An overview of the deals closed in 2012 and the current bank market approach to offshore wind

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Green Giraffe
Energy Bankers

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Green Giraffe Energy Bankers

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, M&A & contracting expertise
- Focus on 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

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2. Equity

Major transactions in 2012

- **Enova portfolio** (DE, 4 projects, purchase by Hochtief/Ventizz)
  - Early stage projects
  - Underlines the strategy by some contractors to get involved in project development to secure construction contracts

- **Borkum Riffgrund I** (DE, 277 MW, Siemens 3.6 MW, 50% sold by DONG to Oticon/LEGO group)
  - Project previously purchased from PNE in 2009 at EUR 56 M – 0.20 MEUR/MW
  - Sale of 50% to private investor at DKK 4,700 M (EUR 630 M - 4.66 MEUR/MW) includes construction costs + development premium
  - Follows DONG's traditional strategy to develop and build projects and sell minority stakes with no construction risk

- **Rhiannon** (UK Round 3, up to 4,200 MW, 50% sold by Centrica to DONG)
- **Navitus Bay** (UK Round 3, up to 1,200 MW, 50% sold by ENECO to EDF)
  - Part of the "reshuffling of the cards" of the UK Round 3 projects

- **Gode Wind I, II & III** (DE, 900 MW, 100% sold by PNE to DONG)
  - Purchase of 3 projects at various stages of development by DONG at EUR 157 M, i.e. EUR 0.17 MEUR /MW

- **Dudgeon** (UK, 560 MW, 100% sold by Warwick Energy to Statkraft/Statoil)
  - One of the few projects developed by an independent taken up by utilities

- **Deutsche Bucht** (DE, 210 MW, 100% sold by Windreich to Highland Holdings)
  - Purchase from an independent developer by a financial investor

2. Equity

Some lessons

- **An active market – and a wider range of investors beyond utilities than people assume**
  - Infrastructure funds and pensions funds (PensionDanmark, TCW, PGGM)
  - Private equity groups (Blackstone, etc)
  - Corporations with specific strategies (LEGO, Colruyt, Marubeni)
  - …. and many more sniffing around the sector

- **Valuations are actually relatively consistent**
  - Permitted projects – development cost + premium @ 200kEUR/MW
  - Contracted projects – construction cost @ 3.5MEUR/MW unlevered (or 1.1 MEUR/MW levered)
  - Operational projects – linked to regulatory framework and IRR target of investors (8-10%)

- **Trade off between construction risk and returns now closely examined**
  - As more assets are operational, the universe of investors grows and IRR targets are going down
  - A number of investors are now looking to take construction risk to improve returns (to double digits)
  - A “bankable” deal is also one which many investors can find attractive

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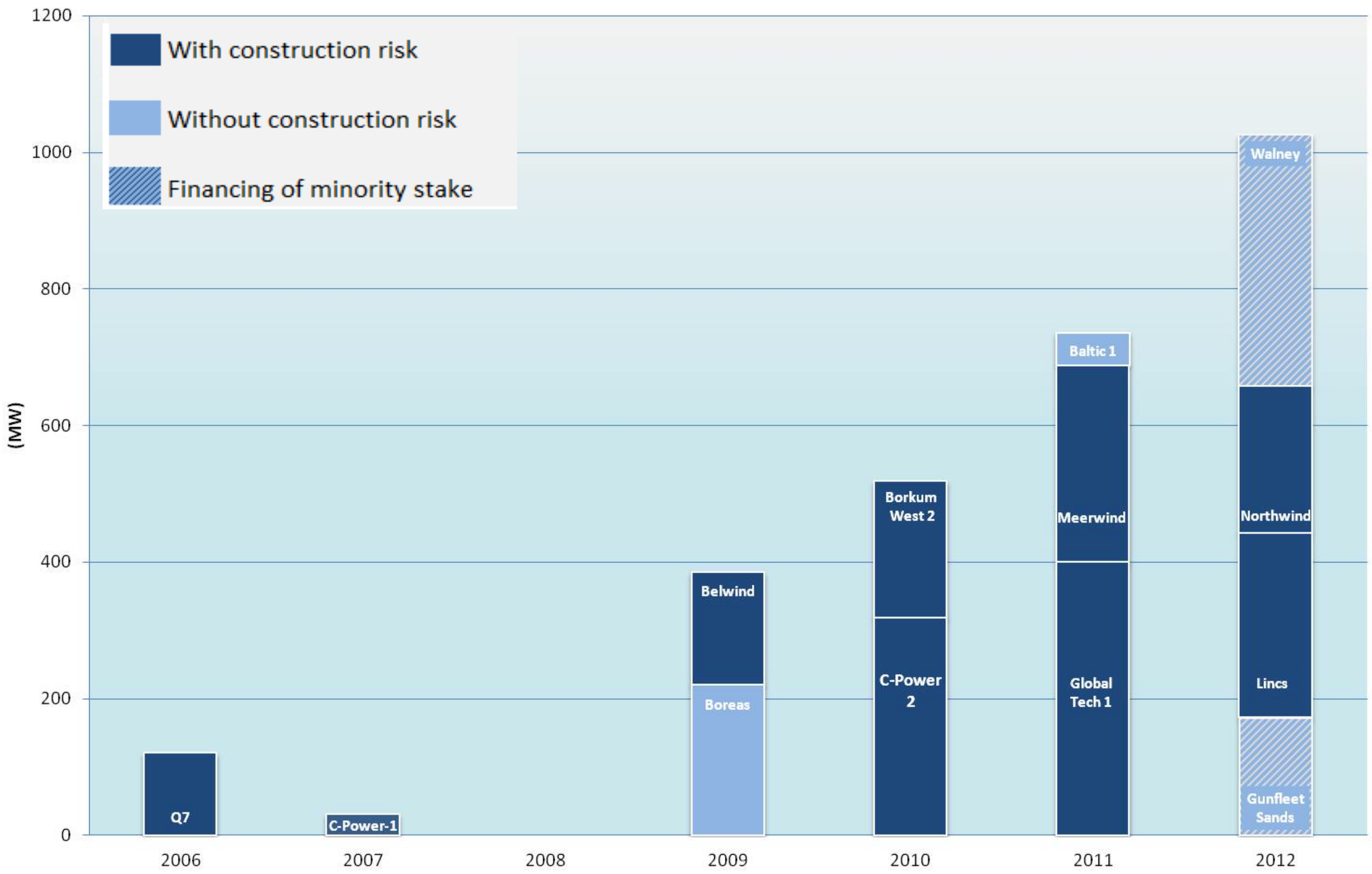
1. Debt

Crisis? What crisis?



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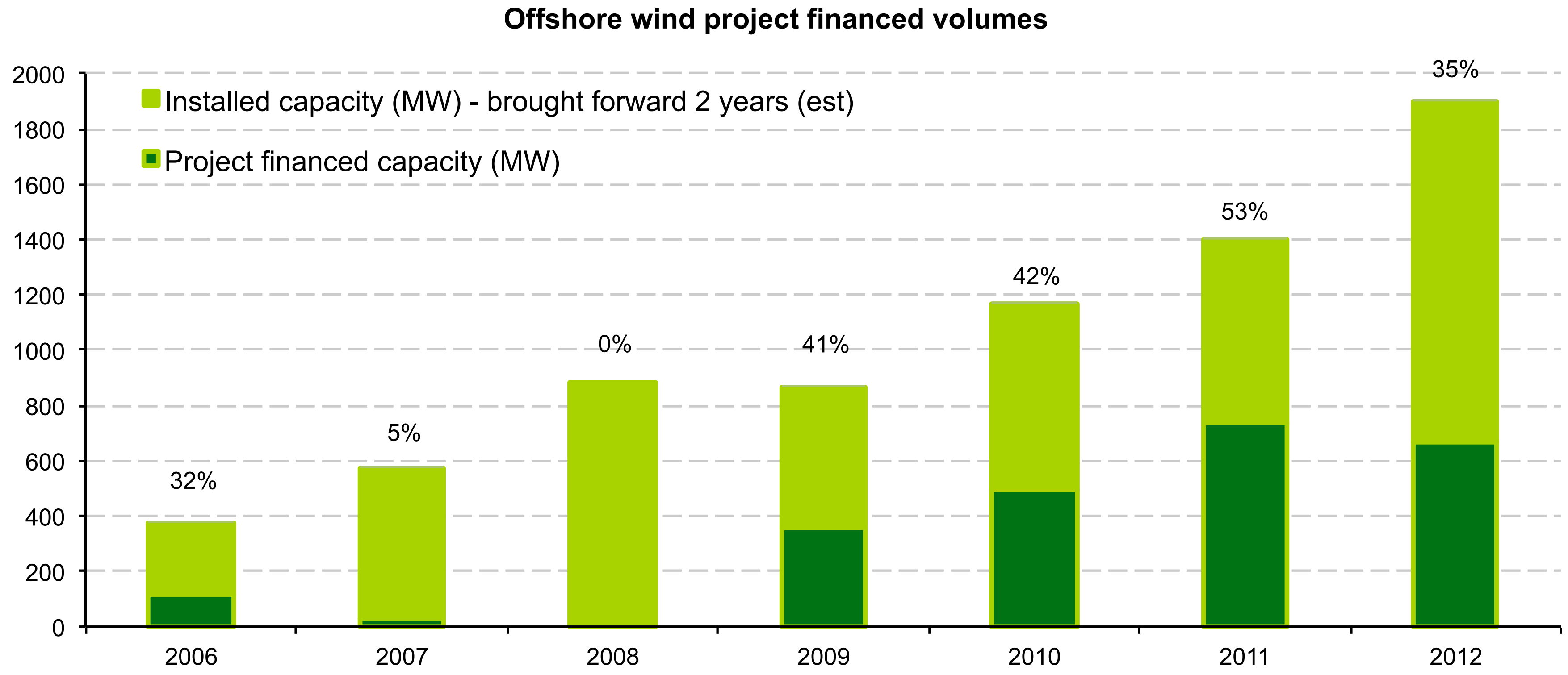
1. Debt

Project finance already finances a significant fraction of overall capacity



1. Debt

Market trends				
Typical project finance conditions - offshore	Leverage	Maturity post-completion	Pricing	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 are refocusing – again – on known clients, core countries and strategic sectors of activity
  - The only 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
- Margins are shooting up again
  - This reflects an increase in the banks' cost of funding rather than an increase in the cost of risk
  - But the underlying long term cost of money is falling (in a mirror image), so **the overall cost of debt is actually decreasing**
- Structures (ratios, maturity, covenants) have actually been quite stable since 2007

1. Debt

4 transactions in 2012

- **Gunfleet Sands** (UK, 86 MW, Siemens 3.6 MW, GBP 158 M financing)
  - Refinancing of Marubeni's 49% stake in the (operational) project – the first financing of a minority stake
  - NEXI-driven transaction, demonstrating "Japan Inc." appetite for offshore wind
- **Lincs** (UK, 270 MW, Siemens 3.6 MW, GBP 500 M financing)
  - First construction risk transaction in the UK
  - large commercial banking group (10 banks) – and no public financing institutions
  - 15-year debt, again with standard debt sizing (UK "blended" DSCR)
- **Northwind** (Belgium, 216 MW, Vestas V112M, EUR 595 M financing)
  - Traditional Belgian offshore wind deal – including construction risk, and showing that Vestas is still bankable
  - New ECAs involved – ONDD and GIEK/EksportKreditt Norge, alongside EIB and EKF (funded by PensionDanmark)
  - 15-year debt funding made available, under traditional debt sizing rules (70:30 gearing)
- **Walney** (UK, 92 MW offshore, Siemens 3.6 MW, GBP 224 M financing)
  - Refinancing of PGGM and Ampere's 25% stake in the 367 MW (operational) project
  - First transaction for the GIB – but transaction was largely funded by commercial banks
  - Shorter maturity but traditional debt sizing (70:30 gearing)

1. Debt

The lessons from 2012

- **Good projects can find money**
  - Most active market ever, despite the crisis and the atmosphere of gloom
  - Very different transaction profiles, but all managed to obtain competitive debt conditions
  - There is no “UK malediction” (just like there is no “Germany malediction”)
  - No bank or individual institution is indispensable

- **The market is consistent in its requirements**
  - 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

And meanwhile, the projects under construction have been giving a lot of work to project finance bankers…

- **Construction finance is a full time job**
  - Multiple time-consuming issues need to be dealt with throughout the construction period
  - Project management competence is of overriding importance
  - Banks are building a lot of experience which will be valuable for future projects

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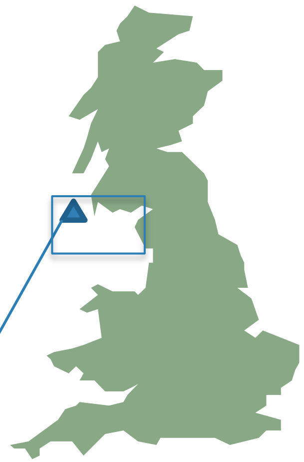
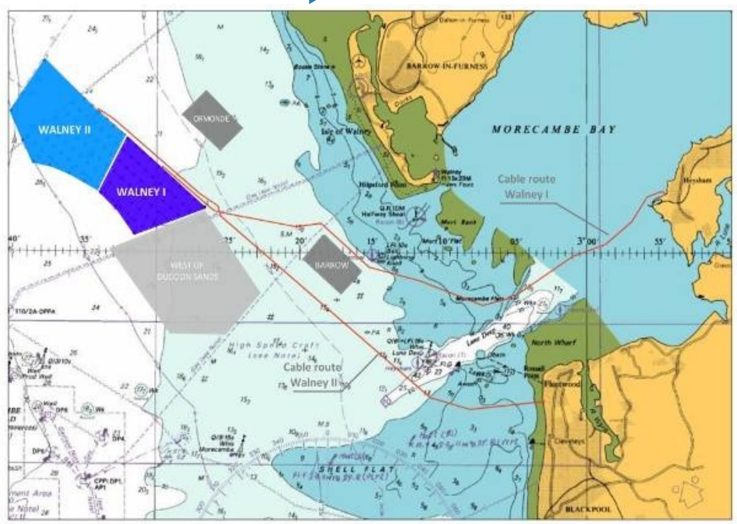
A UK Round 2 project

- The Walney project consists of two find farms (Walney 1 and Walney 2), each of them comprising 51 Siemens 3.6 MW turbines resulting in 367 MW of total installed capacity
- The project was developed by DONG
- Walney 1 has been fully operational since 9 July 2011, Walney 2 has been fully operational since 11 June 2012
- Walney benefits from the incentive system of the Round 2 offshore wind farms with 2 ROCs/MWh and 1 LEC/MWh
- The technology used is the Siemens 3.6-107 WTG on Walney 1 and the Siemens 3.6-120 WTG with a larger rotor for Walney 2

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



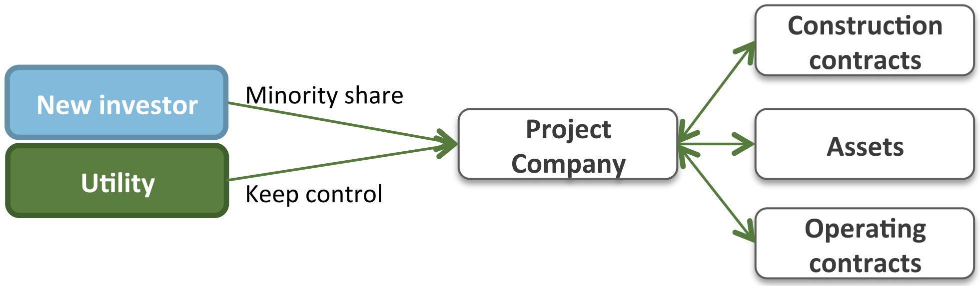


3. Case study: Walney

A novel 2-tier structure

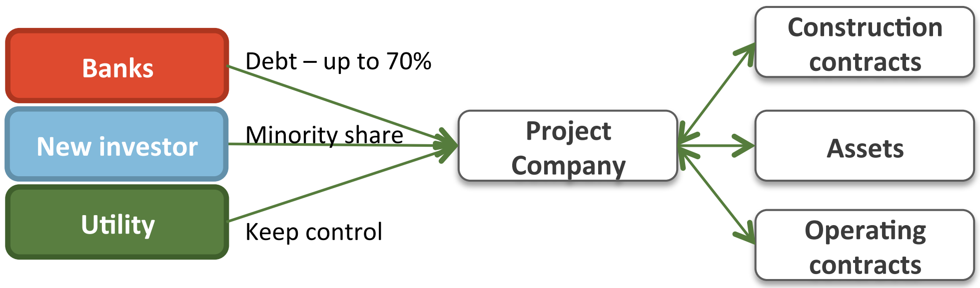
A. Divestment to another utility – No PF

- All contracts are signed between the project company and the contractors (the utility that initially owns the wind farm being potentially one of them)
- The project company also owns the assets
- The new investor finances the minority stake on BS



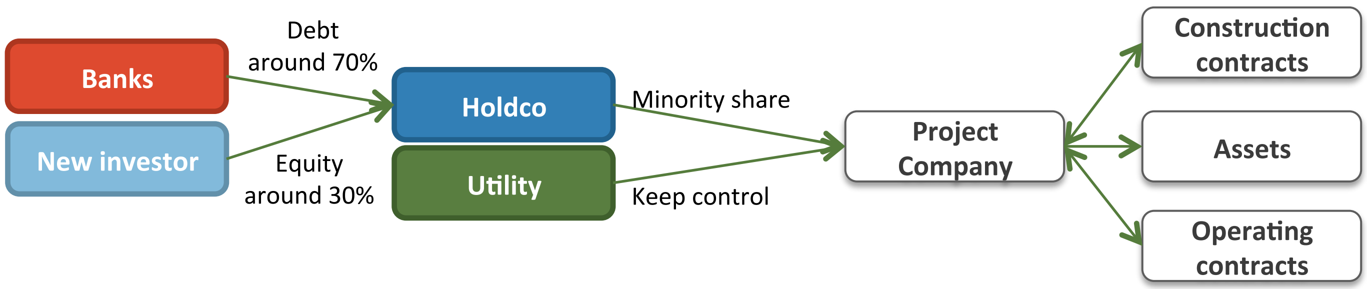
B. PF at project level (with or without divestment)

- The banks finance a large portion of project costs on a non-recourse basis with direct security on contracts and assets and some influence on project management
- The initial utility or developer can sell a stake to a new investor; they finance the equity portion pro-rata



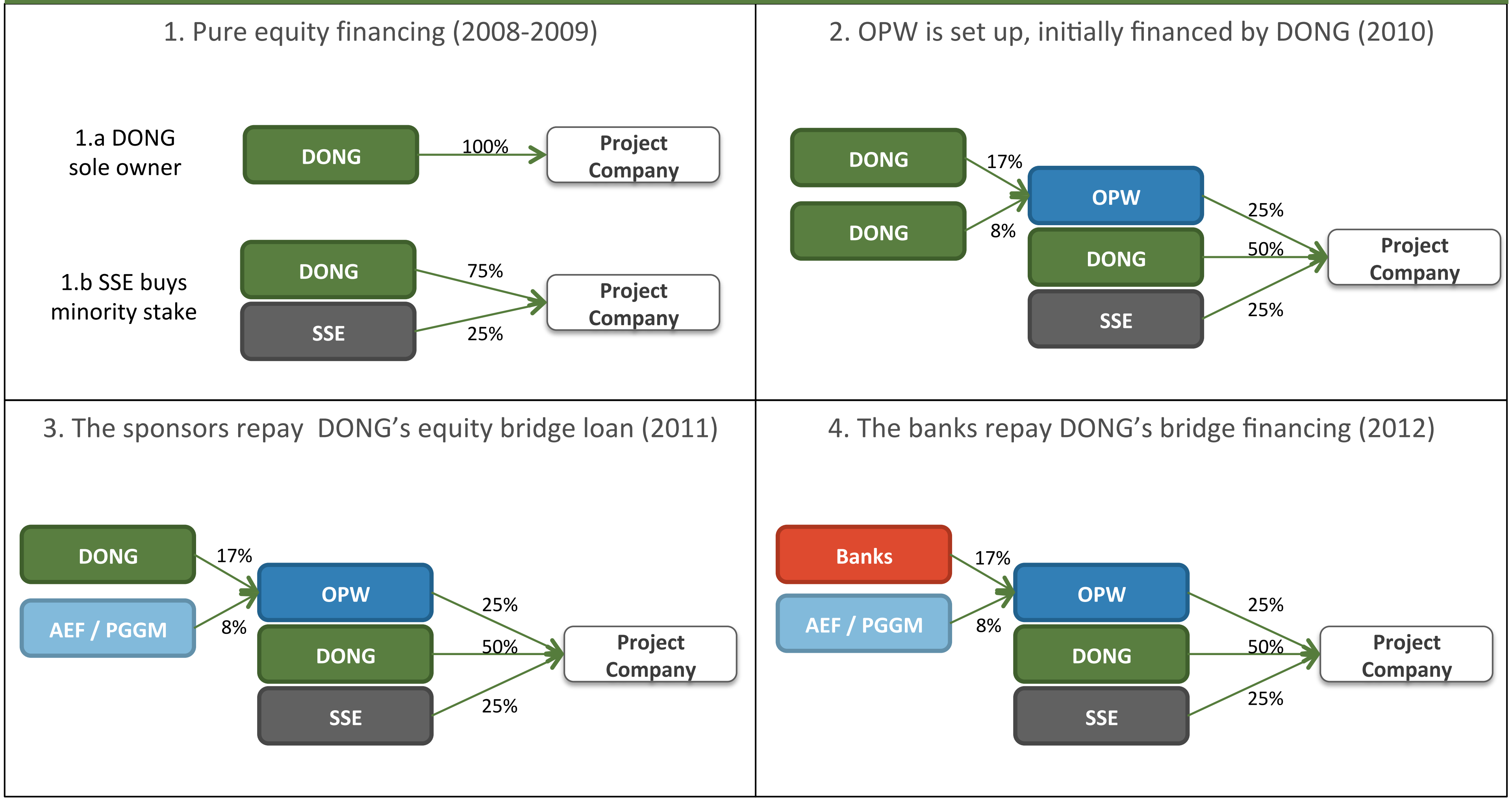
C. Divestment to a new investor – PF at holding level

- New investor invests in a project through a SPV, "Holdco"
- Banks lend to Holdco on a non-recourse basis with indirect security on project and limited influence on management



3. Case study: Walney

Several steps were used on Walney, over several years

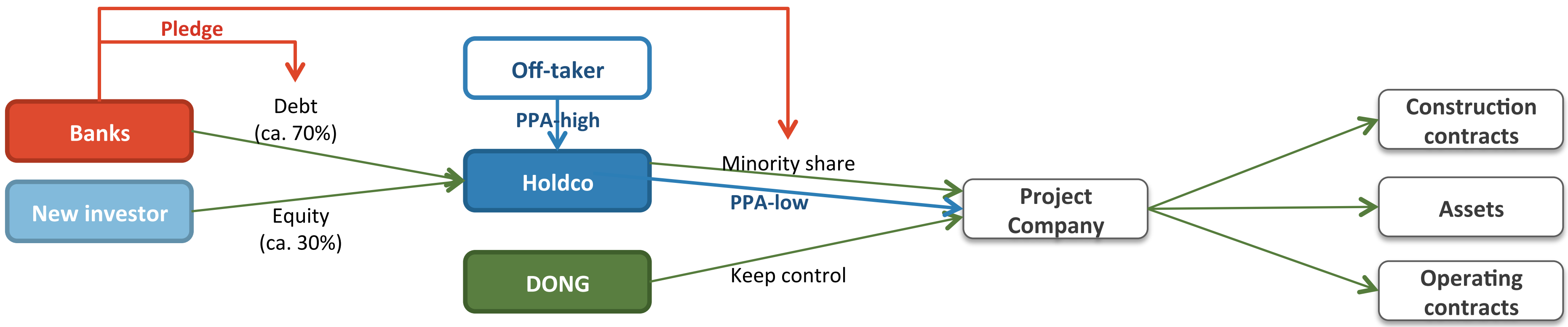


3. Case study: Walney

What made the deal bankable

The core need was to make banks comfortable with indirect and limited control over the project and its operations

- No construction risk
  - Refinancing took place after completion
- Direct control over revenue stream
  - OPW Holdco had access to its share of overall project production and could sell it on its own (and pledge that to banks)
- Strong indirect security package
  - Pledge on the stake in the project company and the contracts involving OPW Holdco
  - Minority rights for Holdco in the project company shareholder agreement
  - Right for banks to step-in in downside scenarios, with agreed procedures with other shareholders



3. Case study: Walney

What made the deal bankable (2)

The financing structure was aligned with the commercial structure

- Long term contracts made it possible to size debt as per traditional yardsticks
    - 70:30 gearing reached
    - "Mini-perm" structure aligned with duration of commitments on O&M and equity retention
- Full due diligence package
    - Technical, legal, insurance, accounting, tax, market advisors involved
- Full support of the majority shareholder
    - Structure initially designed by DONG with the aim of making a non-recourse financing possible
    - Strong cooperation provided during due diligence process and final negotiations
- Strong banking group
    - 4 experienced commercial lenders: Lloyds, RBS, Santander, Siemens Bank
    - Debut transaction for GIB, on a fully *pari passu* basis with commercial banks

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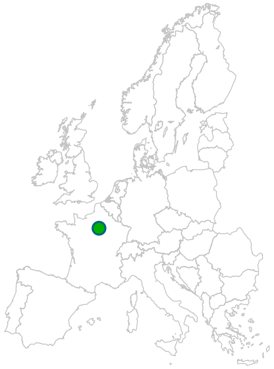
Paris



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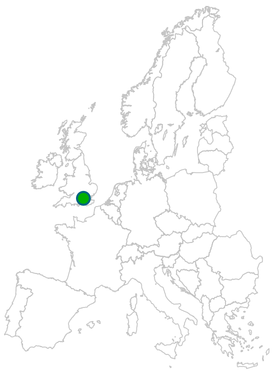

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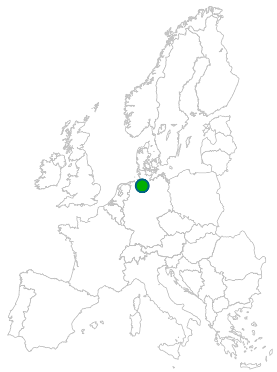

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