Challenges in financing PV Projects

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TOPICS

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1. Trends
2. Key Challenges
3. Financing by banks
4. Bankability issues
5. Conclusions

1. TRENDS - General

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Financier's Perspective – Key Factors:

- Financing structure, sources of financing and project costs
- Sponsor / Developer (quality, lock-in period, client relationship)
- Due diligence reports (financial model, technical, legal)
- Jurisdiction
- Permits (incl. grid connection)
- Technology (incl. warranties)
- Location (incl. irradiation / sunlight measurements)
- Incentive scheme
- Bankability of EPC (fixed price, completion guarantee, availability guarantee for the initial period), equipment supply (reputable supplier, product warranties, performance guarantees) and O&M contracts (availability guarantee, performance linked remuneration)

2. TRENDS – General (cont.)

Investors and banks are also looking for:

- Country attractiveness
- Binding renewable energy targets (EU REN Directive)
- Development of directives for expansion of grid infrastructure
- Clarity concerning land use and asset ownership
- Stable and attractive political framework (e.g. investment protection, export insurance)
- Mitigation of completion risk, performance risk, and operation and maintenance risk

2. KEY CHALLENGES

- Increased regulatory risk reflected in more onerous debt deal structures (e.g. cash sweeps, contingent equity) / issue in financing construction

- Limited group of investors and banks involved in financing of renewable energy projects

- Credit spreads tightened

- Leverage: 60:40 – 70:30

2. KEY CHALLENGES (cont.)

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Financial institutions are reluctant to finance mainly due to:

- Regulatory risks
- Currency risk
- Political risks
- Equity risks

3. FINANCING BY BANKS - Minimum Requirements

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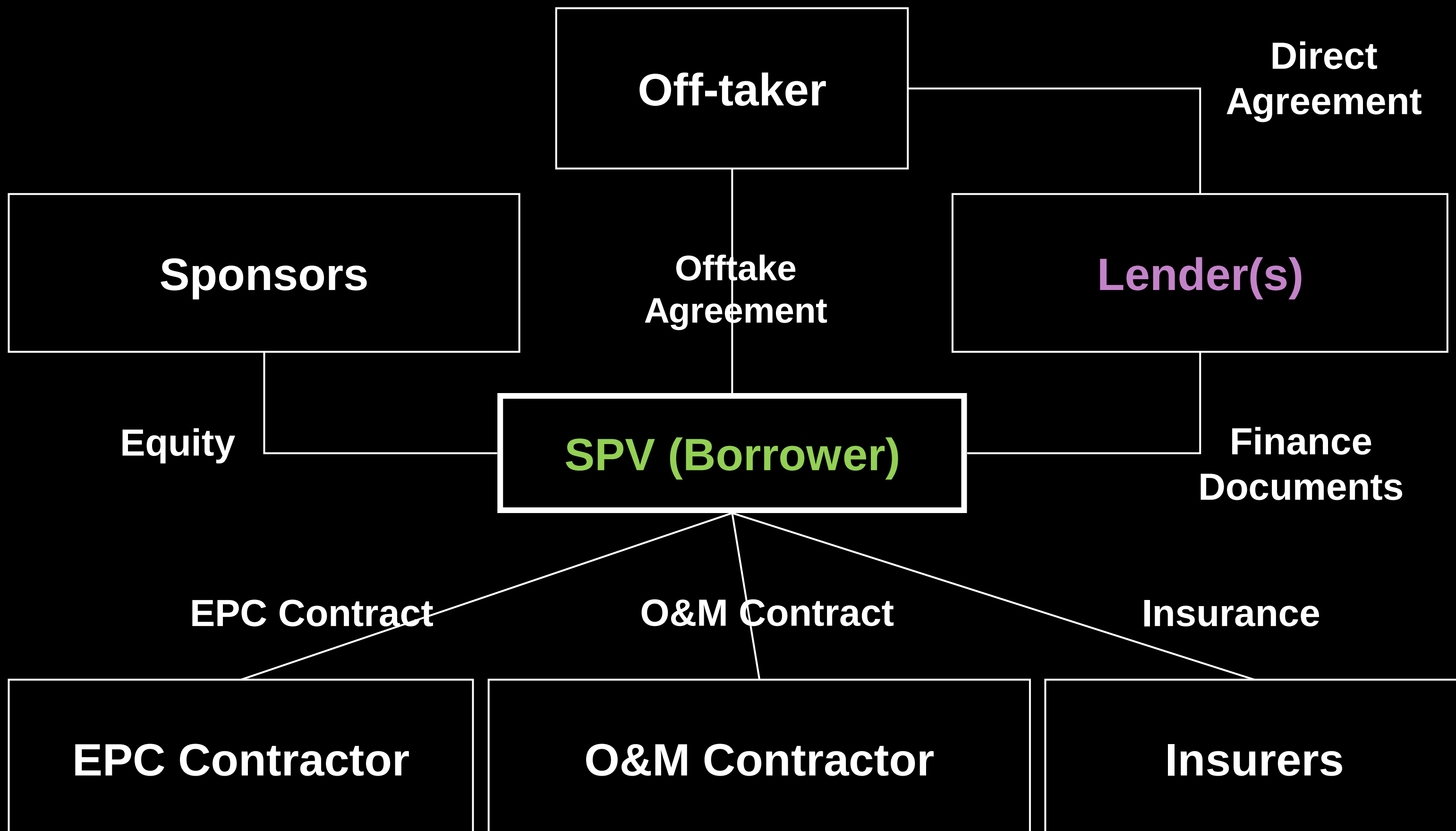
Projects with:

- Preferably acquired property rights over the land plots
- Finalized Business Model
- Equity involvement on the side of the borrower between 30- 40 %
- Clear due diligence issued by blue chip legal and financial advisors

3. FINANCING BY BANKS - Typical Project Structure



3. FINANCING BY BANKS - Security

In order for the lenders to be assured that they have the project cash dedicated to repay their loans, the lenders will take security. The most common security - or collateral - are:

- Waterfall of the cash flow generated by the project
- Mortgage (movable or immovable) over the assets
- Direct agreements
- Performance bonds
- Insurance
- Shareholder/Sponsor’s undertakings

3. FINANCING BY BANKS – Issues in Taking Security

Several legal issues may be triggered by:

- the inclusion in the Project Documents of retention of title provisions
- the status of the ownership title over the land on which the Project is built
- potential litigations between the main contractor and the sub-contractors
- previous security interests created in favour of the supplier or other contractors

4. BANKABILITY ISSUES – Main Documents the Banks Consider

- Turnkey Construction Contract
- Supply Agreement
- Operating and Maintenance Agreement
- Completion Guarantee
- Specific Funding Obligations
- Insurance
- Performance Bonds
- Green Certificates Purchase Agreement (GCPA)

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4. BANKABILITY – Technical and Legal Issues

- Banks fund projects which present a limited degree of risks in terms of permitting and legal issues

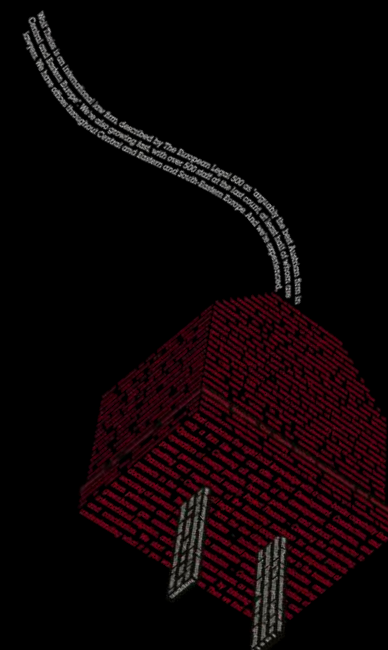
- Facilities with a capacity of 125MW - European Commission approval process may be lengthy

- Combining funds from banks and non-reimbursable funds may give rise to structuring issues

- The grant of non-reimbursable funds may affect the number of GCs received by the project company

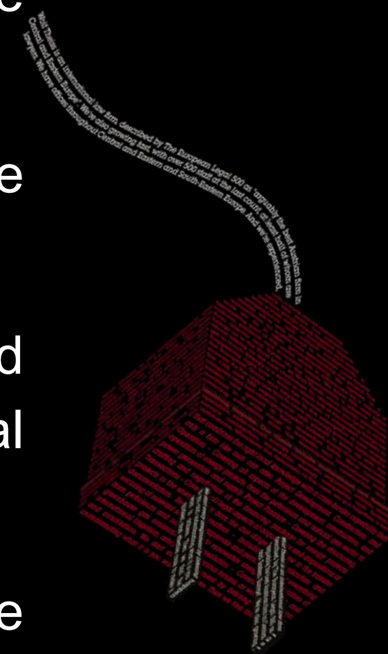
5. CONCLUSIONS – Issues Hindering Financing

- Creation and the enforcement of security/collateral
- Country specifics- regulatory regime of lands (restitution, zoning, environment)
- Romanian legislative framework - not fully adjusted to more complex ways of financing - syndicated financings and security agents issues
- Practical grid connection issues and regulatory changes



5. CONCLUSIONS – Key Elements to a Successful Financing

- External advisors (financial, legal and technical) should be involved in the **early** phases of the project
- Carefully consider the business plan of the project, the contractual structure and the proposed financing
- Look for previous experience of the developer and creditworthy and strong track record of the contractual counterparts (contractors and operators)
- Ask for a legal and a technical due diligence report before negotiations proceed



Questions

Answers

THANK YOU FOR YOUR ATTENTION!

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