
Implementation of major PPP projects in Russia: key lessons learned

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Russian PPPs – examples from our experience

M 11 Section 1

a \$2bn project to construct and operate the first section of the Moscow-St Petersburg toll road

M 11 Sections 7&8

a \$1.8bn project to construct and operate sections 7 and 8 of the Moscow-St Petersburg toll road

WHSD

a €2.8bn PPP to construct and operate the WHSD toll road in St Petersburg

Project Finance Deal of the Year, World Finance 2013

Orlovsky Tunnel

a \$1.3bn concession project to construct a toll road tunnel under the Neva river

Rostec

on a PPP project to create and operate a federal toll collection system for heavy-weight trucks

Pulkovo Airport

VTB Capital and Fraport on a \$1.8bn St Petersburg Pulkovo Airport PPP scheme

Project Finance Deal of the Year, Euromoney 2010

WTE

on a €250 project for the construction and subsequent operation of a potable water facility in Moscow

Vodokanal of St Petersburg

on several water and wastewater infrastructure projects

EVN

on a €290m project for the reconstruction and operation of a waste incineration plant in Moscow

Moscow Metro

on all legal matters relating to the financing and supply of metro trains and their life-cycle maintenance



Russian infrastructure pipeline

Roads

- Federal pipeline - SC Avtodor new development program
- Regional pipeline - proceeds from Platon toll collection system (Khabarovsk, Novosibirsk, Perm, Izhevsk etc.)

Other notable sectors

- Rail
- Airports
- Sea ports
- Water

Key issues

- Funding sources
- Macroeconomic and political risks

Key infra players on the Russian market

Public side

- Federal and regional governments
- State companies (Russian Railways, Avtodor etc.)

Equity

- Most equity comes from Russian financing institutions (banks and pension funds) – such as VTBC, GPB, Leader
- Growing interest of SWFs – eg RDIF or FEDF; role of RCIF
- EPC Contractors – such as Mostotrest, Avtoban

Debt

- Major Russian state banks – VTB, Sberbank, GPB, VEB
- Emerging market for bonds – pension funds and insurers

Non-Russian players – eg Vinci, Fraport, Changi

Typical legal structures in Russian infra

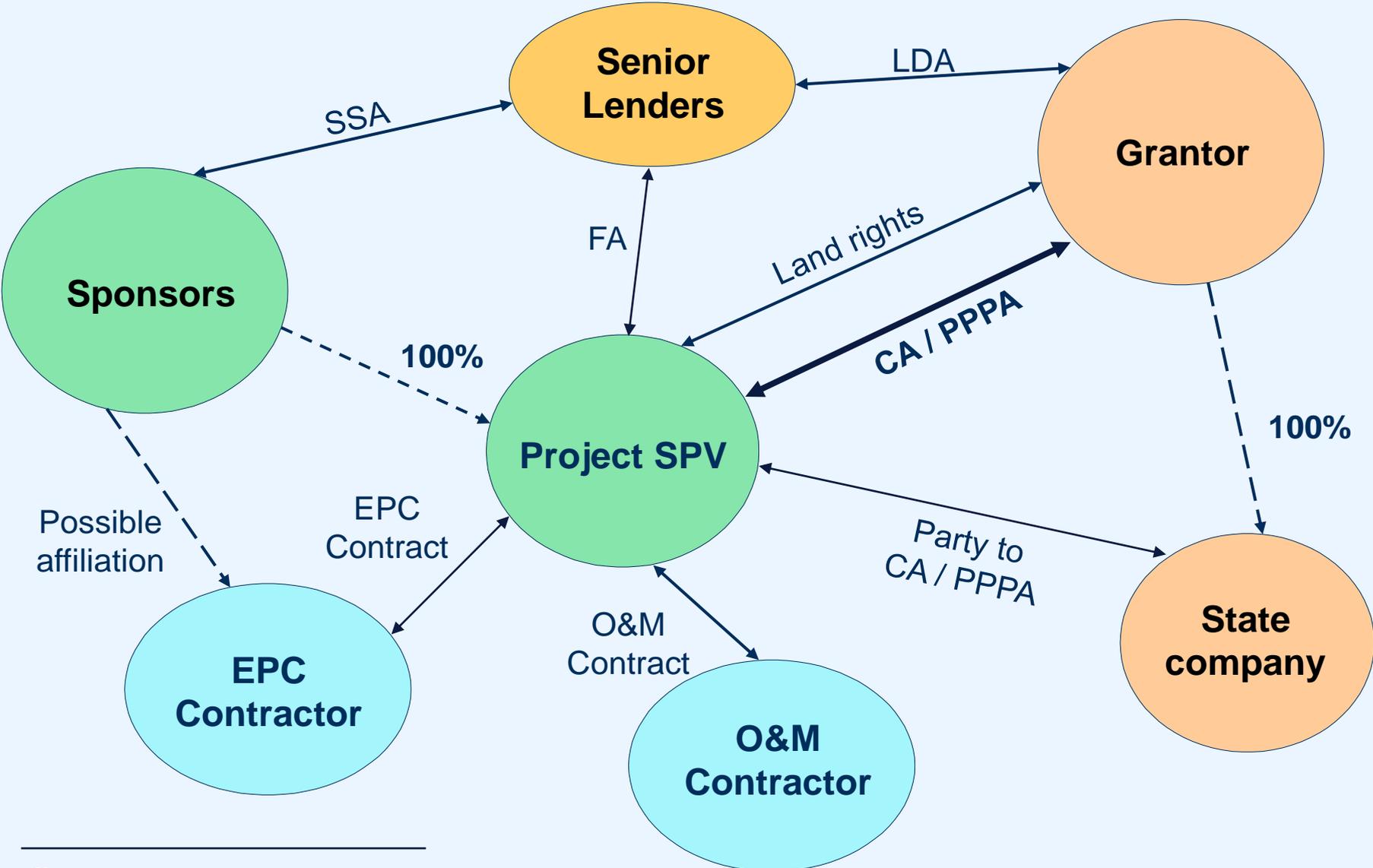
PPP

- Concessions (BOTs) under Federal Law 115
 - Proven track record
 - State ownership
 - PFI
- BOOTs under Federal Law 224
 - No track record
 - Complicated procedure to launch a project
 - Private ownership
- LCC under Federal Laws 44 and 223

Non-PPP project finance

M&As and JVs

Typical Russian PPP structure



State support

State guarantees

- Strict on-balance state guarantees
- Off-balance financial guarantees under CAs / PPPAs
 - Legality
 - Bankability
 - Track record

Other state support under CAs / PPPAs

- Public side risks
- Compensation on termination

Non-contractual state support

- Tax benefits & grandfathering clauses
- BITs and ECAs

Foreign currency risk

Track record

- Budget law constraints introduced after 1998 crisis
- No contractual forex protection in PPPs
- Available contractual indexation mechanisms – CPI, Construction Index, MOSPRIME base rate, others
- Projects with a natural hedge – airports, sea ports, else
- Commercial forex hedges

Trends

- Understood to be the key factor to open major foreign investment into Russian infrastructure
- HSR Moscow Kazan
- Systemic solution in sight?

Project risk allocation

Typical risks which Russian grantor would assume

- Demand / traffic / tariff
- Land and title
- Existing structures
- Ground conditions beyond certain point
- Qualified Changes in Law
- Nationalization
- Riots and protests

Special Events as a contractual regime for G's risks

- Time and money (including financing costs) covered
- Track record of getting compensated by Russian grantors
- Practical considerations



Documentation

PPP work-streams as usual in projects elsewhere

- Bid and PPP / concession documentation
 - Lender Direct Agreement – key bankability factor
 - Law and forum for disputes
 - Typically, heavily negotiated documents
 - No nationwide standardization – expect very different approaches across the country
- EPC
 - FIDIC and other standards vs Russian approach
 - English law?
 - Back to back and EPR
- Financing documents – Russian or English law, LMA forms

Process

Tender

- Typically, 6-9 months (in some cases up to 2 years)
- PQ plus Bid stages
- Selection criteria vary, price the key factor once PQ is done
- Bid costs
- Bid security

PFI

- New mechanism – no track record
- Risk of slipping into tender

By appointment of the Russian Government

- One example so far – Platon toll collection system
- Exceptional case and political leverage required

Key lessons learned

- Competition is of paramount importance
- Forex support – the controversy
- Public-public partnership
- Standardization of documentation and processes
- Project development costs
- Private finance initiative
- Start small
- Have a project champion
- Political support is key
- Right balance of risk and right cash-flows (not too much, not too little state funding)
- Need for a high quality advice

About our Firm



About our Russian PPP practice

We have been providing legal support for infrastructure projects in Russia since 1996. That means that, **for 20 years**, we have been actively involved in structuring and implementation of major Russian PPP projects for both the public sector and private investors in a number of industries, including transport infrastructure, utilities and energy.

We were **the first** among international law firms to advise on PPP projects in Russia.

Since 2005 (when the law on concession agreements in Russia came into force), we have advised the Government, sponsors and lenders on most major and innovative concession and PPP projects in Russia.



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PPP Russia*

“

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Pioneers of this market; the lawyers know a lot about PPP.

*Chambers Europe, 2014
PPP Russia*

Your speaker



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About
Lead lawyer on most of the major Russian project finance and PPP deals in transport and other sectors which reached financial close. Wealth of experience in roads, rail, airports, sea ports, power and utilities

Thank you

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