



Fuelling the fire

Deal information:

Borrower: Vyborg

Amount: €30mn

Mandated lead arrangers: VTB Bank (France), Texel Capital Ltd

Lender: VTB Bank (France)

Law firms: Lovells (lender); Denton Wilde Sapte (borrower)

Tenor: 3 years, with option to renew for another year.

Date signed: December 30, 2009

Arrangers VTB Bank (France) and Texel Capital closed a €30mn (US\$41.7mn) pre-export financing facility in support of Vyborgskaya Celluloza (Vyborg) – a Russian cellulose producer, which will be using the loan to build the world’s largest wood pellet plant. The significance of the deal lies in the fact that the arrangers were able to structure a large facility to finance a new borrower for a start-up project in a vital new commodity, located in a region where most Western banks had withdrawn their support. Moreover, this was accomplished in a year when banks were struggling with financing any new deals at all. “Financing the wood industry is difficult at the best of times; financing a new project in Russia in the middle of a financial crisis is almost impossible,” says Jean-François Khan, director, global trade finance and financial institutions at VTB Bank (France). “In an extraordinarily difficult market, we were delighted to be able to successfully conclude this transaction within 2009. It illustrates once again that, with creative effort and the right partners, it is always possible to structure successful deals despite the constraints of the financial environment,” comments William Shaw of Texel Capital.

The facility will enable Vyborg to purchase

wood pellet production lines from Austrian supplier Andritz, which will be repayable by the export of wood pellets to Swedish sales agent, Ekman & Co over a period of up to 36 months, including a six-month grace period.

Reimbursement will take place on a monthly basis six months after the first drawdown date in 30 instalments. It has been agreed that the borrower may request extension of the facility 24 months after the first drawdown for a further 24 months.

The first drawdown of the facility took place on December 31, 2009. Vyborgskaya Celluloza is a well-established industrial player in the Russian forestry industry. The cellulose mill, which has recently been used as a pulp production facility, a base paper production facility, a paper conversion production facility, will now – as a result of this financing – also be turned into a production plant to produce a million tonnes of wood granules (pellets) every year.

Wood pellets – usually made from compressed sawdust and wood shavings – have become a major fuel source used in many parts of Europe as well as in the US and Canada.

The company plans to partially integrate the pellet mill with the existing plant, resulting in the facility becoming twice as large as any in the world, and very well-

placed geographically to capture the rapidly growing European market. In order to effectively access and develop the growing wood pellet market quickly and effectively, Vyborg has established an exclusive sales agency through Ekman & Co, based in Gothenburg, Sweden. Through Ekman, the wood pellets will be sold to energy generating companies throughout Europe.

VTB Bank’s Khan highlights some of the challenges faced: “This turnkey project presented special difficulties in considering that compared to other fuels in use today, wood pellets can be considered as a relatively new type of fuel with no reference price and the borrower is new to the market.

“Financing the wood industry is difficult at the best of times.”

“At the time of signing no resale contracts to the end-users had been signed, however a lot of interest has been shown by large scale co-firing power companies who need to use a greater portion of renewable energy as inputs,” Khan explains that the repayment structure thus had to be adapted to capture the commission flows from the marketing agreement instead of the more traditional payment flows that would go directly to Vyborg Celluloza.

Annie Edvardsen, CFO of Ekman, adds: “We are very pleased that we, together with Texel Capital, were able to find the financial solution for Vyborg to go ahead with this pellet project. Through the exclusive sales contract our bioenergy division will support the mill with all sales. Ekman will also assist with services in finance, risk management, logistics and administration.”