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Cleantech in the Downturn - Project & Asset Finance

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Agenda

1. Renewable Energy Market and Credit Crunch
   – Impact of the credit crunch: cost and availability of debt
   – Impact of oil price volatility / credit crunch
2. Outlook for Long-term Debt Markets for Infrastructures
   – Current status of credit markets for Renewables
3. Key issues – Corporate & project finance for Renewables
4. Main themes for 2009

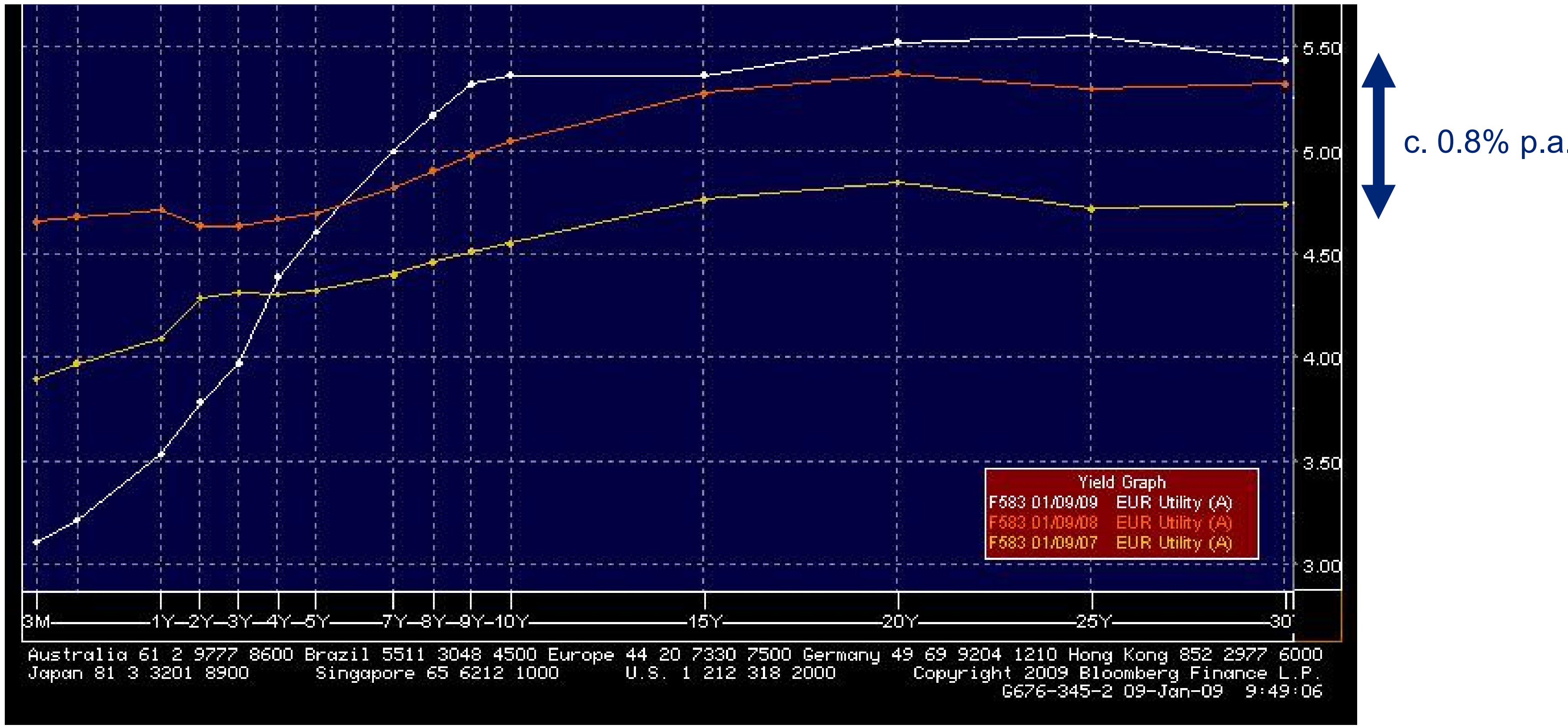
Renewable Energy Market and Credit Crunch

- The PARTY is over! The Renewable sector is now in a BUYER's mode
- Only projects with the strongest credit quality get funding
- Even companies with good development and credit history are finding it difficult to raise capital
- Fundamental changes are taking place to improve risk profile and competitiveness:
  - Reduce all-in construction costs
  - EPC contracts wrapping up all main risks
  - Additional governments support schemes
  - Reduced exposure to development and permitting risks

… However financing is the main bottleneck!

Impact of the Credit Crunch: Cost and availability of debt

Shift in yields on A rated corporate utility bonds 2007-9 (% p.a.)



Source: Bloomberg

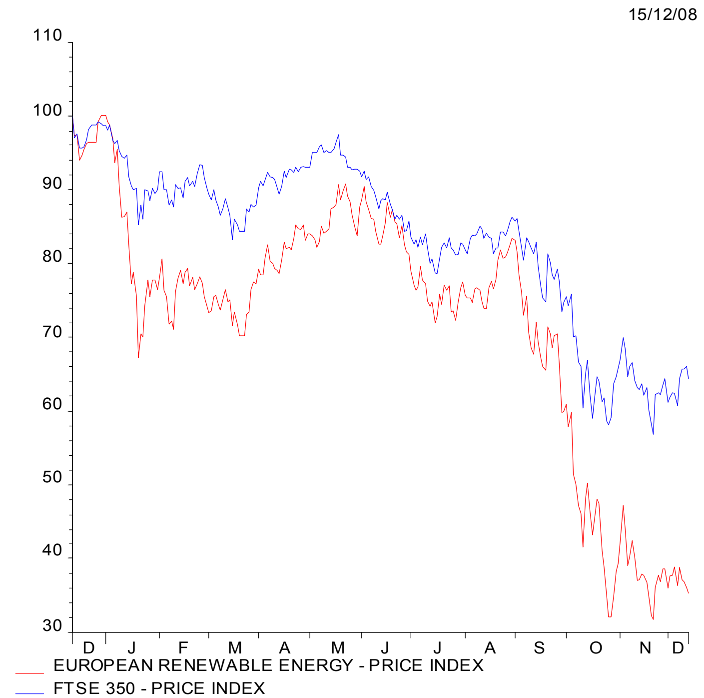
Change in risk perception may be more profound than rise in cost of debt

Impact of the oil price volatility / credit crunch

Oil (Brent Blend) 2007-8

Source: Bloomberg

Renewables share price index 2008

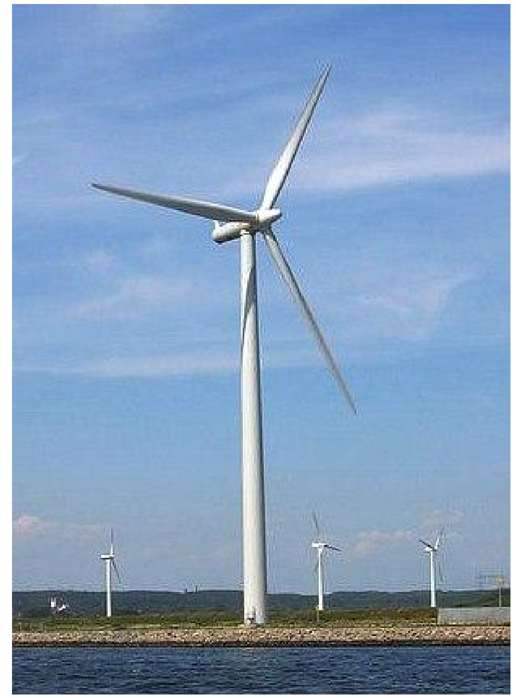


Source: DATASTREAM

Acute oil price volatility has impacted renewable sector

Outlook for Long-Term Debt Markets for Renewables

- Reduced appetite for complex risks, due to losses on complex instruments and reduced competition among lenders
- Cost of long-term debt likely to remain above 2005-7 levels
- Unclear whether banks now only offering short term debt will return to >10 year lending
- Bond market for power and renewable still but necessary for Industry recovery
- Large volume of public sector bond issues in US and EU will be a significant test of bond market appetite in 2009-10 – c. €2,000 billion
- Potentially increased role for public sector in guaranteeing lending to business for bank securitisation programmes – to maintain flow of new lending
- Response by public sector, in revised bank regulation, to the events of H2 2008 is still to emerge – may impact bank appetite in medium/long term
- Banks likely to seek better protection from increases in their cost of funds in loan agreements



More time needed to assess enduring changes in the long-term debt markets

Current status of credit markets for Renewables

- Severely reduced availability of credit – Less then ~ € 500M (!) of project debt available across Europe – *estimated by Deloitte in a recent survey*

- Much higher funding costs:
  – Up front fees: over 300 basis points
  – Margins: over 300 basis points

- Reduced maturities: 7 to 10 years max or "*MINI PERM*" structures

- Very conservative gearing levels: 70/30 Debt to Equity ratios are now more the norm

- Very tight covenants structure with cash sweeps all over the place!

… the credit markets will continue to be unsettled throughout 2009

Key issues – Corporate & project finance for Renewables

- Infrastructure and Project Finance banking and capital markets affected by global credit crunch
- Many international project finance players severely constrained, some have exited
- Structuring and financing transaction is more problematic and time consuming due to radical and continuing changes in PF debt terms and conditions
- EIB is taking a more proactive and leading role
- Creditworthiness of the sponsors and relationships lending
- *However:*
- **The project finance market for quality transactions is still live and active;**
- **There are a number of regional banks with strong balance sheets keen to play a role in this sector;**
- **Experienced financial advisers critical for successful outcome!**

Main themes for 2009

- Utilities and large corporate/ developers have the upper hand
- Specified financial sponsors have a real opportunity to pitch up good projects at the right price
- Equity is King – For any large debt raising… wait 2010!
- Strong consolidation
- Oil prices volatility needs to stabilize in order to assess long term feasibility of new generation of renewable energy projects

… However small high quality schemes (both wind and solar) continue to get funding on the back of the strong (and generous!) feed-in tariffs across Europe.

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Thank you for your attention !

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