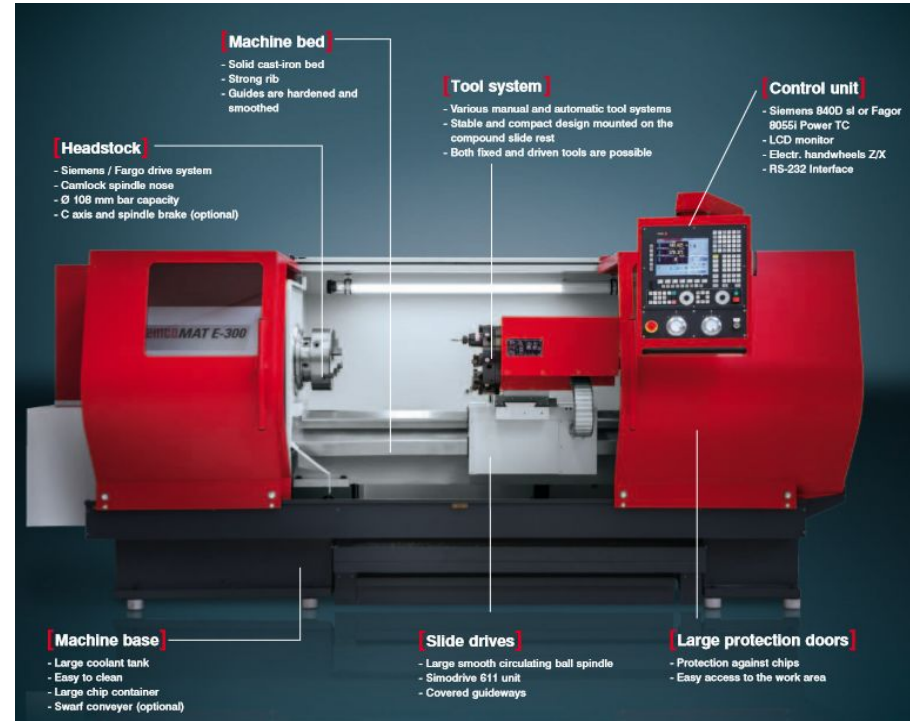
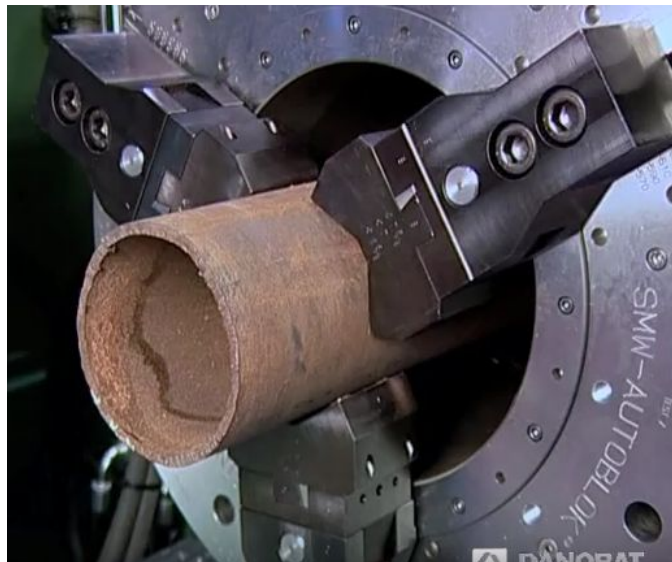
End Threading Area →





# The Reconditioning Facility

End Threading Equipment



# *The Reconditioning facility*

Hydrostatic Testing





# The Reconditioning facility

Pipe Labeling



Finished Pipes



Finished Pipes Ready to Dispatch



# Site Facilities

AVANGARD LLC has the following two facilities.

## Facility # 1

Railway siding for receiving and forwarding of rail cargoes

This railway siding is located at Noyabrsk City, Russian Federation, Site 2 and has the capability of simultaneous processing (loading/unloading) of 25 rail cars at a time, which allows handling of 350,000 tons of cargoes per year.

- Total area of this railway siding facility is 36,211 m<sup>2</sup>.
- The following are located in this area:
  - Administration Building;
  - Warehouse adjoining the railway (total area 1,485.9 m<sup>2</sup>);
  - Railway siding total length of 423.98 meter.
- The whole land plot with total area of 36,211 m<sup>2</sup> is owned by the Principal.
- Appraised market value of this facility (as of November 2013) is **111,573,000 RUB**.

# Site Facilities

## Facility # 2

1. Industrial production facility located at Noyabrsk City, Russian federation, Site 9-B, with total area of 69,000 m<sup>2</sup> consisting of:

- Outside concreted storage site – 45,000 m<sup>2</sup>
- Heated storage facilities – 3,500 m<sup>2</sup>.
- Non-heated arch-type warehouse – 3,400 m<sup>2</sup>.
- Production building intended for Pipe Rehab Plant

This land plot belongs to Principal based on long-term leasing agreement with Noyabrsk City Municipal Authority.

Appraised market value of this facility (as of November 2013) is **111,919,000 RUB**



# Facility location



Industrial production facility located at Noyabrsk City, Russian federation,  
Site 9-B, with total area of 69,000 m<sup>2</sup>

# Competition

RIMERA company (being our main competitor in the region) – for many years this structure belonged to “Gazpromneft”. Then in 2008 “Gazpromneft” decided to sell all their oil field servicing assets to third-party companies. Respectively, back at that period RIMERA bought the oil field servicing facilities (called Central Pipe Base) and, having become the only contractor in the area for such services, started rendering these tubing reconditioning services.

However, in 2014 the audit of RIMERA business activities revealed a huge shortage of tubing pipe (which was stored at their site at their full care and custody) valued at hundred millions of rubles, as well as shortage of rejected pipe (also stored by RIMERA as scrap) in the amount of 21,000 tons. For several years, “Gazpromneft” and RIMERA had been trying to sort out this shortage internally - without any result.

Eventually in the last year, having failed to find a solution, the President of “Gazpromneft” decided to develop and commence a project for inviting another - “outsider” - oilfield servicing company to the region, so as to stop RIMERA from being the only (dominant) company in this market segment.

Respectively, Avangard company was started - specifically for the above purpose. From the very beginning of this project, Avangard has passed certification of its production facilities, has successfully presented the project presentation to “Gazpromneft” Head Office and also received positive certification (with a follow-up Corrective Actions Plan).

Based on the above, Avangard is now to develop and offer to “Gazpromneft” a full-scale Pipe Reconditioning Facility which shall be the grounds for a long-term service contract between “Gazpromneft” and Avangard.

Outside of the RIMERA Company the next competitor is outside of a 250 KM Radius where this competitor is located in Surgat City

# *Contracts for Avangard*

GAZPROMNEFT shall issue contracts to Avangard, where the following scope of supply;

- Collect all pipes from the oil fields and transport them to the site for reconditioning
- Pipes shall have all couplings removed, cleaning of pipes, inspection of pipes by mechanical drift, remove damaged threaded ends, testing by ultrasonic non destructive testing, re-thread pipe ends, attach couplings, pressure testing by hydrostatic testing, and labeling of pipe sections.
- Deliver all relative documentation to support pipe condition.
- Store pipes at the contractors site until clients request for delivery to the oil field.
- Yearly scope shall be approximately 200,000 pipe sections *(See Financial Section for Details)*

# Summary of Financing Needs

Infrastructure Investment - Ru 444,800,000 - Euro €7,174,194 (@62:10)

Startup Funding - Ru 155,200,000 - Euro €2,503,226 (@62:1)

Total Financing Needs : Ru 600,000,000 = Euro €9,677,419 (@62:1)

## Financing Source

Shareholders - 25% of total investment RU 100,000,000 – (Euros €1,612,903)

Financing by 3<sup>rd</sup> Party - 75% of total investment RU 500,000,000 – (Euros 8.064,516)

## Securities against Financing from 3<sup>rd</sup> party.

The shareholders are open to discuss securities against the project financing (3<sup>rd</sup> party), where the assets of the current facilities along with the equipment are possibilities, however the financing should be addressed against secured contracts in hand from Gazpromneft where said contract are guaranteed, where the risk will be solely against he contractor to deliver as per the contract terms and conditions.

Note Gazpromneft are ready to place confirmed contract once the company can demonstrate that the following positions are in place;

1. Equipment supplier ----- (In Place, and Accepted by Gazpromneft)
2. Plant Operator with work history of facility operations ----- (In Place, and Accepted by Gazpromneft)
3. Investment financing including startup funding ----- (Pending 3<sup>rd</sup> party financing)

# Investment Cost

Equipment Investment		RU x 1000	Euro Value
			61
Purchase of Equipment		-310,000	-5,081,967
Installation and Commissioning		-13,000	-213,115
Forced and Exhaust Ventilation		-3,700	-60,656
Purchase of Racks		-35,000	-573,770
Rehabilitation of premises		-28,000	-459,016
Shop repairs		-6,000	-98,361
Power supply infrastructure development		-23,600	-386,885
Gas infrastructure development		-5,500	-90,164
Total Investment Cost		-424,800	-6,963,934



# Yearly cash flow projections (Before Dividend Payments)

Avangard LLC		Cash Flow (RU)	*1000					
			2017	2018	2019	2020	2021	2022
<b>Revenue</b>								
Pipe Rehabilitation		0	476,800	476,800	476,800	476,800	476,800	476,800
Pipe Transport		0	171,650	171,650	171,650	171,650	171,650	171,650
Pipe Storage and Handling		0	66,500	66,500	66,500	66,500	66,500	66,500
Supervision		0	8,300	8,300	8,300	8,300	8,300	8,300
Total Revenues		<b>0</b>	<b>723,250</b>	<b>723,250</b>	<b>723,250</b>	<b>723,250</b>	<b>723,250</b>	<b>723,250</b>
<b>Direct Costs</b>								
Personal Cost (Manpower)		-25,000	-95,000	-95,000	-95,000	-95,000	-95,000	-95,000
Supervisor Cost		-5,000	-8,500	-8,500	-8,500	-8,500	-8,500	-8,500
Site Transportation & Handling		0	-26,000	-26,000	-26,000	-26,000	-26,000	-26,000
Other Transportation		-2,500	-3,800	-3,800	-3,800	-3,800	-3,800	-3,800
Transportation Services		0	-55,400	-55,400	-55,400	-55,400	-55,400	-55,400
Site & Building Rental		0	0	0	0	0	0	0
Office Costs		-350	-516	-516	-516	-516	-516	-516
Travel Expenses / Entertainment		-600	-1,050	-1,050	-1,050	-1,050	-1,050	-1,050
Other Expenses (HSE, PPE, Bank Cost, Permits, Heating, Snow Removal, Site Maintenance)		-12,500	-19,500	-19,500	-19,500	-19,500	-19,500	-19,500
Utilities		-1,500	-9,400	-9,400	-9,400	-9,400	-9,400	-9,400
Materials		0	-70,000	-70,000	-70,000	-70,000	-70,000	-70,000
Other Costs not Included Above		0	0	0	0	0	0	0
Misc.		-4,745	-28,917	-28,917	-28,917	-28,917	-28,917	-28,917
Total Direct Cost		<b>-52,195</b>	<b>-318,083</b>	<b>-318,083</b>	<b>-318,083</b>	<b>-318,083</b>	<b>-318,083</b>	<b>-318,083</b>
<b>Revenue - Direct Cost Result</b>			<b>-52,195</b>	<b>405,167</b>	<b>405,167</b>	<b>405,167</b>	<b>405,167</b>	<b>405,167</b>
Share Holders Capital Investment	Inflow	100,000	0	0	0	0	0	0
Financing	Inflow	500,000	0	0	0	0	0	0
Financing	Outflow	0	0	-125,000	-125,000	-125,000	-125,000	-125,000
Interest	8%	-20,000	-40,000	-30,000	-20,000	-20,000	-20,000	0
Equipment Investment		-444,800	0	0	0	0	0	0
Import Taxes in Russia	0%	0	0	0	0	0	0	0
VAT on imported Equipment	18%	-59,400						
VAT Operations	18%	-3,141	-33,420	-33,420	-33,420	-33,420	-33,420	-33,420
VAT - Inflow	18%	0	130,185	130,185	130,185	130,185	130,185	130,185
VAT Out Flow		-62,541	-96,765	-96,765	-96,765	-96,765	-96,765	-96,765
VAT In flow		0	62,541	0	0	0	0	0
Net increase in cash and cash equivalent during the period	RU x 1000	20,464	330,943	153,402	163,402	163,402	163,402	183,402
Cash and cash equivalent at beginning of period	RU x 1000	0	20,464	351,407	504,810	668,212	831,614	831,614
Dividend	RU x 1000	0	0	0	0	0	0	0
Cash and cash equivalent at end of period	RU x 1000	<b>20,464</b>	<b>351,407</b>	<b>504,810</b>	<b>668,212</b>	<b>831,614</b>	<b>1,015,016</b>	
<b>Euro Value</b>		€ 330,065	€ 5,867,859	€ 8,142,090	€ 10,777,610	€ 13,413,131	€ 16,371,232	

# Projected P&L Sheet

		RU x 1000					
		2017	2018	2019	2020	2021	2022
<b>Revenue</b>		0	723,250	723,250	723,250	723,250	723,250
Cost of sales = materials		0	-70,000	-70,000	-70,000	-70,000	-70,000
Gross profit		0	653,250	653,250	653,250	653,250	653,250
Other operating income		0	0	0	0	0	0
Depreciation		-44,480	-88,960	-88,960	-88,960	-88,960	-42,480
Operational cost		-34,000	-198,100	-198,100	-198,100	-198,100	-198,100
Selling and distribution cost		-600	-1,050	-1,050	-1,050	-1,050	-1,050
Administrative and general expenses		-12,850	-20,016	-20,016	-20,016	-20,016	-20,016
Other cost		-4,745	-28,917	-28,917	-28,917	-28,917	-28,917
Profit from operations		<b>-96,675</b>	<b>316,207</b>	<b>316,207</b>	<b>316,207</b>	<b>316,207</b>	<b>362,687</b>
Finance cost		-20,000	-40,000	-30,000	-20,000	-20,000	0
Profit before taxes		<b>-116,675</b>	<b>276,207</b>	<b>286,207</b>	<b>296,207</b>	<b>296,207</b>	<b>362,687</b>
Tax = 20%		23,335	-55,241	-57,241	-59,241	-59,241	-72,537
Nett profit after taxes		<b>-93,340</b>	<b>220,966</b>	<b>228,966</b>	<b>236,966</b>	<b>236,966</b>	<b>290,150</b>
Euro to RU	62	-1,505,484	3,563,966	3,692,999	3,822,031	3,822,031	4,679,837

# Projected Balance Sheet

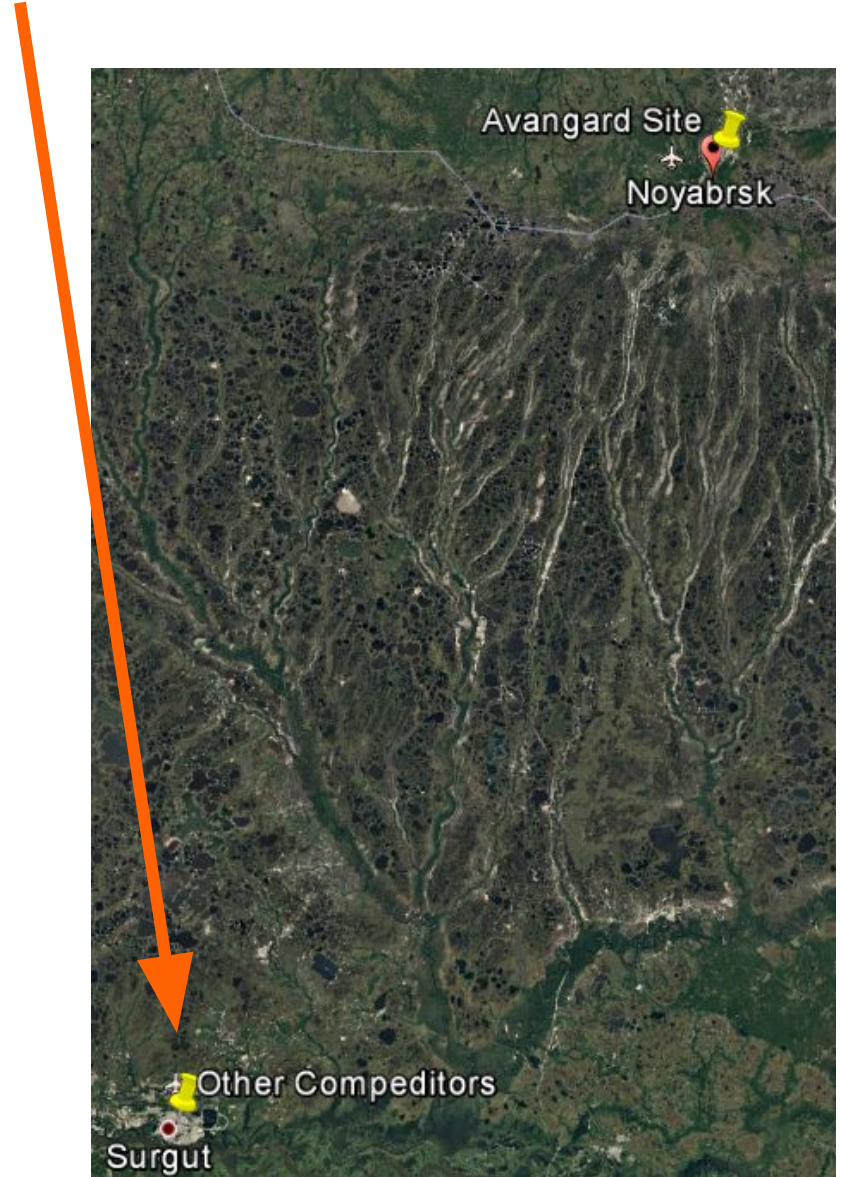
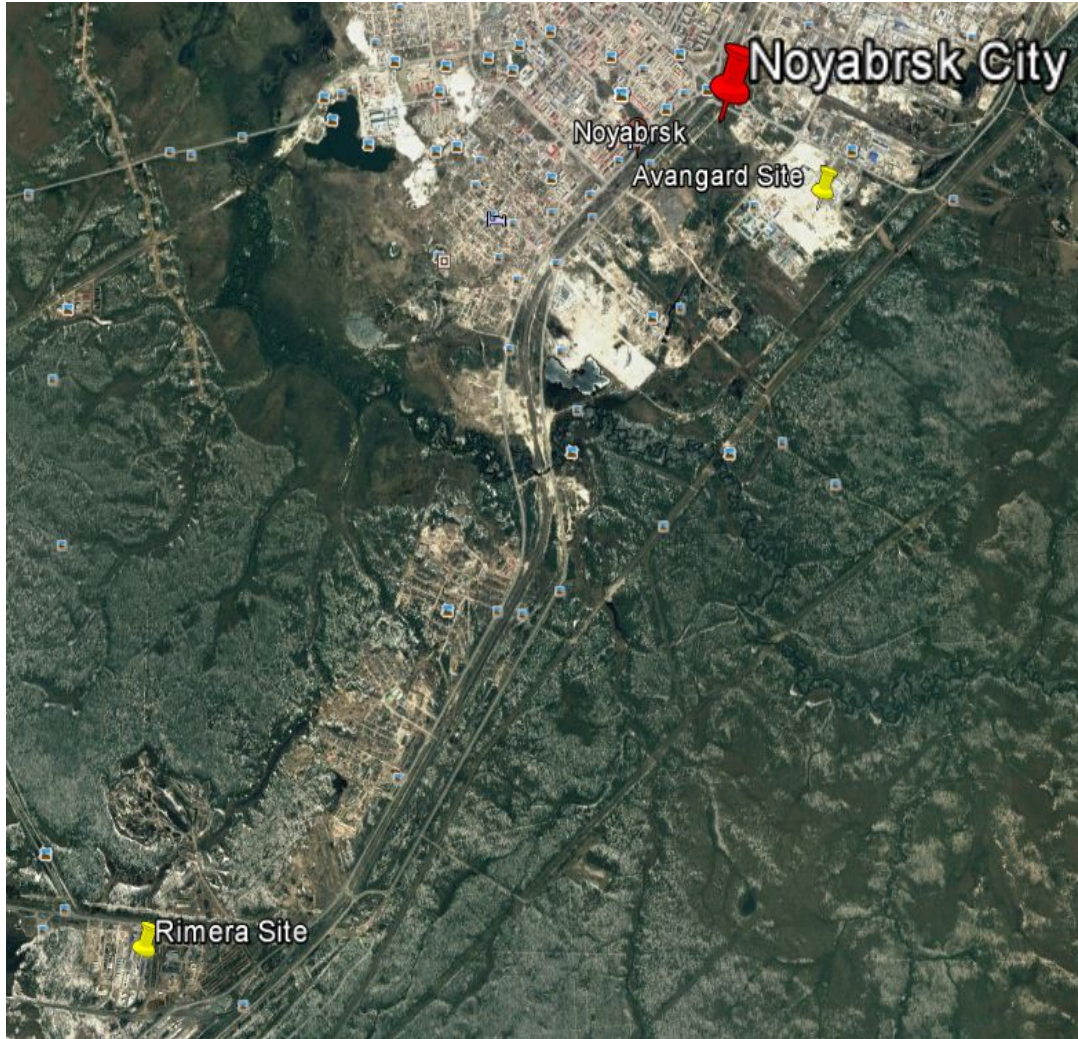
(Before Dividend Payments)

		RU x 1000						
		2017	2018	2019	2020	2021	2022	
<b>Balance Assets</b>								
Property		400,320	311,360	222,400	133,440	44,480	2,000	
Trade receivables		0	180,813	241,083	241,083	241,083	241,083	
Cash and bank balances		20,464	351,407	504,810	668,212	831,614	1,015,016	
Other recievables		0	0	0	6,434	43,678	62,221	
<b>Total Assets</b>		<b>420,784</b>	<b>843,580</b>	<b>968,293</b>	<b>1,049,169</b>	<b>1,160,855</b>	<b>1,320,321</b>	
Euro to RU		62	6,786,839	13,606,125	15,617,627	16,922,083	18,723,475	21,295,496
<b>Balance Equity and Liabilities</b>								
Share Capital		100,000	100,000	100,000	100,000	100,000	100,000	
Retained earnings		-93,340	127,626	356,592	593,558	830,524	1,120,674	
Share holders dividend		0	0	0	0	0	0	
<b>Total Equity</b>		<b>6,660</b>	<b>227,626</b>	<b>456,592</b>	<b>693,558</b>	<b>930,524</b>	<b>1,220,674</b>	
Trade payables		0	40,000	40,000	30,000	30,000	15,000	
Outstanding loan		500,000	500,000	375,000	250,000	125,000	0	
Profit taks		-23,335	55,241	57,241	59,241	59,241	72,537	
VAT		-62,541	20,000	20,000	20,000	20,000	10,000	
Others		0	3,782	22,810	0	0	0	
<b>Total Equity and Liabilities</b>		<b>420,784</b>	<b>846,649</b>	<b>971,643</b>	<b>1,052,799</b>	<b>1,164,765</b>	<b>1,318,211</b>	
Euro to RU		62	6,786,839	13,655,635	15,671,666	16,980,633	18,786,535	21,261,469



# Other Information

*The next competitor is located approximately 250 Km away from the Avangard Site*





# *Other Information*

*Avangard Site showing Proposed  
Production Building*



*Avangard Site showing Pipe  
Storage Areas*



*Gantry Crane for Pipe receipt and Dispatch*



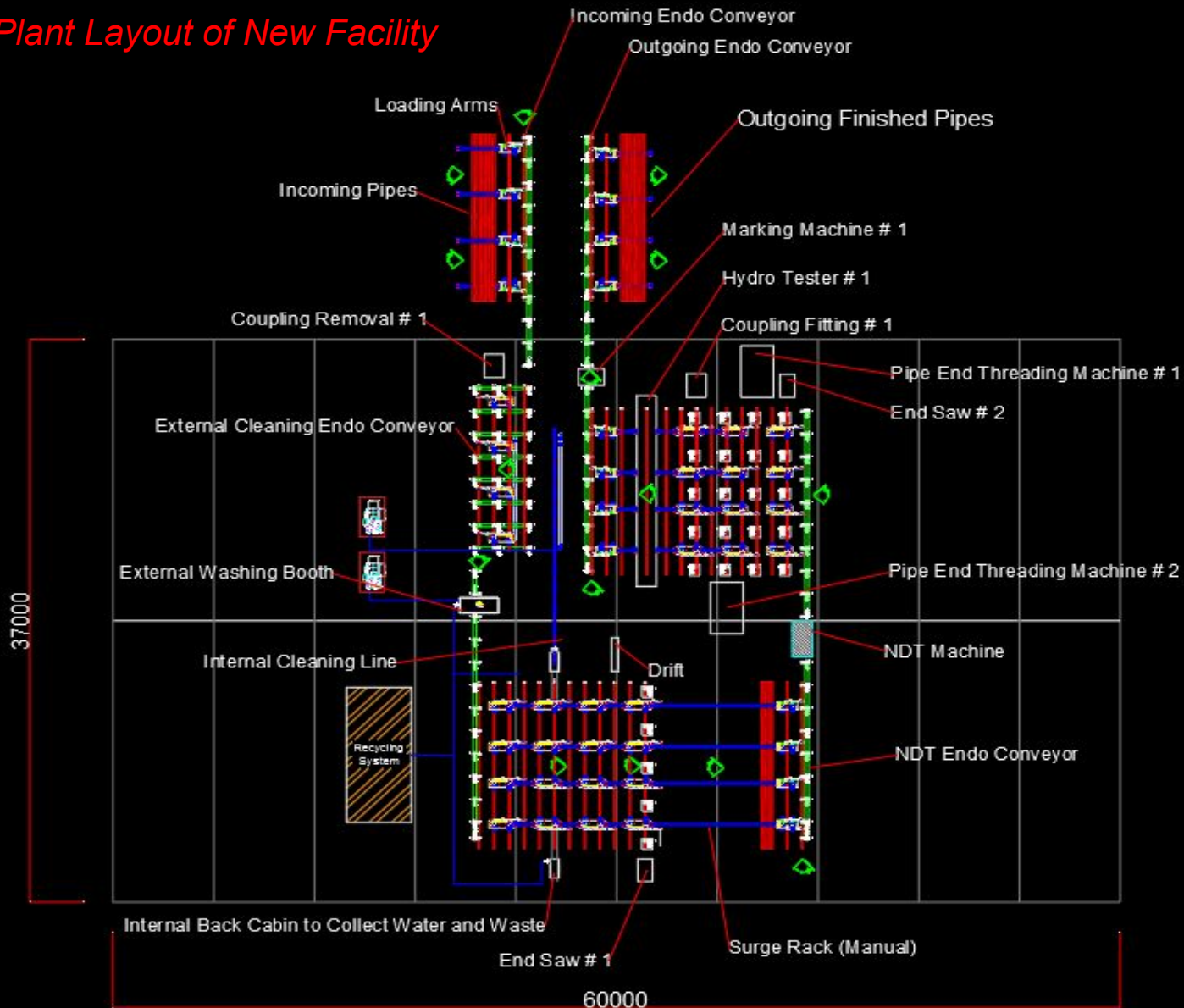
# *Other Facilities by Principal*

*The Principal shareholder of Avangard has other operations within his portfolio as shown below.*



# Production Facility

## Plant Layout of New Facility



# Closing

*The enclosed is an overview of the plan to develop a complete reconditioning facility to service the Gazpromneft requirements for small diameter pipes returning from the oil fields, where they can be reconditioned and reused, resulting in lower operating cost for Gazpromneft.*

*The development time for the new facility will take approximately 8 months, where the plan is to have all components in place to start the construction phase not later than the end of May 2017, allowing for production to start at the end of January 2018.*

*We hope the enclosed allows for an insight to our requirements, along with an overview of the facility operations, where the profitability is exceeding a 30% margin after taxes year on year.*

*Additional work can be introduced over and above the scope guaranteed by Gazpromneft which can be achieved by introducing additional working shifts.*

*We hope the enclosed is clear and allows for you to evaluate our request for funding services from your institution, if there is any part of this overview that is not clear and or you require additional information please contact us accordingly.*

*We would respectfully request that you study our request and inform us if you feel we can proceed to the next step.*

*Thank You – Wayne K Buttimore (WKBH / IDI Systems BV)*



Generated by  
Avangard LLC & IDI Systems BV

Telephone - +31-85-273-2327

Email [info@wkbh.nl](mailto:info@wkbh.nl)

Contact – W.K. Buttimore

