



Recourse on sponsor in project finance: specific features in Russia

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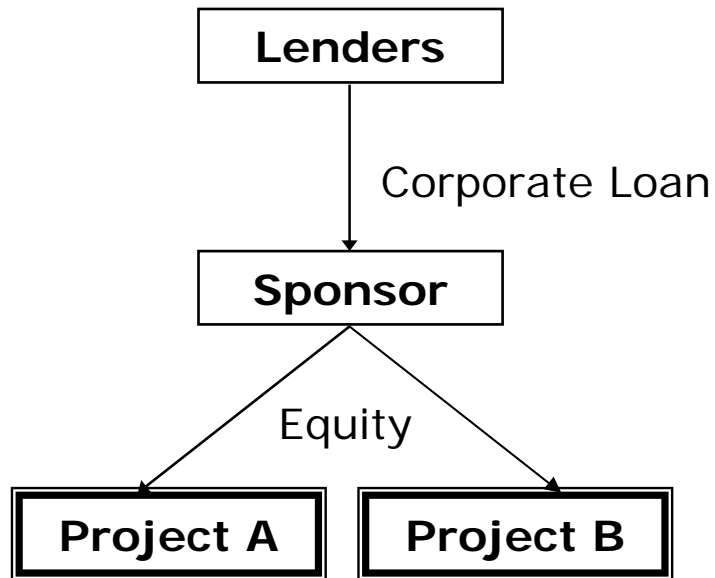
TRADE AND PROJECT FINANCE IN RUSSIA
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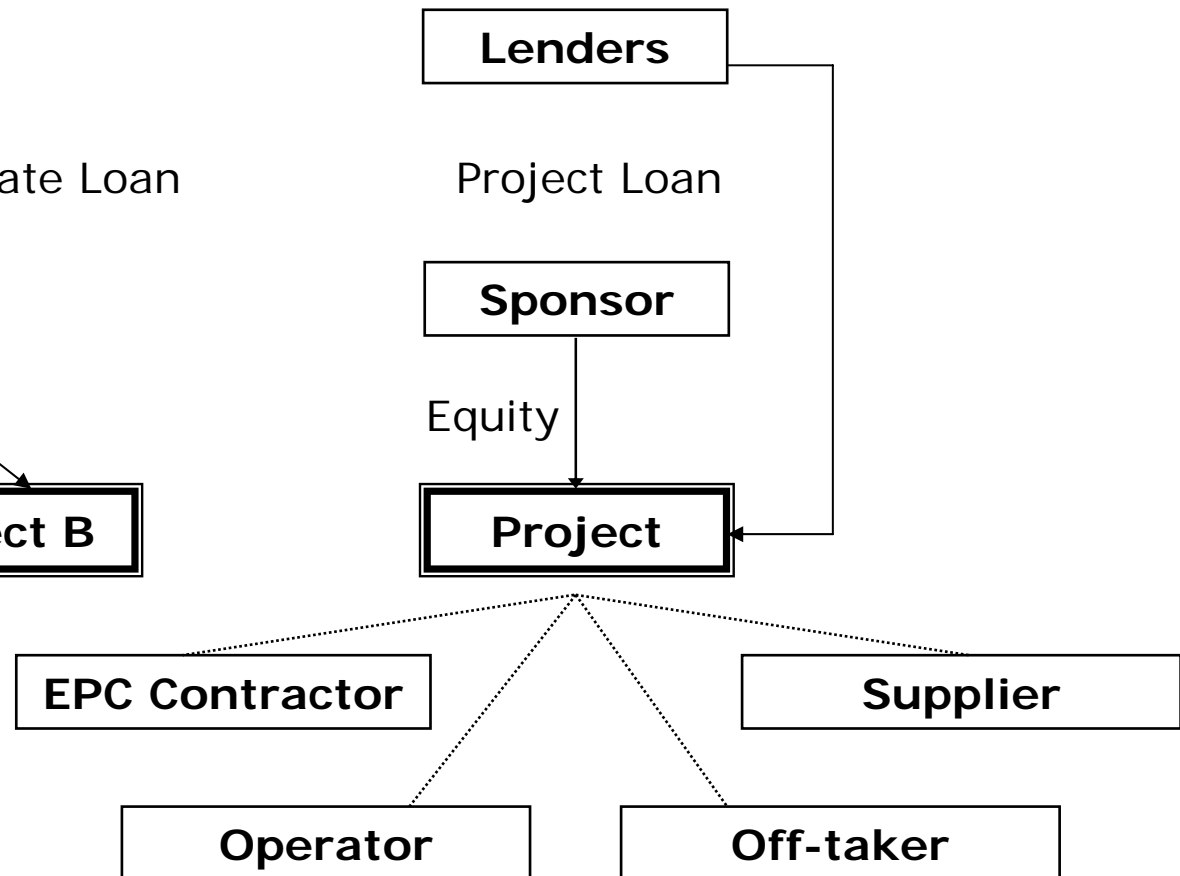
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Corporate vs. project financing (1)

Corporate Financing



Project Financing



Corporate vs. project finance (2)

	Corp. Finance	Project Finance
Borrower	Sponsor	Project company (SPV)
Loan Repayment	All sponsor's CF	Project cash flow
Security	Sponsor + project assets	Project assets, specific industry know-how
Sponsor Accounting	On balance sheet	On/off-balance sheet
Loan Amount	Sponsor's creditworthiness	Project's creditworthiness
Investment Risk	With sponsor <u>(full recourse on Sponsor)</u>	Shared with banks, allocation principle <u>(limited / non-recourse on Sponsor)</u>

Target sectors for project finance

International

- Oil & Gas
- Mining
- Infrastructure
- Power
- Transportation
- Pulp & Paper
- Telecommunication
- Real Estate
- Industries
- PPP

Russia in 2003

- Oil & gas
- Mining
- Telecommunication

Russia in 2007-...

- Oil & gas
- Mining
- Telecommunication
- Infrastructure
- Power
- Transportation
- Pulp & Paper
- Real Estate
- Industries

Major benefits for sponsors in project finance

- Large project investment size vs. sponsor's balance sheet
- Protection of core assets from project risks (non-recourse / limited recourse on sponsor)
- Inability of raising debt via corporate loans
- Maximum risk sharing: contractual structure and expertise of third parties
- Repayment out of future project cash flow
- Longer grace period and tenor
- Higher leverage and earlier availability of funds
- Credit rating of project can be higher than of sponsor – more attractive pricing
- Flexible and tailor made repayment structure
- Voluntary repayment without restrictions
- Off-balance sheet structure

Project finance structuring in Russia: limited risk sharing (1)

	International	Russia
Project company (SPV)	JV ownership structure	One party ownership structure
EPC contractor	Reputable / high credit profile; lump sum turnkey contract under English law	Additional credit analysis; open amount contract under Russian law
Off-takers	Long-term take-or-pay contract	One year take-and-pay contract
Target market	Export/domestic; USD / EUR revenues	Export/ domestic; USD / <u>RUR revenues</u>

Project finance structuring in Russia: limited risk sharing (2)

	International	Russia
Suppliers	Long term supply contracts / party to SPV	One year supply contract
Insurance	Insurance advisor / full coverage of force majeure risks	Insurance coverage can be limited
State authorities	Regulation risk reflected in the country rating	Regulation risk reflected in the country rating
Contract law	English law	English and Russian law
Sponsor support	Sound credit profile; <u>completion guarantee</u>	Sound credit profile / additional credit analysis; <u>completion / payment guarantee</u>

Project finance structuring in Russia: higher recourse on sponsor

Objective reasons

- Different size and life cycle of sponsor
- Significant project size compared to sponsor's balance sheet
- One year transportation contract
- One year off-take contract
- One year supply contract

Subjective reasons

- Weak project structuring:
 - Construction cost overrun and completion date risk with sponsor
 - Operating risk with sponsor
 - Market risk with sponsor
 - Regulatory risk with sponsor
 - Force majeure risk with sponsor

Project finance structuring in Russia: other market challenges

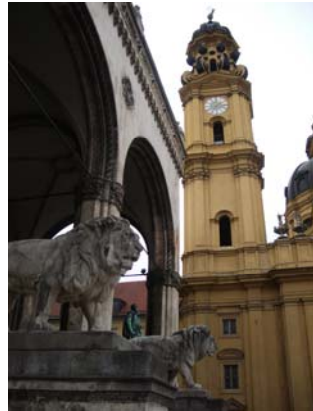
- Under-leveraged balance sheet of sponsors
- Limited sectors until 2007: oil & gas, mining, telecom
- Lending tenors equalled to standard credit products: 5-7 years
- Requirement for USD (EUR) linked revenues
- Higher cost of capital: project credit rating can be lower compared to sponsor's / off-taker's credit rating
- Lack of project finance expertise
- Need for complex structuring and risk sharing: time intensive
- Lack of long-term off-take contracts
- Lack of long-term transportation contracts

Development prospects for project finance in Russia

- **Minimum financing amount:** USD 100 million
- **Russian sponsor:** First / second / third tier companies
- **Sectors:** Oil & gas, mining, telecom, power, infrastructure, transportation, real estate, industries, pulp & paper
- **Tenor:** Over 10 years
- **Revenues:** USD and RUR
- **Off-take contracts:** Long-term / short-term off-take contracts
- **EPC contract:** Lump-sum turnkey contract with a reputable contractor
- **Supply contract:** Long-term / short-term supply contract

ACP contact details

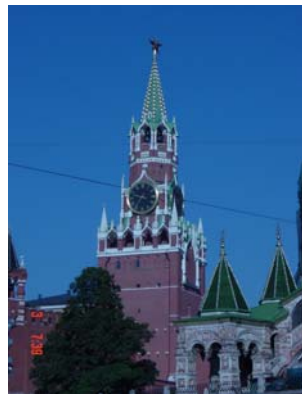
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