Market trends defy negative sentiment on PF for offshore wind

Presentation to RenewableUK – 12 June 2013

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GGEB – the offshore wind finance specialists

We have an unparalleled track record in successfully closing deals for our clients

- 21 professionals in Hamburg (DE), London (UK), Utrecht (NL) and Paris (FR)
- Project & structured finance, full scope equity advisory and contracting expertise
- Focus on renewables and specifically offshore wind

Advisor to C-Power to raise project finance debt

325 MW

C-Power

Belgium
2010

EUROMONEY ProjectFinance 2010 Deals of the Year

INFRASTRUCTURE AWARDS 2010

pfi AWARDS 2010

Advisor to Northwind to raise project finance debt

216 MW

Northwind Offshore Energy

Belgium
2012

ProjectFinance Deals of the Year 2012

PFI AWARDS 2012

Non-recourse financing of 25% stake in Walney offshore wind farm

367 MW

Walney Offshore Windfarms

UK
2012

PFI AWARDS 2012

(Sponsor)

Advisor to WindMW to raise project finance debt

288 MW

WindMW

The Blackstone Group®

Germany
2011

ProjectFinance Deals of the Year 2011

PFI AWARDS 2011

(Sponsor)

Financial advisory services French offshore wind tender

1,428 MW

EDF energies nouvelles

DONG energy

France
2012

Advisor to Highland in the acquisition of the Deutsche Bucht project

210 MW

Highland Group Holdings

Germany
2012

Some background and context

A massive need for capital

- Ambitious targets: total capacity should jump from 5 GW today to 50 GW in 10 years, including 60% of it for the UK
- Building an offshore wind farm is very capital intensive and costs 3-4 MEUR/MW depending on location
- It means that more than EUR 150 billion is needed by 2020 including around EUR 100 billion for the UK
- In average, EUR 25 billion per year will be needed between 2015 and 2020 in the European offshore wind market

➔ ***While the needs are not so large compared to what has been done in other sectors, they are "chunky" (large projects)***

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Annual	1.0	1.4	2.8	2.9	3.1	3.4	4.1	5.1	6.4	6.9
Cumulative	3.9	5.3	8.1	10.9	14.0	17.4	21.6	26.7	33.1	40.0

Anticipated annual and cumulative installed capacity in European offshore wind - Source: EWEA 2011

Some background and context

Sources of liquidity are strained

- **European utilities under pressure**
  - Utilities have financed 77% of the EUR 16 billion spent to build the current 5 GW of operating capacity
  - Abundant and cheap corporate funding made that easy but things are changing, due to pressure on the revenue side (linked both to the economic crisis and to the downside impact of renewable energy penetration on wholesale prices) and increased focus on credit rating

  → ***While their involvement remains crucial for the offshore wind sector, utilities will likely seek to reduce the proportion of the required investments that they fund themselves***

- **There are no proven alternatives beyond project finance**
  - The bond market is recurrently played up a credible alternative
  - However, construction risk will likely remain impossible to fund by bond investors and capital markets will more likely become a way to recycle capital than to make the initial investments
  - Other tools like debt funds or other hybrid structures are unproven to date

  → ***New forms of financing are not likely to play a major role in the next few years***

Debt project finance: lessons learned from the early years

The banking market is there if the transactions are well structured

Lessons learned from the first projects – now up and running

- The first projects using project finance closed in the "early years" (2006-2009) are now in operation.
- Construction has never been easy but mechanisms to limit the risk have proved to be successful and all projects using PF have been built on time and within budget (including contingencies)

An active PF market becoming mature

- Most active market ever, despite the crisis and the atmosphere of gloom
- No bank or individual institution is indispensable
- Debt sizing principles are quite stable and predictable
- Due diligence standards and main covenants are similar across transactions
- The same rules apply in different countries and with different banks involved

Debt project finance: some recent highlights

A number of large transactions have taken place

Notable transactions:

- **C-Power** – Belgium – 2010: billion-euro senior debt can be raised with construction risk for a project with new turbine
- **Meerwind** – Germany – 2011: private equity enters into the market and uses PF
- **Lincs** – UK – 2012: there is no "UK maledicion" with construction risk and project finance
- **Walney** – UK – 2012: first commercial financing of a minority stake

Debt project finance: the Walney precedent

A replicable precedent

Walney is located in the Irish sea, 14 km off the North West coast of England within British territorial waters

Main features

- Developed and operated by DONG
- Located in the Irish Sea
- Total capacity: 367 MW offshore
- 102 Siemens 3.6 MW turbines
- Walney 1 fully operational in July 2011 ; Walney 2 in June 2012
- Round 2 incentive scheme: 2 ROCs/MWh and 1 LEC/MWh

Financing highlights

- GBP 224 M senior loan provided
- 2-tier structure: financing provided at the minority shareholder level
- First involvement from the GIB in offshore wind

What made the deal bankable

- No construction risk
- Direct control over revenues
- Strong indirect security package
- Full due diligence package
- Full support of the majority shareholder (DONG)

Debt project finance: current market – volumes available

Commercial banks

The bank market is broader and broader

- More than 30 banks have taken offshore wind risk today
- More than 20 banks have construction exposure
- Experienced banks – an active pool of banks able to structure and lead transactions:
  - Rabobank, KfW-IPEX, Unicredit, BoTM, SocGen, BNPP, Santander, Commerzbank, (Dexia)
  - HSH, NordLB (German focus)
- Many banks were involved in recent deals in the last 2 years:
  - Lloyds, ING, KBC, Siemens Bank, Deutsche Bank, NIBC, ASN
  - Calyon, BayLB, NAB, Helaba, SEB, Deka, DnB Nor, Natixis, NIBC, Sabadell, Nordea, BBVA, LBBW, Mizuho, SMBC
  - RBS, HSBC (UK focus)
- More have expressed their appetite

An average EUR 100 M available per bank per year

- EUR 30-150 M exposure per bank per year, in 1-3 deals

At least EUR 2.5 billion available per year

Debt project finance: current market – volume available

Public Financial Institutions

Several active public financial institutions

- **EIB** – historic key player with cheaper funds (support to European offshore projects), but generally conservative
- **EKF** – offshore wind's "best kept secret": participation linked to Danish exports, up to EUR 250 M per transaction
- **Euler-Hermes** – participation linked to German exports, can do large tickets
- **KfW** – potentially large amounts available (in Germany): able to provide cheaper funding in significant volumes
- **GIB** – UK Green Investment Bank, first involved in Walney

Their role has been instrumental to get deals done

- Will typically bear approximately half of the risk and/or funding of a transaction
- Will normally take the same risks as the commercial banks, but they usually run their own internal assessment
- Some geographical / national restrictions
- Small deal teams, so availability is a constraint

Can contribute as much as the commercial banks

Altogether, there are EUR 5 billion of debt funding available for 4-6 industrial size projects (400 MW) per year today

Debt project finance: current market – financial conditions

Market trends

Structures have been quite stable since 2007

- Long-term debt is still available
- Consensus on 70% leverage
- DSCR reflects price risk in the UK

Debt is not that expensive

- Margins rise reflects higher bank cost of funding rather than higher cost of risk, but the overall cost of debt is stable or decreasing
- Recent deals have seen overall cost of >15-year debt at 5.5% or less

Typical project finance conditions offshore	Leverage	Maturity post-completion	Margins	Maximum underwriting
2006-2007	60:40	10-15 years	150-200 bp	50-100 M
2009	70:30	15 years	300 bp	30-50 M
2010-2011	65:35	12-15 years	250-300 bp	50-75 M
Current market	70:30	10-15 years	275-375 bp	30-50 M

Banks have refocused on known clients, core countries and strategic sectors of activity

- The good news is that offshore wind is unambiguously “strategic” for many banks today
- Countries where offshore wind is developing are seen as “safe” (Germany – until now) and core for most banks

UK focus

The most dynamic market is on hold, pending the Electricity Market Reform

The UK is the largest market with 3 GW installed: more than half of all installed capacity in Europe

Installed capacity by country (MW)

Source: "The European offshore wind industry key 2011 trends and statistics", EWEA, January 2013

Long term leases are allocated in "rounds"

- 8 GW under Rounds 1 and 2
- 25 GW from Round 3

The sector is largely dominated by utilities

- Main European utilities are in the market
- On project finance, first projects in 2012 after a long process
  - Mutual perception by utilities and banks that the other group was not reasonable
  - Banks anxiety generated by persistent, if relatively minor, technical glitches (ie grouting issues)
  - Utility upset by intrusive due diligence and micro-managing

A market on hold

- The whole industry is waiting for the new regulatory framework
- The renewable energy scheme will indeed move from market-based incentives towards fixed price support. Strike prices will be finalized by end 2013 and apply from April 2017

The project finance process: challenges

The commercially sensitive items in transactions

Lenders ideally want strong equity commitments

- A strong majority investor is usually a must have
- An good project management team through a dedicated team
- Equity commitments paid upfront or backed by strong entities
- A long term commitment to the sector by the majority investor (track record, strategy…)
- Long term equity retention commitments restricting the majority investor's rights to sell out

Conversely, investors want less interference

- No micro-management of the project by lenders through intrusive covenants
- Flexibility to sell stakes
- Limited restrictions to dividend payments:
  - in downside (lockups, reserve accounts)
  - in upside scenarios (sweeps)

Conclusion: PF is available for well-structured projects

How to make a deal bankable

Structuring a deal is time-intensive

- Non-recourse finance requires a specific discipline and approach to project risks
- Multiple complex tasks to run in parallel, with numerous third parties (with often contradictory requirements)
- Several critical paths to manage
  - ongoing development work
  - external advisors
  - contract negotiations
  - internal approvals

The quality of the contracts can help bridge the difference

- The more « bankable » the contracts are, and the more flexible banks will be on equity issues
- The stronger the contractual commitments, the less important the owner will be

Offshore wind projects have access to a very diverse project finance universe, as long as some rules are respected

- the contractual package has to include banks requirements as early as possible
- experienced advisors consulted upstream
- timing adapted to the banking process

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