

ASSET CAPITAL PARTNERS

“THE EQUATOR PRINCIPLES”: a “new” investment barrier in Russia?

Environmental risks in pipeline financing

4th International Conference

**“Environmental safety and performance of infrastructure
for transportation of Russian oil and products”**

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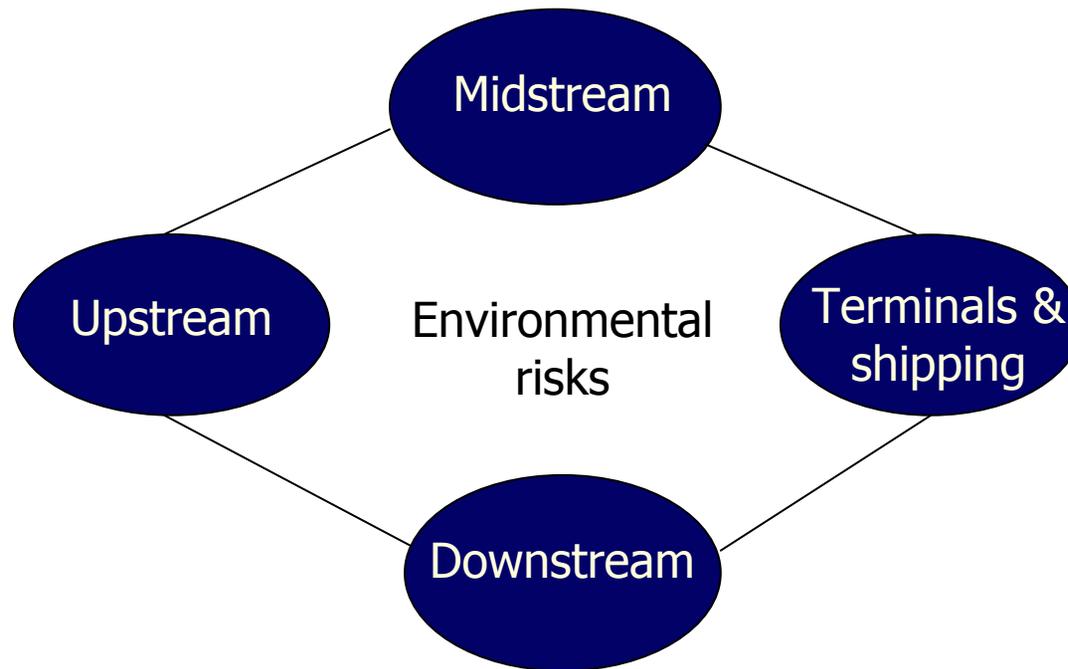
Pipeline projects in Russia

- Need for development of new hydrocarbon fields with no developed infrastructure or pipeline in place (East Siberia, Yamal, Prirazlomnoe, Shtokman, etc.)
- Increasing demand for hydrocarbons in Europe and Asia provides favourable conditions for extension of export transportation routes
- Based on Russia's Energy Strategy preference will be given to independent pipelines with sea access on the Russian territory: additional environmental risks
- According to expert estimation (TDJ), USD 900 bn will be required in the oil and gas sector between now and 2030
- Russian loan market liquidity has increased substantially; however, Russian banks cannot cover all capital needs
- Involvement of international debt and equity investors requires compliance with international environmental guidelines



Pipeline projects in Russia (cont'd)

- Pipeline projects are becoming more challenging: new dimension off-shore pipelines have to be built
- Construction of hydrocarbon sea terminals increases project's environmental risks: movement from local to international impact



Challenges in the oil transportation sector

- Route destination limits (national parks, cultural heritage, etc.)
- Impact on onshore and offshore flora and fauna
- Political and local resistance
- Seismic risk
- Terrorist attack
- Unsanctioned access to the pipeline
- Social impact
- Effective loading and storage facilities, monitoring tools and environmental management
- Additional environmental surveys may be required
- Compliance with host country and international regulations



Challenges in the oil transportation sector (cont'd)

Environmental risks may cause other project risks:

- Political risk
 - Delay in project completion
 - Cost overrun risk
 - Business interruption
 - Legal risk (non-compliance with host and international requirements and regulations)
 - Reputation risk
 - Increased financing costs
 - Funding / syndication risk
 - Event of default
- Shortage of cash flow to service provided debt



“The Equator Principles”: coverage

- Initiated by IFC on 4 June 2003 ten leading international banks adopted voluntary guidelines based on IFC Safeguard Policy for evaluating environmental and social issues (www.equator-principles.com)
- As of September 2005, the Principles have been adopted by 33 banks which provide funding for more than 75% of the project financing loan market
- Each bank adopting the Principles individually declares that it has or will put in place internal policies and processes that are consistent with the Principles
- Loans will NOT be provided to customers which are unable to or do not follow the banks' environmental policies
- Apply to all industry sectors and projects with capital cost of USD 50 million or more: the rest represents only 3% of the market
- The Principles are concrete steps to which banks have bound themselves



“The Equator Principles”: banks

■ Institutions which have adopted the Equator Principles as of September 2005

[ABN AMRO Bank, N.V.](#)

[Banco Bradesco](#)

[Banco do Brasil](#)

[Banco Itaú](#)

[Banco Itaú BBA](#)

[Bank of America](#)

[Barclays plc](#)

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[Citigroup Inc.](#)

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[JPMorgan Chase](#)

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[MCC](#)

[Mizuho Corporate Bank](#)

[Rabobank Group](#)

[Royal Bank of Canada](#)

[Scotiabank](#)

[Standard Chartered Bank](#)

[The Royal Bank of Scotland](#)

[Unibanco](#)

[Wells Fargo](#)

[WestLB AG](#)

[Westpac Banking Corporation](#)



“The Equator Principles”: risk categories

- All projects will be categorised by banks as A, B or C (high, medium or low environmental or social impact)
 - Category A: projects that involve irreversible, diverse or unprecedented negative impacts
 - Category B: projects have less negative impacts than Category A, which are generally reversible and can be easily mitigated
 - Category C: projects which have no adverse environmental impacts, such as project refinancing
- For A and B project will be required an Environmental Assessment (“EA”), identify critical environmental and social issues



“The Equator Principles”: environmental assessment

- The EA must address such issues as:
 - a) Protection of human health, cultural properties, and biodiversity, including endangered species and sensitive ecosystems;
 - b) Use of dangerous substances; major hazards;
 - c) Occupational health and safety;
 - d) Fire prevention and life safety;
 - e) Socioeconomic impacts;
 - f) Land acquisitions and land use;
 - g) Involuntary resettlement;
 - h) Impact on indigenous peoples and communities;
 - i) Cumulative impacts of existing projects, the proposed project, and anticipated future projects;



“The Equator Principles”: environmental assessment (cont’d)

- The EA must address such issues as:
 - j) Participation of affected parties in the design, review and implementation of the project;
 - k) Consideration of environmentally and socially preferable alternatives;
 - l) Efficient production, delivery and use of energy; and
 - m) Pollution prevention and waste minimisation, pollution controls (liquid effluents and air emissions) and solids and chemical waste management
- In each case the EA has to address compliance with applicable host country laws, regulations and permits required by the project
- The EA, or a summary thereof, shall be made available to the public for a reasonable minimum period in local language and in “culturally appropriate manner”



“The Equator Principles”: A and B projects

- For all Category A and, if considered appropriate for Category B projects, the borrower often assisted by a third party will be required:
 - To prepare Environmental Management Plan (“EMP”) to address mitigation and monitoring of environmental and social impacts
 - To demonstrate to the bank that the project complies with host country laws and the World Bank IFC Pollution Prevention and Abatement Guidelines for the relevant industry sector
 - In developing economies to demonstrate that the environmental assessment has taken into account the IFC Safeguard Policies regarding environmental health and safety
 - In a conflict situation between local and international the stricter standard will apply
 - For Category A projects the EA and EMP will be subject to independent expert review

EMP

Standards



“The Equator Principles”: monitoring

- The borrower will be required:
 - To comply with the EMP in the construction and operation of the project,
 - To provide regular reports, prepared by in-house staff or third party experts, on compliance with the EMP and
 - Where applicable, decommission the facilities in accordance with the agreed Decommissioning Plan

- If necessary, lenders will appoint an independent environmental expert to provide additional monitoring and reporting services



Risks mitigants

Environmental risks may be mitigated by:

- Compliance with local and international environmental guidelines, such as “The Equator Principles”
- Implementation of best industry practices
- Environmental management
- Environmental insurance
- Rehabilitation guarantee to be issued by sponsor
- Environmental warranty to be provided e.g. by EPC contractor, equipment supplier or project sponsor



“The Equator Principles” in Russia

- “The Equator Principles” are NOT an investment barrier. Compliance with the Principles:
 - Doesn’t contradict the Russian environmental regulations
 - Mitigates environmental risks as such
 - Makes aware of possible risk sharing
 - Substantially extends potential funding base
 - Mitigates reputation and political risk
 - A further step forward for changing national attitude to environmental risks handling



Introduction to Asset Capital Partners

- **Asset Capital Partners** is a globally operating investment banking firm based in Munich and Moscow



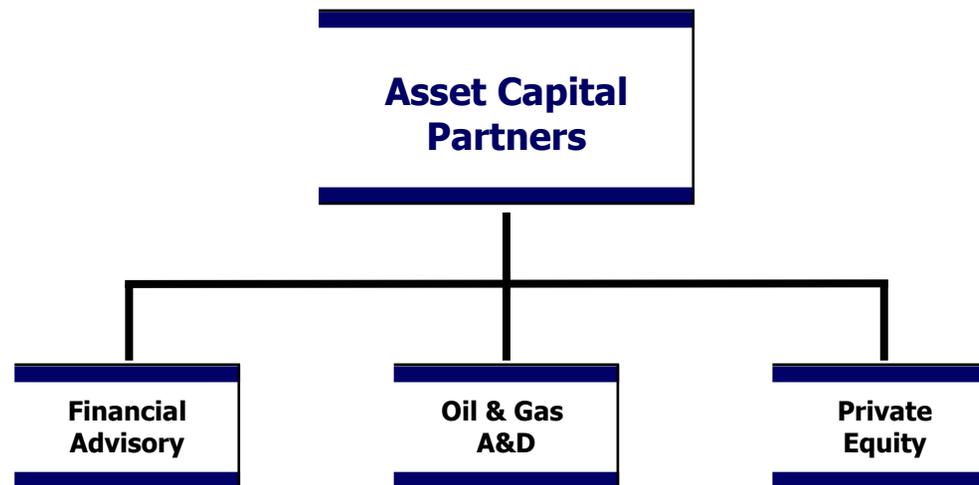
- Given the partners' proven track record **Asset Capital Partners** has a special focus on Russia and other CIS countries
- **Asset Capital Partners** provides investment banking and private equity services for asset based industries, particularly the oil & gas, mining, power and infrastructure sectors



Introduction to Asset Capital Partners (cont'd)

Activities

- **Asset Capital Partners** offers a wide range of investment banking services:
 - Financial advisory with regard to debt, mezzanine and equity
 - Acquisitions and divestiture (A&D) services in the oil and gas sector
 - Private equity services, including fund management and direct equity investments



Introduction to Asset Capital Partners (cont'd)

Founders

- **Asset Capital Partners** was established as a spin off from the private equity and corporate finance division of HVB Group, one of the leading European banks
- The company's founders Hansjörg Gonser, Vladimir Matias, Jan-Hendrik Röver and Marc Wallenstein have successfully worked as a team for more than 8 years and have a combined financing and industry experience of almost 40 years
- All founders are executive partners of **Asset Capital Partners**

Experience

- The partners' expertise covers the whole spectrum of financing solutions from equity over mezzanine to senior debt
 - Thorough senior debt know how and track record as well as unique investment track record and reputation in Russia and other CIS countries, resulting inter alia in the No. 1 arranger position in 2002 and „Deal of the Year“ awards in 2001 and 2002
 - Quasi-equity financing experience in the form of asset based mezzanine investments
 - Substantial private equity know how and track record as the partners represented the first institutional fund-of-funds-investor exclusively focused on asset based investments





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