



# UniCredit

Leasing

## Biogas & Biomass Financings

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Financing Standards in UCL

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## UniCredit Leasing – Renewable Energy Factsheet

- Leading European Leasing Network
  - Local presence in 19 European countries
  - Experience in RES leases for many years
  - Central Coordination by  
RES Competence Center (Vienna + Milan)
  - Commitment of UniCredit Group  
(multi-billion Euro RES portfolio)
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- RES Project Volumes in Leasing (TIC):
    - 2008: 90 MEUR
    - 2009: 150 MEUR
    - 2010: 950 MEUR
    - 2011: 1.724 MEUR
  - 2012: 970 MEUR



# Technologies for Cash Flow Based Leasing

- Wind
- Photovoltaic
- Hydro Power
- Geothermal\*
- Biomass\*
- Biogas\*



\* Subject to Mitigation of Industry Specific Risks

# AGENDA

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- Project financing
  - Introduction in project financing
  - Risk management
  
- General remarks
  
- Selected risk topics
  
- Supply security
  
- Limited recourse standards
  
- Typical limited recourse standards

# What is project finance?

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- Project finance is financing that as a priority does not depend on the soundness or creditworthiness of the parties proposing the business idea to launch a project.
- Approval of the financing is basically a function of the project's ability to repay the debt contracted and also remunerate capital invested at a rate consistent with the degree of risk inherent to the venture concerned.
- In project finance (non recourse financing) the point of reference for any valuation is the ability of the project to generate cash flows.

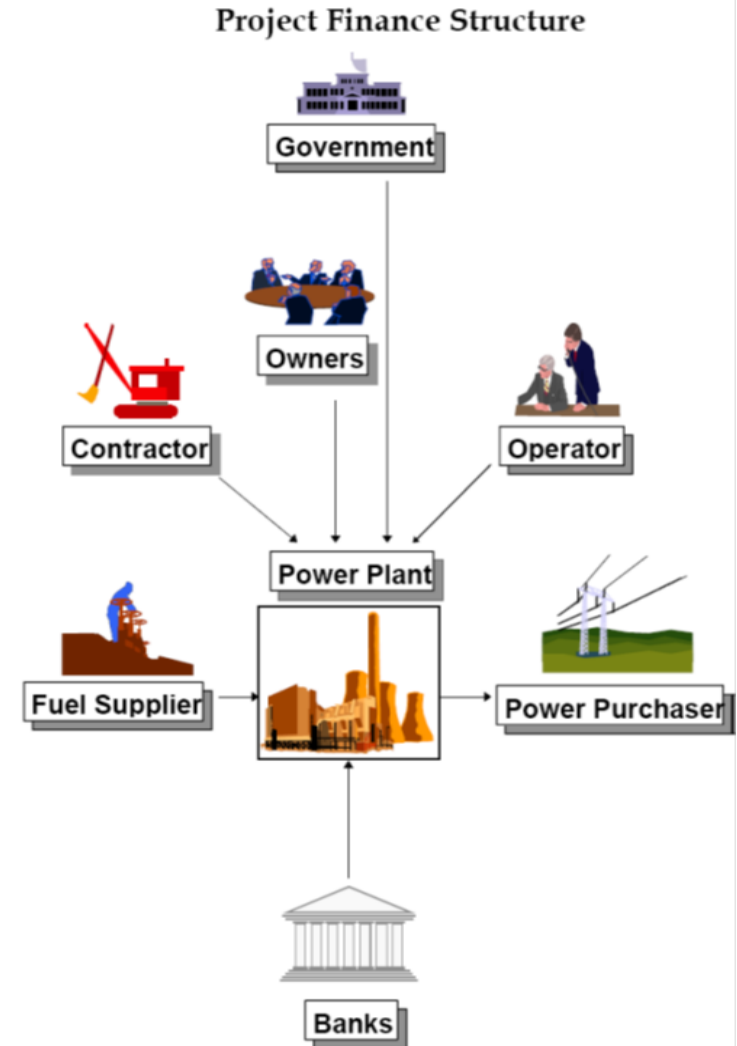
## Characteristics of a non-recourse financing

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- The borrower of funds is a SPV, Special Purpose Vehicle, designated to take on the initiative and to secure cash receipts and payments which result (separate incorporation).
- As a consequence: all economic consequences generated by the initiative are attributed to the SPV (lenders finance a venture, not an operating firm).
- The assets of the SPV are the only collateral available to lenders together with the cash flow from the initiative (non-recourse financing)
  - **Off-balance sheet financing**

# Major players in a project and relations in between

- Main contracts concluded between the parties:
  - Banks (Lenders) – Power Plant (SPV) = Financing contract/security
  - Contract (EPC) - Power Plant (SPV) = EPC (turnkey) contract
  - Operator - Power Plant (SPV) = Operation & Maintenance (O&M) contract
  - Client (Power purchaser) - Power Plant (SPV) = purchase (sales) agreement (PPA)
  - Supplier - Power Plant (SPV) = Raw material supply agreement (RMSA)
  - Owners - Power Plant (SPV) = equity subscription
  - Advisors – Power Plant (SPV) = legal, technical, insurance, financial reports



# Risk management

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- Project finance is a system for distributing risk among the parties involved in the project. Identifying and allocating risks leads to minimizing the volatility of cash inflows and outflows generated by the project.
  
- **Risk identification**
  - **Pre-completion** phase:
    - Planning: wrong design, activities not properly addressed
    - Technology: unproved/untested technology
    - Construction: the original amount required for construction is ex-post higher than the budget, or performance is bellow pre-agreed standards



# Risk management

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- **Post-completion phase**
  - Market risk: - real revenues are lower than the budgeted ones due to fall in demand or drop of prices of SPV's product&services
  - Raw material supply risk: shortage of raw material; higher prices than forecast
  - Operational risk: not reached the pre-agreed performance standards; lower output/input ratio than expected
- **Risks common to both phases**

# Biomass / Biogas

## Remarks

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### ■ Biomass

- ✓ Usually “Forestry Project”
- ✓ Off-heat usage concept
- ✓ Substrate within 70 km

### ■ Biogas

- ✓ Usually “Agricultural Project”
  - ✓ Benchmark: 0,5 ha of prime arable land per installed Kwe; land secured for whole financing duration
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# Key Issues & Segments

## Selected Risk Topics

- **No- or Limited recourse financings only with high degree of business plan security for the whole financing term**
- **Segment Focus**
  - ✓ Dry and liquid anaerobic fermentation
  - ✓ Burning of solid biomass
  - ✓ Wood gasification
- **Construction & Operations**
  - ✓ Full service concept (EPC + O&M)
- **Off-take Concept**
  - ✓ Off-heat usage must be conceptualized for biomass and biogas plants
  - ✓ Exclusion of market price risks on the sales side

# Biomass / Biogas Projects

## Supply Security

- Biomass / Biogas
  - ✓ Full-recourse or at least partial recourse on substrate supplier
  - ✓ Biomass Supply Contract between supplier & SPV
  - ✓ Supplier Guarantee towards UCL assuming responsibility for all losses of UCL in case of breach of contract  
(maximum penalty = outstanding financing volume)



# Biomass Substrates

## Selected Risk Topics

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### ■ Biomass Supply Security

- ✓ Substrate Supplier should hold share in the SPV (>25%)
- ✓ Supplier must own related land or agriculture (no traders)
- ✓ Default in supply contract must trigger default in financing contract AND supplier must assume liability for the financing in case of supply contract default
- ✓ Exclusion of market price risks on the supply side

### ■ Substrate Supply Guarantee

- ✓ Supply contract between supplier & SPV
  - ✓ Supply guarantee towards UCL
    - ✓ Whole Financing Duration
    - ✓ Maximum or indexed price (following tariff)
    - ✓ Needed qualities & quantities (business plan)
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# Biomass & Biogas

## Limited Recourse Standards

### ■ Technical risks

- ✓ Internal Review / External Technical DD
- ✓ Review of EPC / O&M Contracts and Contractors
- ✓ External Construction Supervision

### ■ Legal Risks

- ✓ Legal Due Diligence on Contracts and Permits (internal/external)

### ■ Reputational Risk Issues

- ✓ Competition with food production: integration of energy crops in agricultural production cycle to be analyzed
- ✓ Sustainability: Bioenergy is typically local business (typical max. radius of resource supply for biomass: 70km, for biogas: 30km)
- ✓ Exploitation of developing countries: long-distance import of substrate not acceptable for (e.g. palm oil, rape seed oil or sugar cane imports)

# Biomass & Biogas

## Limited Recourse Standards

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- Downpayment of min. 20% (strict requirement)
  - Maturity 10 – 15 Years
  - **Main Sponsors**
    - ✓ Substrate Supplier (supply + daily local feeding)
    - ✓ Full-service EPC & O+M Partner (on-line monitoring)
  - **Investor**
    - ✓ Financial Investor: Typically with Limited Managerial Scope
  - **Financing Duration**
    - ✓ Usually max. 85% of guaranteed cash flow (feed-in tariff duration)
    - ✓ Max. 75% of technical lifespan of main equipment
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# Biomass & Biogas

## Limited Recourse Standards

### ■ Collaterals

- ✓ Mitigation of Technical Risks (EPC, O+M Contracts)
- ✓ UCL owns main production assets
- ✓ Pledge of all relevant rights for operation
- ✓ Pledge of SPV shares, account pledge
- ✓ Easement on the land or ownership of plant location
- ✓ Easements for power lines / heating lines
- ✓ Assignment of receivables / subsidies / feed-in tariff
- ✓ Assignment of supply and take-off contracts
- ✓ Supplier's financial guarantee in case of supply contract default
- ✓ Supplier's obligation to retain agricultural / forestry production
- ✓ Potentially collaterals on lands needed for substrate production
- ✓ Insurance arranged in-house: UCL has Owner Liabilities (!!)



# Biomass

## Typical Limited Recourse Standards

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### ■ Debt Service Cover Ratio (DSCR)

- ✓ DSCR Standard of 1,30x
- ✓ Business Plan Security must be reviewed case by case
- ✓ Stress-testing is key to analyze risk of the transaction

### ■ Debt Reserve Account of 6 months

### ■ All-Risk Insurance (liability, damage, business interruption)

### ■ Project Review

1. Cash Flow and Technology Review by Competence Center
  2. Legal and Sponsor Review in local entity  
(local credit process)
  3. Final Approval in Vienna / Milan for all projects
  4. External Technical / Legal Due Diligence
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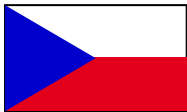
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