

# *Gazprom expanding to Asian markets: Amur Gas Processing Plant Project*

*Financing considerations*

*October 2016*



# Eastern Gas Route - Power of Siberia Project

- The Eastern Gas Route will deliver rich gas from Yakutsk (Chayandinskoye field) and Irkutsk (Kovyktinskoye field) gas production centres through the Power of Siberia pipeline to China. The total length of the Power of Siberia is 3,100 km
- The gas Sale and Purchase Agreement ("SPA") signed between Russia (Gazprom) and China (CNPC) in 2014 provides for the delivery of 38 bcm per year for 30 years for the value of ca. USD 400bn
- Gas processing is required to satisfy the delivery requirements as set out in the SPA, while also monetizing valuable components extracted from the gas



# Amur Gas Processing Plant Project - Overview

## The Amur Gas Processing Plant ("AGPP")

- AGPP is part of the Eastern Gas Route – a strategic mega-project that opens up Asian markets for Russian pipeline gas and valuable gas products, such as ethane, LPG (propane, butane) and helium.
- Up to 42 bcm p.a. of natural gas is to be processed by AGPP, with volumes building up over 6 lines divided into 5 start-up complexes
- The location of the Project makes it an attractive supplier for the Asia-Pacific region

## Marketing Strategy for Product Sales

- Methane** will be sold to China under the SPA
- LPG capacity** at approximately 1.63 mtpa – export (largely Japan and South Korea) and domestic use
- Helium capacity** up to 60 mtpa (approximately 34% of the world's helium market capacity) – export (mainly the Asia-Pacific region) and domestic use
- Ethane capacity** up to 2.6 mtpa with a targeted domestic offtake



## *Financing Considerations*

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- I. Amount of debt to raise*
- II. Risk concentration on Gazprom*
- III. Tight project deadlines*
- IV. Limitations in ECA policies*

*Issues*

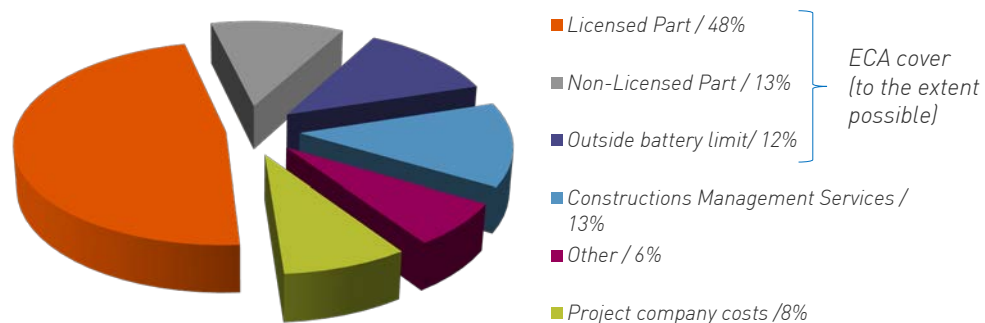


*Solutions*

# Financing considerations:

## 1. Amount of debt to raise

### Project budget



- Amount of project cost compared to classic LNG plant
- Project costs will be funded from equity, provided by Gazprom, and senior debt, with a target Debt:Equity ratio of 70:30.

### Issues

- Large amount of debt to raise
- Localization requirements

### Solutions

- Long-term limited recourse financing
- Diversification of financing sources, including ECAs, international commercial banks under ECA cover and on a commercial basis, Russian commercial banks and Chinese commercial banks
- Development of the contracting strategy to maximize ECA eligibility
- Comparably cheaper financing from Chinese sources (vs. Russian lending institutions)

# Financing considerations:

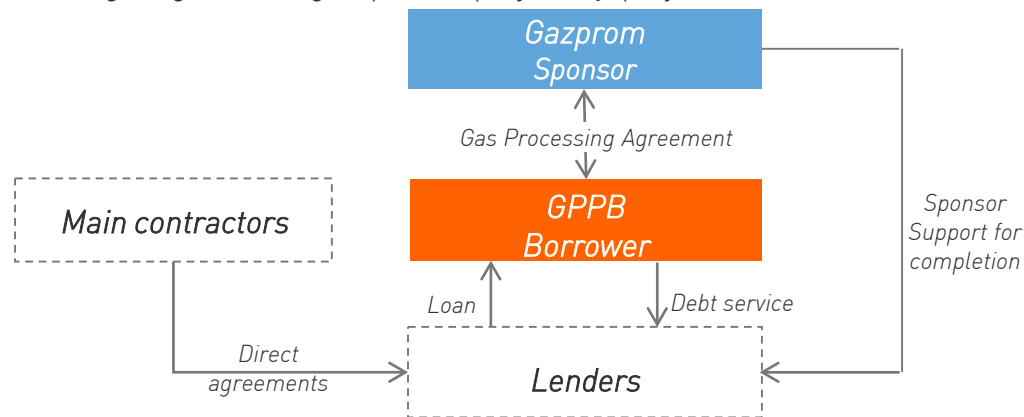
## 2. Risk concentration on Gazprom

### Issues

- *Gazprom is a sole partner*
- *Completion risk of the whole project on Gazprom*
- *Consolidation of debt on Gazprom Group balance sheet*
- *Competition to other Gazprom projects*

### Solutions

- *Development of the risks allocations structure (including completion risk) which will meet expectations of Gazprom and provide robust risk mitigation for lenders*
- *Gazprom completion support staged release, EPC contracting strategy*
- *Prioritizing Gazprom projects to maintain company's sound financial results*
- *Transparent tolling business model*
- *Managing Development of timelines for implementation of different Gazprom projects (mainly Nord Stream-2) to avoid critical paths crossing*
- *Targeting lenders' groups on a project-by-project basis to ensure that lenders' credit limits remain available*



*Robust risk mitigation: lenders will benefit from the Gas Processing Agreement between GPPB and Gazprom and will be ring-fenced from any market risk (price and volume). Gazprom will also offer a form of completion support*

## Financing considerations:

### 3. Tight project deadlines

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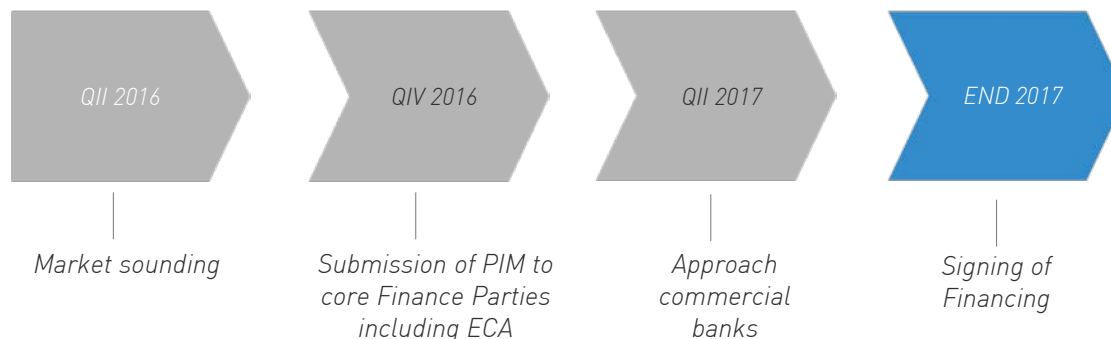
#### Issues

- Tight schedule for raising finance
- Demanding timeline of main contracting packages due to uniqueness and complexity of the Project
- Demanding timeline of hiring lenders' due diligence advisors due to Russian legislation, and time required to conduct such due diligence

#### Solutions

- Structuring easy and creditworthy Project (tolling business model, Gazprom support based on commercial principles, Project cashflows based on robust gas processing agreement, proven licensed technology, reliable EPC contractors, etc.)
- One phase financing
- Development of robust timelines, strict timing control
- Experienced project management

*Financing Timeline: Challenging but achievable due to sound risk allocation, committed project parties and involvement of leading advisors*



## Financing considerations:

### 4. Limitations in ECA policies

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#### Issues

- EXIAR mandate doesn't include tolling projects
- JBIC untied program doesn't work with helium and LPG

#### Solutions

- Current ongoing negotiations with EXIAR regarding its export financing mandate adjustment
- Examine whether the signing of certain offtake contracts may enable JBIC to consider applying their untied program to the project





## Conclusion: Current Status of Project Financing

- Market sounding meetings with major Asian and European ECAs, Chinese and Russian finance parties (incl. AIIB) took place in April 2016



- Letters of interest have been received from the majority of such institutions with indication of strong interest in providing credit financing
- Major Project Agreements (construction contracts, Gas Processing Agreement, etc.) are being developed in consultation with relevant parties to ensure they are acceptable to the Lenders
- Launch of Project Information Package to ECAs is on track for Q4 2016