

Tobolsk Polypropylene Plant Project

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The US\$1.44 billion Tobolsk Polypropylene project closed in July with a fresh financing structure that looks to bridge the gap between traditional foreign investment and project finance in the Russian energy sector.

From a strategic standpoint, Tobolsk is a key project for Russia. Additionally, it also exhibits a particularly novel way of distributing risk evenly across borrower, lenders and contractors. Through incorporating risk bearing features to the EPC contracts in addition to the sponsors and lenders, its framework helps mitigate the risks inherent in a project of this nature.

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Tobolsk-Neftekhim LLC (Photo © SIBUR)

The value of such a financing model could prove priceless as the link between international commercial lenders and the previously distant Russian market, often seen as being too risk prone, especially regarding energy projects.

Despite the many encouraging signs that this project shows, limitations of Russian project finance are also subtly visible.

The project

The polypropylene complex will be in Tobolsk, Tyumen region in Western Siberia. The new complex consists of two basic parts, which are the production of 510,000 tons of propylene per year by employing the propane dehydration method and production of 500,000 tons of polypropylene a year from it [\[Transactions Database\]](#).

The European Bank for Reconstruction and Development (EBRD) will finance this project alongside domestic lenders with financial close expected in Q1 2011. As a project this bears significant similarities to Tobolsk in terms of its sheer size and the ability to significantly boost domestic production of a core product.

However, the financing structure will differ from Tobolsk with a focus on IFI support and less of a reliance on international commercial lenders. All the same this project will once again give a template for project financing such deals in Russia.

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