



NEW STATE PROGRAM ON PROJECT FINANCING IN RUSSIA



The Government of the Russian Federation by its resolution No. 158 of 15 February 2018 approved:

- the Project Finance Factory program which provides for financing of investment projects on the basis of syndicated loan agreements (hereinafter - the 'Program');
- the Rules for Granting Subsidies from the Federal Budget to Compensate for Costs Associated with the Provision of Loans and Credits under the Project Financing Factory Mechanism (hereinafter - the 'Rules').

According to the Program, the project finance is a long-term (for a period of not less than 3 years) financing of an investment project in the form of a loan, under which the debt is repaid at the expense of income from the use or sale of property created and/or acquired in the course of implementation of the investment project.

Within the framework of the Program, project financing is implemented with the use of state support measures such as:

- subsidies from the federal budget to compensate for costs in connection with the provision of loans and credits under the project financing factory mechanism;
- state guarantee of the Russian Federation on bonded loans arranged by Project Finance Factory Special Purpose Vehicle (hereinafter - the 'SPV').

The Bank for Development and Foreign Economic Affairs (Vnesheconombank) is appointed as the Program operator and has the duties, inter alia, to approve the Program regulations upon agreement with the Ministry of Economic Development of the Russian Federation, to select investment projects for participation in the Program in the procedure established by the Regulations, to exercise the powers of a credit manager in accordance with the syndicated loan agreements.

Vnesheconombank shall become the sole founder of the SPV, which will place within the Program framework non-convertible bonds, interest (coupon), and documentary bonds in Russian roubles, with a maturity of 4 to 20 years from the date of placement, but not later than 30 June 2040, which will be secured by the state guarantee of the Russian Federation.

At the first stage of the Program implementation, by 1 January 2019, Vnesheconombank will select investment projects for participation in the Program under the decision on the bank's participation in financing of such investment projects taken by its Supervisory Board, based on the following criteria:

- 1) an investment project is implemented in the territory of the Russian Federation on the basis of project financing and is supposed to be implemented in at least one of the sectoral financing lines specified in the Annex to the Program¹;

¹ The manufacturing industry, infrastructure development and removal of infrastructure restrictions, development of electronic component base and radio electronics, expansion of production of high-tech products and creation of new types of innovative products, including production of new types of materials and equipment, development of end-to-end digital technologies, introduction of promising industrial technologies, expansion of exports of goods and services (export infrastructure) and development of international integration, introduction of the best accessible technologies and reducing the environment negative impact, technological upgrade of defense industry organisations and support for the production of a complex of civil and dual-purpose products.

- 2) the total cost of the investment project (sum of all implementation costs) is at least 3 billion roubles (excluding interest on loans);
- 3) no more than 80% of the total cost of the investment project (excluding interest on loans) is financed by borrowed funds, the share of the borrower's own funds is at least 20% of the total cost of the investment project;
- 4) term of the investment project financing and its payback period do not exceed 20 years.

The investment projects selected by Vnesheconombank in the procedure established by the Program Regulations will become the factory projects.

For the purpose of implementing the factory projects, the lending syndicate will provide syndicated loans within the Program framework to borrowers that are companies established and located in Russia, are tax residents of Russia and meet the relevant requirements established by the Program.

The borrower may be, in particular, a project company - a Russian legal entity specially created for the implementation of a certain investment project, the charter of which provides for the relevant business profile of this legal entity. Other borrowers shall comply with the requirement to the income from the current financial and business activities: such income should be sufficient for timely performance of their obligations to pay taxes and other mandatory payments, as well as monetary obligations to third parties (not including the obligations to repay the principal debt under the syndicated loan).

Syndicated loan (loan) can consist of tranches A, B and C (where tranches A and B are obligatory); the tranche A currency can only be Russian rouble, while the currency for tranches B and C can be both Russian rouble and(or) foreign currency.

Tranche A is provided to the borrower by the SPV or by Vnesheconombank for the subsequent transfer of rights (claims) thereto to the SPV.

Tranche B is provided to the borrower by Vnesheconombank and creditors that may act as participants in the syndicate of creditors in accordance with Russian law, except for the SPV.

Tranche C may be provided to the borrower by Vnesheconombank and(or) other creditors, except for the SPV, for the purpose of financing the costs of performance of the borrower's obligations to pay interest on tranches A and B and(or) increasing the full cost of the factory project in the course of implementation.

To reduce the borrower's interest risks on tranches A, B and C provided in Russian roubles with a floating interest rate (depending on the change in the key rate of the Central Bank of the Russian Federation or the consumer price index) Vnesheconombank will conclude agreements with the borrowers, which will provide for the obligations of the parties to pay monetary amounts depending on the change in the value of the interest rate and(or) the level of the consumer price index.

Performance of monetary obligations by the borrower under a syndicated loan agreement can be secured, in particular, by a pledge of 100% of shares in the charter capital of the borrower - project company and by a pledge of the property owned by the borrower, as well as the property created and acquired in the course of the project implementation.

Except for certain provisions, in particular, on the borrower's obligation to provide certain information to the credit manager, the Program does not establish requirements to the terms and conditions of the syndicated loan agreements. Such agreements between borrowers and participants in the syndicate of creditors will be concluded in accordance with the provisions of Federal Law No. 486-FZ, dated 31 December 2017 'On Syndicated Loan and Amendments to Certain Legislative Acts of the Russian Federation' (effective from 1 February 2018) and the Civil Code of the Russian Federation.

The share of Vnesheconombank's participation in financing the factory project as of the date of the decision made by the authorized management body of Vnesheconombank to participate in the financing of the project will be up to 40% of the total cost of the factory project (excluding interest on loans) (in any form, except for tranche A and sub-tranches of tranche B of the syndicated loan provided by Vnesheconombank).

The SPV will participate in the Program through:

- providing tranches A to borrowers under syndicated loan agreements for the implementation of a factory project in the amount not exceeding 40% of the total amount of the syndicated loan;
- acquisition of Vnesheconombank's rights (claims) to borrowers under syndicated loan agreements in the amount not exceeding 40% of the total amount of such a loan, taking into account the SPV's rights (claims) under the relevant syndicated loan agreement.

Actual and documented costs of Vnesheconombank in connection with performance of obligations under agreements entered by Vnesheconombank with: (a) borrowers, when participants in the syndicate of creditors provide tranches of a syndicated loan under the Program with a floating interest rate; (b) participants in the syndicate of creditors that provide subtranches under tranche B and(or) tranche C within the Program will be compensated by government subsidies on a quarterly basis. Subsidies will be provided under the agreement between the Ministry of Economic Development of the Russian Federation and Vnesheconombank to be concluded within 30 business days after entry into force of the Rules.

The Program and the Rules became effective from 16 February 2018.

Best Regards,

GRATA International Law Firm (Moscow)

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- structuring and support of business financing, including contributions to property and charter capital, lending and issue of securities.

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