"INO Gate Technical Secretariat & Integrated Programme in support of the Baku Initiative and the Eastern Partnership energy objectives" Project

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

Werner Weihs-Raabl, Head of Group Infrastructure (GIF), Erste Bank
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
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.
1. Financing Schemes

2. Lending Conditions
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

<table>
<thead>
<tr>
<th>Documents</th>
<th>Workflows</th>
<th>Due Diligence</th>
<th>Bankability</th>
<th>Risks &amp; Mitigants</th>
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<tbody>
<tr>
<td><strong>Mandatory documents</strong></td>
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<td>✓ <strong>Business Plan</strong></td>
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<td>- Cash flow forecast</td>
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<td>- Sources and uses of funds</td>
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<td>- Financial Model on Cash Flow basis</td>
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<td>→ hard and soft costs and detailed exit year calculations</td>
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<td>→ a development budget</td>
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<td>✓ <strong>Project Information Memorandum:</strong></td>
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<td>- Key project stake- and shareholder, Initiators</td>
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<td>- Asset description, capacities, technical data</td>
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<td>- Regulatory framework and market description</td>
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<td>- Risk analysis</td>
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<td>- Project economics and financial plan</td>
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<td>✓ <strong>Feasibility Study</strong></td>
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<td>- Macro and micro environmental assessment</td>
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<td>- Demand and growth potential assessment</td>
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<td>- Benchmark and competition analysis</td>
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<td>✓ <strong>Financials</strong></td>
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<td>- CF Statement, P&amp;L Statement</td>
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<td>- Annual Report of Sponsors (if available)</td>
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<td>✓ Outline architectural master plan;</td>
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<td>✓ An environmental and a social impact assessment;</td>
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<td>✓ Local and government authority permits to allow the construction and operation of the project</td>
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<td>✓ Project Contracts</td>
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<td>✓ Concession Deed</td>
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<td>✓ Shareholders Agreement</td>
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<td>✓ Off-take Agreement</td>
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<td>✓ Contracts with relevant advisers</td>
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ERSTE Group - Internal Workflows

Timeline | Processes / Events | Documentation | Tasks / Outcomes
--- | --- | --- | ---
1-2 weeks | Project Kick off | NDA | Confidentiality/exclusivity agreement with client
 | Confidentiality/Exclusivity | Screening Note | Project screening, “stop/go” decision
 | Screening Committee | | |
4-8 weeks | 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 of TS | Indicative Term Sheet | Discussion and negotiation of the term sheet
 | | Committed Term Sheet | Signing of a committed financing proposal
4-8 weeks | Credit Committee | Credit Application | Preparation of transaction application
 | | Approval | Credit committee discussion (further conditions)
 | | Signing | Completion of loan documentation (Signing)
 | | Monitoring | Financial Close (drawdown)

Tbilisi, Georgia
09-13/07/2013
EE/ RES Financing & Project Structures

Typical DD Process for Infrastructure Transactions*

* covers, but is not limited to following areas

**Documents**
- 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

**Workflows**
- During Construction:
  - execution and performance assessments

- During Loan Term:
  - performance assessments
  - payment check
  - annual reports

**Due Diligence**

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

**Bankability**

**Risks & Mitigants**

Tbilisi, Georgia
09-14/07/2013
1. Financing Schemes

2. Lending Conditions

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:

Construction phase:

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