

Multi-sourced debt finance structures – a solution for Russia's capital intensive mega-projects

Ayesha Waheed and Matthew Brown
Moscow - September 27, 2013

Context



- Investment required by Russia in infrastructure development through 2030 - over US\$ 1.5 trillion (*McKinsey Global Institute*)
- During 2013-2015 Russia intends to implement 48 large-scale infrastructure projects requiring debt financing of approx US\$ 66 billion (*Russian Ministry of Economic Development*)

Why Project Finance?

- Allows sponsors to finance a project off balance sheet
- Allows governments to have the project completed and operated by the private sector before being brought back into public ownership (particularly in PPP/BOT context)
- Risks can be allocated and ring fenced

Classic Project Finance Structure



Why Conventional Sources of Financing Alone are Not Enough

- Projects are getting larger and more capital intensive
- Increased regulation has significantly reduced the appetite of commercial banks to take and hold project finance assets on their balance sheets
- Multi-lateral agencies (MLAs) and export credit agencies (ECAs) have stepped up to fill the shortfall by increasing the levels of direct lending BUT the need for investment exceeds the amounts available even from deep pocketed MLAs and ECAs



Other Sources of Financing



- Increasingly, large project sponsors are filling the gap by providing sponsor senior loans on the same basis as banks, MLAs and ECAs
- The capital markets also are being tapped as a valuable source of financing for energy and infrastructure projects
- Islamic financing instruments are becoming increasingly popular in parts of the world

The Solution

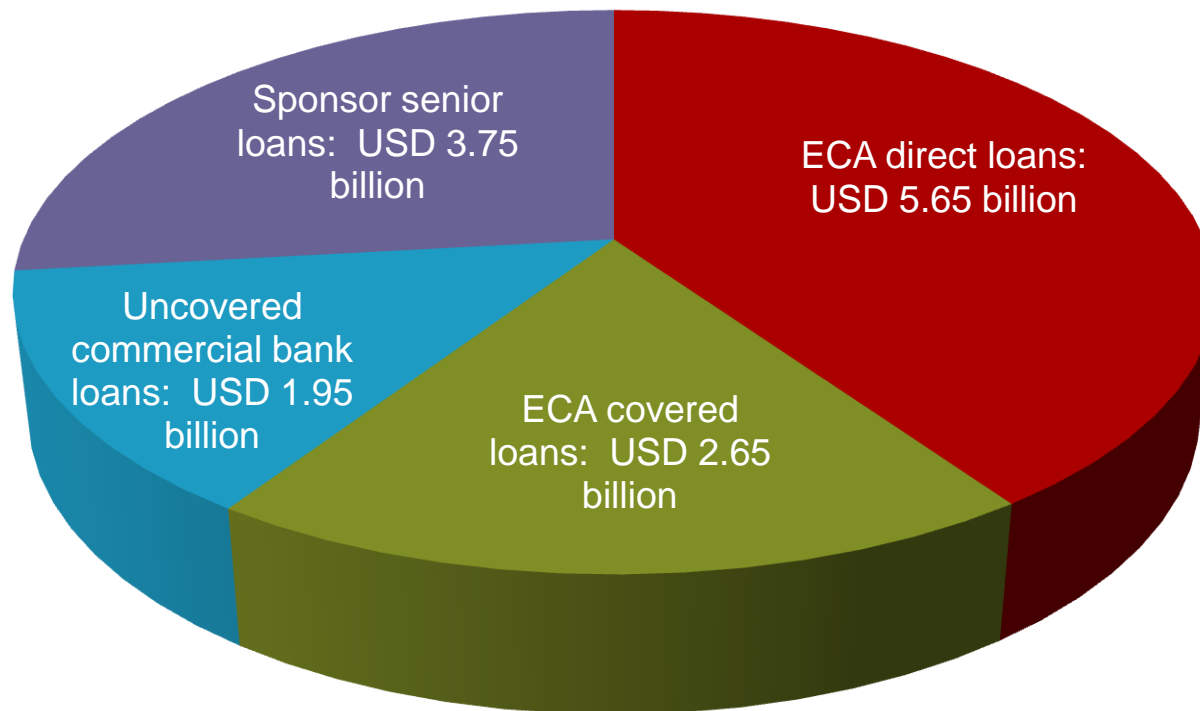


Projects are being structured to combine some or all of:

- Commercial bank debt
- Capital markets debt
- Sponsor senior loans
- ECA covered loans
- ECA direct loans
- MLA loans
- Islamic financing instruments

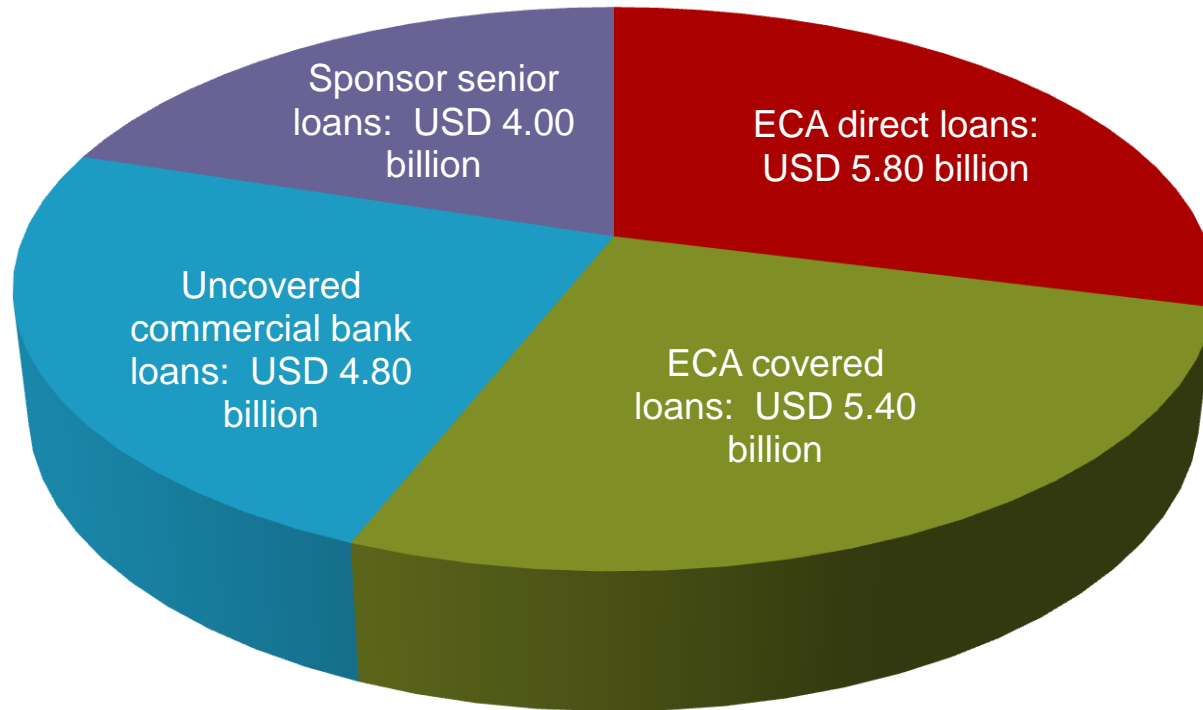
Mega Projects I – PNG LNG (Papua New Guinea)

Closed 2010. USD 14 billion sourced from:



Mega Projects II – Ichthys LNG (Australia)

Closed 2013. USD 20 billion sourced from:



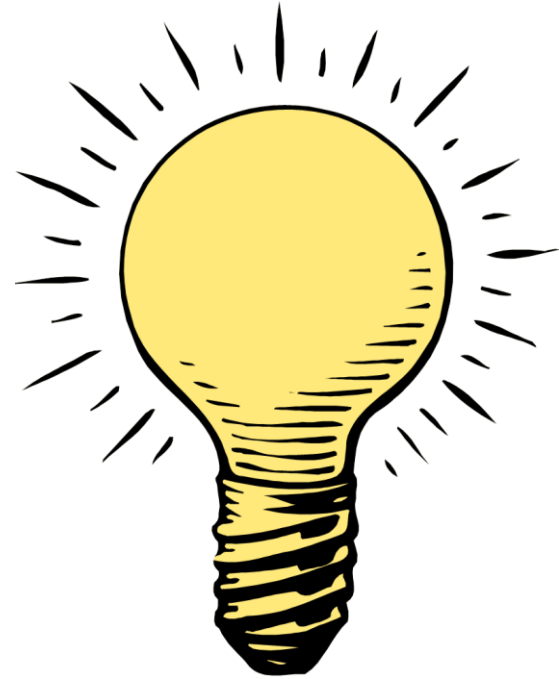
Mega Projects III – Yamal LNG (Russia)

Pending. Funding options may include:

- Uncovered commercial bank loans
- ECA covered loans
- ECA direct loans
- MLAs
- Other sources

Issues and Developments

- Intercreditor arrangements
- Timing considerations and transaction management
- Documentation approach
- Environmental, social and other regulatory matters



Latham & Watkins

- We are one of the world's premier, full-service law firms
- Market leaders in project development and finance, capital markets, M&A, litigation, international commercial arbitration, and other essential areas of practice
- Few firms can match the depth and breadth of our geographic platform and legal expertise
- Our one-firm global platform is predicated on an integrated, teamwork approach to service as the cornerstone to success
- We are a market leader in project finance across all sectors and in particular: mining & metals, oil & gas, power and infrastructure. We provide counsel to sponsors, government agencies, developers, lenders, contractors and financial institutions
- Cutting-edge work in designing integrated project financings for projects around the globe
- Significant experience integrating multiple funding sources

Asia-Pacific Deal of the Year

Latham was awarded the "Asia-Pacific Oil & Gas Deal of the Year" for its work on the US\$8.5 billion APLNG project

Project Finance International, 2012

Americas Power Deal of the Year

Latham was awarded the "Americas Power Deal of the Year" for its work on the Panda Temple Power Deal.

Project Finance International, 2012

Asia-Pacific Deal of the Year

Latham was awarded the "Asia-Pacific Deal of the Year" for its work on the US\$20 billion Ichthys LNG project.

Project Finance International, 2012

Our Global Footprint

More than 2,000 Lawyers Located Around the Globe



North America

Boston
Chicago
Houston
Los Angeles
New Jersey
New York
Orange County
San Diego
San Francisco
Silicon Valley
Washington, D.C.

Europe

Barcelona
Brussels
Düsseldorf
Frankfurt
Hamburg
London
Madrid
Milan
Moscow
Munich
Paris
Rome

Middle East

Abu Dhabi
Doha
Dubai
Riyadh

Asia

Beijing
Hong Kong
Shanghai
Singapore
Tokyo

Questions?

Ayesha Waheed
Partner
Latham & Watkins
ayesha.waheed@lw.com
Tel. +44 207 710 4798

Matthew Brown
Partner
Latham & Watkins
matthew.brown@lw.com
Tel. +44 207 710 1119

