



UniCredit

Leasing

Biogas & Biomass Financings

Financing Standards in UCL

Gabriela Florea, Competence Center for Renewable Energies, UniCredit Leasing Group

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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 (843 M€ FV)
 - 2011: 1.724 MEUR (1.444 M€ FV)



Technologies for Cash Flow Based Leasing

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



* Subject to Mitigation of Industry Specific Risks

AGENDA

- 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?

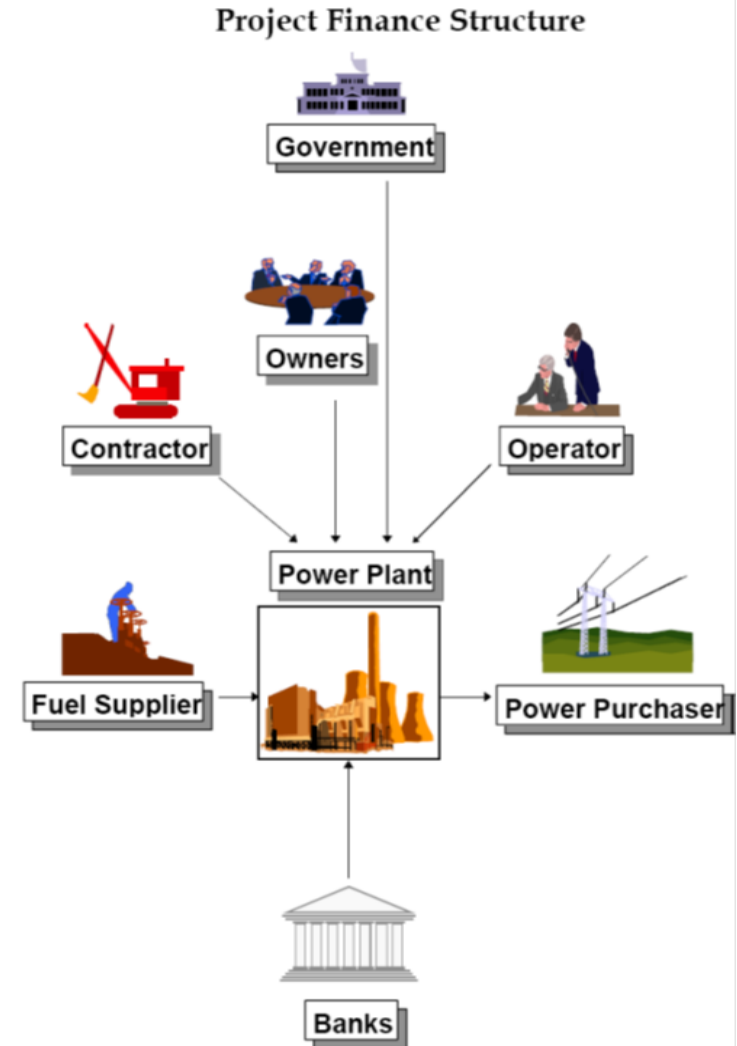
- Project finance is financing that as a priority does not depend on the soundness or creditworthiness of the parties proposing the business idea to launch a project.
- Approval of the financing is basically a function of the project's ability to repay the debt contracted and also remunerate capital 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

- 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

- 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

- **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

■ 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

■ 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

- 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

■ 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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Contacts for Financing RES

■ Competence Center Renewable Energies

Vienna

- **Mr. Martin Mayr (Global Head)**
Operngasse 21, A-1040 Wien
Mob: +43 664 830 8705
martin.mayr@unicreditleasing.at
- **Mrs. Simona Apostol (CZ, BH, Baltics)**
Tel: +43 505 88 4684
simona.apostol@unicreditleasing.at
- **Mr. Harald Endl (Italian PV)**
Tel: +43 50 588 – 3345
harald.endl@unicreditleasing.at
- **Mrs. Gabriela Florea (SK, HU, RO)**
Mob: +43 664 8378087
gabriela.florea@unicreditleasing.at
- **Mr. Josef Robert Straninger (BG, AT, DE, TR)**
Mob: +43 664 810 4163
robert.straninger@unicreditleasing.at
- **Mr. Wieslaw Kowalczyk (PL, HR, RS, SI, UA, RU)**
Tel: +43 50 588 - 4766
wieslaw.kowalczyk@unicreditleasing.at

Italy

- **Mr. Marco Martorana (Milan)**
Head of CC RES – Market Italy
Viale Bianca Maria 4, Milano
Mob: +39 335 5649738
energia@unicreditleasing.eu
- **Leonardo Cartei (Milan)**
Business Development Manager
Mob: +39 335 724 0992
leonardo.cartei@unicreditleasing.eu
- **Pio Forte (Rome)**
Mob: +39 335 1318 453
pio.forte@unicreditleasing.eu
- **Gabriele Formuso (Milan)**
gabriele.formuso@unicreditleasing.eu
- **Felice Basile (Milan)**
Tel: +39 02 5568 448
felice.basile@unicreditleasing.eu

Contacts for Financing RES

■ Energy Product Specialists



Mr. Alexander Späth

Südliche Münchner Strasse 60, D-82031 Grünwald, Germany

Tel: +49 89 780 69 - 134

Mob: +49 172 43 55 176

alexander.spaeth@unicreditleasing.de



Mr. Thomas Simoner

Operngasse 21, A-1040 Wien, Austria

Tel: +43 50 588 - 4334

Mob: +43 664 810 4170

thomas.simoner@unicreditleasing.at



Mr. Jaroslaw Walewski

Ul. Pulawska, 182, PL 02-670 Warszawa, Poland

Tel: +48 22 54 82 240

Mob: +48 691 676 742

Jaroslaw.walewski@pekaoleasing.com.pl

■ Energy Product Specialists



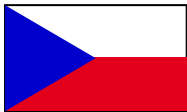
Mr. Krisztián Kiss

Hegyalja út 7-13, H-1016 Budapest, Hungary

Tel: +36 1 4897 895

Mob: +36 30 8246163

krisztian.kiss@unicreditleasing.hu



Mr. Petr Fišer

Radlická 14/3201, Praha 5, Czech Republic

Tel: +420 257 091 687

Fax: +420 257 091 591

Petr.fiser@unicreditleasing.cz



Mr. Martin Korbel

Plynárenská 7/A, 81416 Bratislava, Slovakia

Tel: +421/2/592 71 439

Mob. +421 907 825 632

martin.korbel@unicreditleasing.sk

Contacts for Financing RES

■ Energy Product Specialists



Mrs. Sirin Burcu

Yapi Kredi Plaza, Levent, Istanbul, Turkey

Tel: +90 212 340 2626 1650 Mob: +90 532 366 6354

burcu.sirin@ykleasing.com.tr



Mrs. Manuela Iordache (East)

25, Nicolae Caramfil Street, Bucharest 014141, Romania

Tel: +40 21 200 7734

Mob: +40 730 888 729

manuela.iordache@unicreditleasing.ro

Mrs. Patricia Tudorache (West)

Tel: +40 21 200 7737

Mob: +40 730 888 837

patricia.tudorache@unicreditleasing.ro



Mrs. Radoslava Rousseva

40, Tzarigradsko shosse, 1784 Sofia, Bulgaria

Tel: + 359 2 9765 204

Mob: + 359 2 9765 220

radoslava.rousseva@unicreditleasing.bg



Mr. Oleksiy Steshenko

22/1 Saghaidachnogo Street, 04070 Kyiv, Ukraine

Tel: +380 44 590 0218

Mob: +380 50 441 6137

oleksiy.steshenko@unicreditleasing.ua

Contacts for Financing RES

■ Energy Product Specialists



Ms. Ana Šimunec

Heinzlova 33, 10000 Zagreb, Croatia

Tel: +385 1 24 47 288

Mob: +385 91 48 97 396

ana.simunec@unicreditleasing.hr



Mr. Jure Bricelj

Ameriska ulica 8, 1000 Ljubljana, Slovenia

Tel: +386 1 6016 006

Mob: +386 31 699 633

jure.bricelj@unicreditleasing.si



Mr. Milos Bingulac

Poslovna zgrada "VIG Plaza", Trešnjinog cveta 1, 11070 Beograd Srbija

Tel: +381 11 3093 557

Mob: +381 60 3093 557

Email: milos.bingulac@unicreditleasing.rs