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BUILDING PARTNERSHIPS FOR ENERGY SECURITY

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INOGATE Study Tour/Workshop

Energy Efficiency & Renewable Energy Sources

EE/RES financing schemes, lending conditions and monitoring plan

Ameria Bank

14-18 January 2014, Yerevan, ARMENIA

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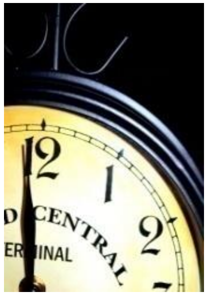
1. Financing Schemes

2. Lending Conditions



FINANCING OF EE/RES PROJECTS – TOPICS (1)

- Basic decision: On-Balance Sheet – Off-Balance Sheet - Financing
- Project financing
  - Non-recourse / Limited recourse
  - What Lenders do worry about
  - Key Success Factors
- Bankability
  - Project Documentation
  - Partner Set-up of the Project Company
  - Feasibility Study and Business Plan
  - Contracts:

    -) Construction Contract
    -) Fuel Supply Contract
    -) Operation & Maintainance Contract
    -) Off-Take Agreement

FINANCING OF EE/RES PROJECTS – TOPICS (2)

- Financial Risk Management in the Project Development
- Financial Modelling and Sensitivity Analysis
- Optimization of the „Debt / Equity – Ratio“
- Project Information Memorandum for Financial Risk takers / Investors
- Structuring and Arranging of the Equity Financing / Investor search
- Structuring und Arranging of the Debt Financing
- Possible Conditions Precedent from the Financial Point of View
- Financial Closure / Project start

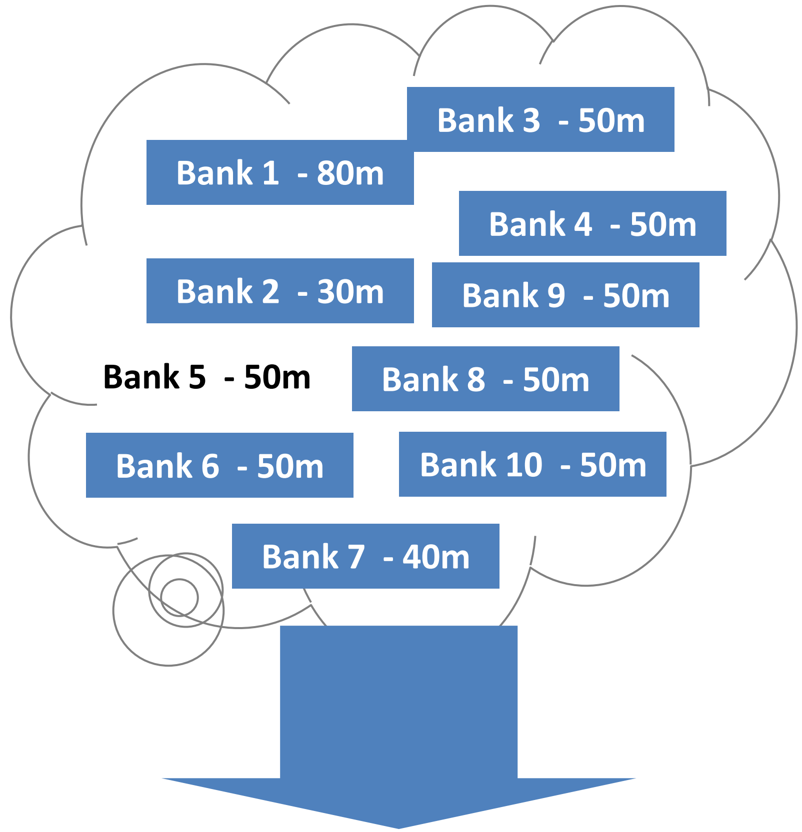
RES FINANCE STRUCTURES

Financing of Larger Energy Project Transactions in Current Times (IV)

Funding Future Projects – Club Deals

Club deals are now the norm as underwriting is not available.

- Banks now **unwilling to underwrite** due to risk of failure in syndications market.
- **Club deals** are now required.
- Larger banks can hold up to €75-100 m, however, on average hold position **€50 m**
- A **€1 bn project** is likely to require **more than 10 banks** and is also subject to support by multilateral institutions!!
- Each bank requires **"seat at table"** and the result is often "lowest common denominator" terms – also very time consuming during negotiations.
- The more banks are required to finance a project – the more complex the **negotiation process** is, but if the banking club succeeds in "acting in concert" their bargaining power rises and therefore the possibility to negotiate "attractive" funding terms may increase.
- The problem can be intensified if **multiple bidders** – e.g., €1 bn project with 4 bidders requires €4 bn of financing at bid stage. Can result in lack of competitive terms and even bidders withdrawing.



Collectively negotiate with Public Authority and SPV

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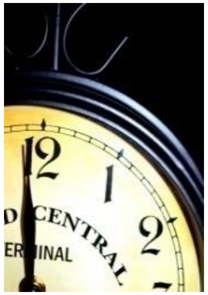

Important Criteria for successful Project Financing

- bankable satisfactory feasibility study and business plan
- reliable partner set-up in der project company – Special Purpose Company (SPC)
- sufficient equity participation of the sponsors/investors, satisfactory shareholder agreement
- experienced and reliable general contractor
- experienced reliable operator
- experienced reliable management in the SPC
- proven technology
- all means required for the production (feed-stock, water, etc.) are secured at calculable market prices
- the project represents sufficient value as security
- stable political environment
- all licences and approvals are available
- acceptable country risk, no risk of expropriation
- environmental risks under control, cost overruns, delay and force majeure risks considered
- infrastructural connection of the project acceptable
- etc.

Bankable Project Documentation

In the financing documentation lenders do (inter alia):

- not accept change of law risks (insurance of the political risk!?)
- not accept the risk of extraordinary project specific taxation
- require that the project company shall bear only those risks it is in the position to handle
- require an adequate investors‘ equity participation in the project company in proportion to the total project costs (depending on the project feasibility
- not allow for early equity repayment to the investors (before start of repayment of the loans or achievement of defined debt service coverage ratios)
- require the right to directly step into all major contracts (construction contract, operation agreement, off-take agreement, fuel supply agreement, concession agreement, etc.) instead of the project company in the event of loss
- etc.

Bankable Feasibility Study and Business Plan

- realistic assumptions (input data) confirmed by an independent expert (e.g.: engineering cost, construction cost, production cost, market report, etc.)
- conservative cash flow projections have to cover operational cost, debt service (principle + interest) and calculable working capital as well as contingencies
- sensitivity analyses, to show different worst case scenarios
- etc.

Bankable feasibility study und business plan:
elaborated by a renowned reputable consultant or respective second opinion of him

EE/ RES Financing & Project Structures

Erste's View: Required Documents for Analysis

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Documents | Workflows | Due Diligence | Bankability | Risks & Mitigants

Mandatory documents

✓ Business Plan
- Cash flow forecast
- Sources and uses of funds
- Asset cost split
- Financing Parameters
- Financial Model on Cash Flow basis
  - → hard and soft costs and detailed exit year calculations
  - → a development budget

✓ Project Information Memorandum:
- Key project stake- and shareholder, Initiators
- Asset description, capacities, technical data
- Regulatory framework and market description
- Risk analysis
- Project economics and financial plan

✓ Feasibility Study
- Macro and micro environmental assessment
- Technical assessment of equipment used
- Demand and growth potential assessment
- Benchmark and competition analysis

✓ Financials
- CF Statement, P&L Statement
- Annual Report of Sponsors (if available)

Supplementary documents

✓ Outline architectural master plan;

✓ An environmental and a social impact assessment;

✓ Local and government authority permits to allow the construction and operation of the project

✓ Project Contracts
- EPC
- Operation & Maintenance … ect.

✓ Concession Deed

✓ Shareholders Agreement

✓ Off-take Agreement

✓ Contracts with relevant advisers
- legal
- tax
- technical

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ERSTE Group - Internal Workflows

Timeline		Processes / Events	Documentation	Tasks / Outcomes
1-2 weeks	Project pre-assessment	Project Kick off		
		Confidentiality/Exclusivity	**NDA**	Confidentiality/exclusivity agreement with client
		Screening Committee	**Screening Note**	Project screening, **"stop/go"** decision
4-8 weeks	In-depth project analysis and RM	Due Diligence	**Advisors Feedback**	In-depth analysis of the project, risks, preparation of financial model, due diligence with (external) consultants
		Financial Analysis	**Financial Model**	
		Risk Management	**Risk Opinion**	Risk Management assessment
2-3 weeks	Negotiation	Negotiation of TS	**Indicative Term Sheet**	Discussion and negotiation of the term sheet
			Committed Term Sheet	**Signing** of a committed financing proposal
4-8 weeks	Loan Documentation, Closing	**Credit Committee**	**Credit Application**	Preparation of transaction application
			Approval	Credit committee discussion (further conditions)
		Loan Documentation	**Signing**	Completion of loan documentation (Signing)
		Disbursement/Closing	**Monitoring**	**Financial Close (drawdown)**

EE/ RES Financing & Project Structures

Typical DD Process for Infrastructure Transactions*

* covers, but is not limited to following areas

Documents	Workflows	Due Diligence	Bankability	Risks & Mitigants

- **Pre Screening:**
  - project information memorandum (PIM)
  - ownership structure
- **Pre Term Sheet/ Loan Documentation:**
  - financial analysis/ financial model
  - project structure/ parties involved
  - DD by external advisers (feasibility study, legal, tax, technical, environmental assessment, valuation)
- **Pre Credit Committee:**
  - risk management opinion
- **Pre Signing/ Pre Disbursement :**
  - check on conditions precedent
- **During Construction :**
  - execution and performance assessments
- **During Loan Term:**
  - performance assessments
  - payment check
  - annual reports

Typical DD Process usually includes, but is not limited to:

→Feasibility study

→Technical facility assessment: technology, design

→Site assessment: safety conditions, environmental issues

→Permits, licences, building permit

→Asset valuation

→Project execution and performance assessment: "cero-report", construction progress, commissioning and testing

→Capital and operating cost assessment

→Contracts with related parties:
- project monitoring
- consultants/advisers (tax, legal, financial, technical)
- construction,
- operation,
- services/ off-take agreements

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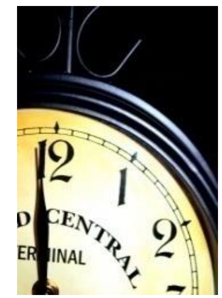
3. Monitoring Plan



Monitoring plan

Consists of topics, interesting for lenders to be monitored, such as:

- Financial reports
- Physical progress reports
- Procurement reports
- Completion report
- Environmental reports
- Etc.

Example of a monitoring plan

Borrower shall provide to lender:

<u>Construction phase:</u>

Each quarter (30 days after end of quarter) *project progress reports* including**:**

- Short write up on construction progress
- Explanation on possible delays
- Overview of actual costs (evidenced by respective invoices)
- Actual construction time schedule and comparison with initial time schedule

At completion:

- Completion report

Operation phase

- Financial reports (half year + year end reports)
- Management letter + compliance letter by auditor (confirming borrower is in compliance with financial covenants e.g. D/E ratio higher then…, DSCR not less then…, etc.) after end of financial year
- Annual monitoring report (on borrower, its operation, addressing topics of management and technology, operation performance and financial conditions) after end of financial year
- Annual environmental and social monitoring report