
Financing Sustainable Energy Projects in CEE

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Agenda

- **Project Finance**
 - **Definitions and Facts**
 - **Typical Project Structure**
 - **Advantages of Project Finance**
 - **Preparation of a Project for Financing**
- **Financing of Sustainable Energy**
 - **Situation in Central & Eastern Europe**
 - **Challenges and Opportunities**
 - **Sources of Financing**
 - **Case Studies**
- **Bank Austria Creditanstalt**

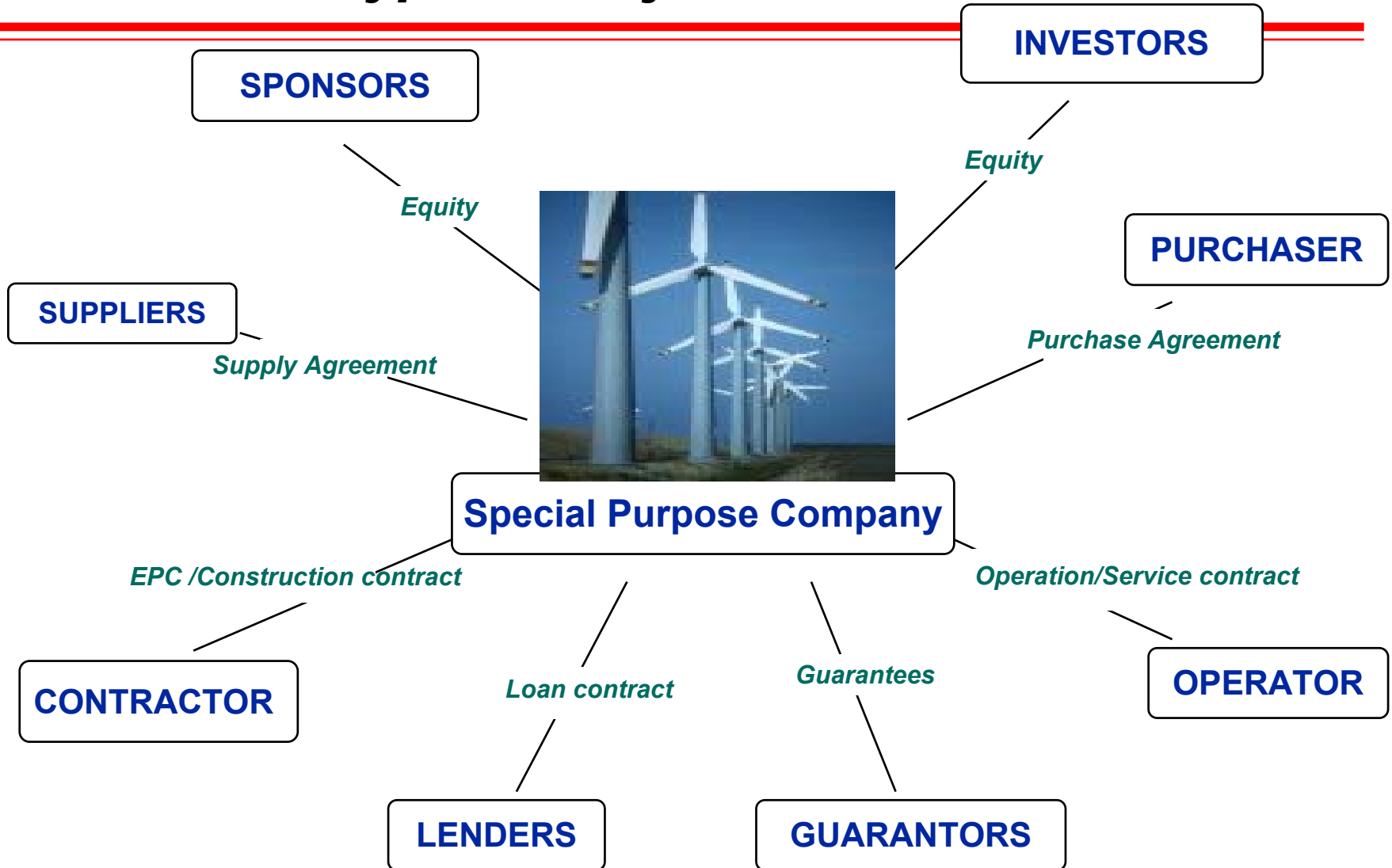
Definitions and Facts

- **Cash flow**
- **Special Purpose Company**
- **Off-balance sheet**
- **Limited recourse**
- **Long term nature**

Definitions and Facts

- **Collateral - transferable**
- **High Risk Lending - detailed due diligence, sufficient equity, sound pricing parameters**
- **Large Volume Transactions - syndication**
- **Complexity - timing**
- **EPC (engineering, procurement, construction) contract - fixed price, turnkey, date certain**

Typical Project Structure



Advantages of Project Financing

- **Financing transactions realized off balance and limited recourse for Sponsors, optimising the finance structure in the parent company**
- **Flexibility regarding Partners, Risk Allocation and Structure**
- **Higher flexibility in designing the terms & conditions for the financing in comparison to plain vanilla corporate loans**

Preparation for Project Financing

- **Feasibility Study / Business Plan**
- **Reports (Independent Experts)**
 - **Market Study**
 - **Financial Model**
 - **Technical Due Diligence**
 - **Legal Due Diligence**
 - **Insurance Report**

Preparation for Project Financing

(continued)

- **Presentation by sponsor with business plan and feasibility study**
- **Indicative offer - term sheet from banks**
- **Negotiations > committed term sheet from arranging bank**
- **Loan documentation by external lawyers**
- **Syndication (for large volumes)**
- **Financial closing**
- **Disbursement of funds according to milestones**

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Financing Renewable Energy

- **Commercial banks often have limited experience and know-how in financing sustainable energy projects**
- **Structure and approval process often too cumbersome for small financing volumes**
- **High initial investment cost versus low operational cost**
- **Innovative financing solutions (CO2 Certificates ...) and equity sources (funds ...) are key**
- **Exploit subsidies (ALTENER, SAVE, COOPENER ...)**

Dependency on carbon fuels in selected new member countries

Fuel used for generation of electricity in %

Poland	1990	2000	2010
Coal	97,5	96,2	86,4
Natural Gas	1,3	2,0	6,1
Renewable Energy	1,2	1,8	7,5
Czech Republic	1990	2000	2010
Coal	71,8	72,5	50,3
Oil	4,8	0,6	1,1
Natural Gas	1,0	4,6	7,1
Nuclear	20,1	18,7	35,5
Renewable Energy	2,3	3,6	6,0
Hungary	1990	2000	2010
Coal	32,1	25,7	26,5
Natural Gas	18,9	34,2	32,1
Nuclear	48,0	39,1	33,4
Renewable Energy	1,0	1,6	8,0

Sources: DB Research 2003, REEEP

Situation in Central & Eastern Europe

Challenges

- **Rules and regulations, legal environment**
- **Inefficient use of energy**
- **Overcapacity in production and low energy prices**
- **Insufficient equity sources and tight public budgets**
- **Lack of experienced operators**

Situation in Central & Eastern Europe

Opportunities

- **Poland and Czech Republic (Biomass and Wind), Hungary (Biomass and Geothermal), Baltics (Wind), Slovak Republic (Hydro and Biomass), Slovenia (Biomass)**
- **Upgrade of District Heating Systems - Biomass**
- **Diversification of fuel sources (reduce dependency on carbon fuels)**
- **Local Initiatives**
- **Lobby for producers of renewable energy**
- **CO² Certificates become part of financing**

Sources of Financing

Equity:

- Equity from Sponsor
- Equity Funds
- Carbon Financing (JI/CDM, CO² Certificates)

Debt:

- Project finance or corporate finance from local and international commercial banks
- Export Credit Agencies (Supplier or buyer credit, risk insurance)
- Multilateral Banks (EBRD, World Bank/IFC, EIB)
- Specialized Finance Institutions or Funds (KfW, Mezzanine Fund, Carbon Funds)
- Capital Market (Bonds, Asset Backed Securities)

Subsidies:

- Local or EU

EIB - Global Loan

- **Who can benefit from the proceeds of global loans?**

Local authorities or firms with fewer than 500 employees and having fixed assets of up to EUR 75 million

- **For what projects?**

New capital investment projects worth up to EUR 25 million, undertaken by SME's or, in the case of small infrastructure projects by local authorities

- **For what amount?**

A maximum of EUR 12.5 million and up to 50 % of the investment costs

- **What maturities?**

Between 5 and 12 years, up to 15 years in exceptional cases.

- **What security? What rates?**

To be agreed with the intermediary bank which takes the credit risk in accordance with criteria determined in cooperation EIB.

- **Disbursement and loan management?**

Through the intermediary bank.

- **How to apply?**

Directly to one of the intermediary banks and financing institutions, which operates on the national, regional or local level.

Equator Principles

- 28 banks (including HVB Group) have adopted Equator Principles for their financing decisions
- Set of guidelines to determine and manage environmental and social risks in project financing
- Pollution Abatement Guidelines and Safeguard Policies of the IFC (International Finance Corporation)
- Projects are classified according to Screening Process (high / medium / low risk)
- Environmental Assessment is done for large project financings, including appropriate consultations with all affected parties
- Equator Banks cover over 80% of global project finance volumes

Case Study



Svilosa, Bulgaria

Delivers energy to pulp and paper plant, switch from coal fired to biomass.
Sources wood chips from own production process. Financed partly with forward sale of CO2 Certificates.

Capacity:	18 MW Steam Turbine
Investment:	USD 2,75 Mio.
Emission Reduction:	900.000 t CO ²
Price per ton CO2:	USD 3
Buyer of Certificates:	Prototype Carbon Fund
Contract value CO2 Cert.:	USD 1,8 Mio.

Case Study



Tsankov Kamak, Bulgaria

Expansion of existing hydro power plant with 6 turbines and construction of new dam. Power purchase agreement with NEK. Financing secured partly with forward sale of CO2 Certificates.

Capacity:	450 MW
Investment:	USD 200 Mio. (Commercial Banks: EUR 32 Mio.)
Emission reduction:	200.000 t CO ² p.a.
Buyer of Certificates :	Republic of Austria

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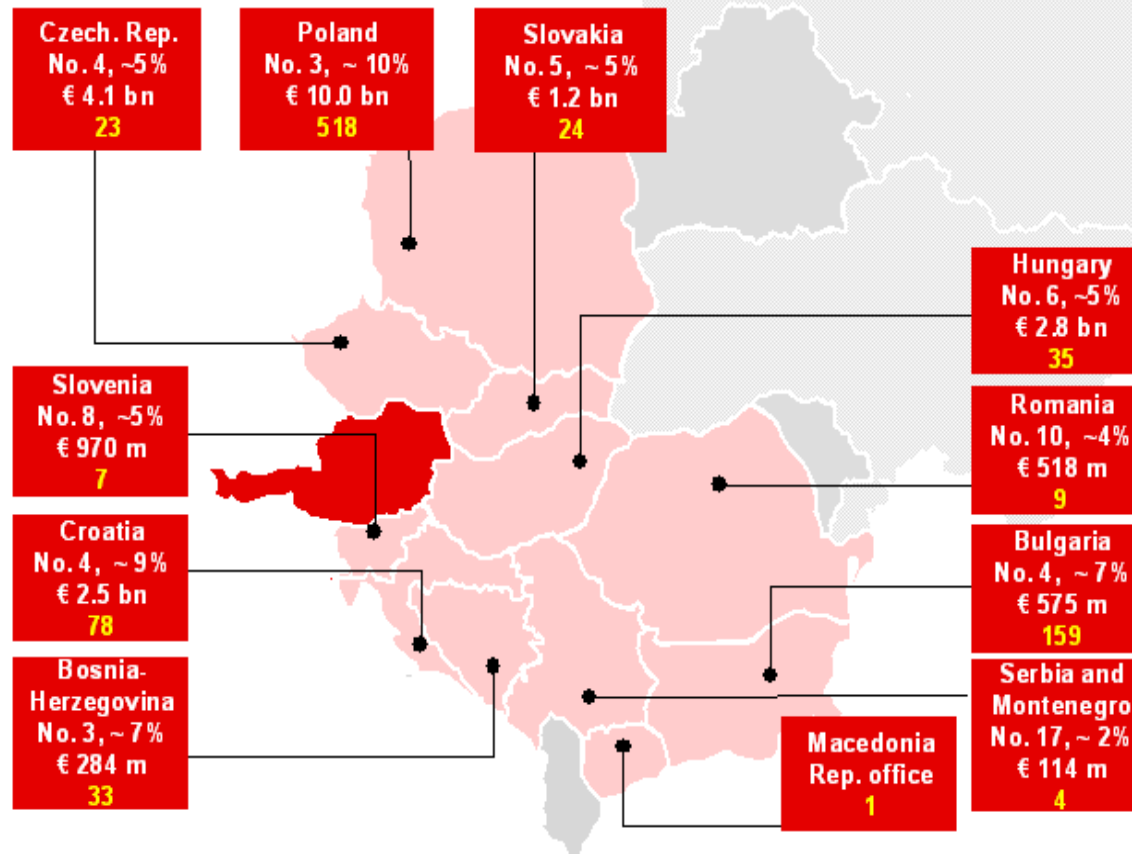
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BA-CA Corporate & Project Finance

- Among top Arrangers and Underwriters for CEE and winner of mandates for landmark transactions in the field of acquisition, project and structured corporate finance
- Concentrated on selected sectors including energy & utilities, telecoms & media, processing industries & natural resources and transportation infrastructure
- Strong execution, underwriting and placement capacity as well as extensive experience in arranging and underwriting complex financing packages
- Over 30 financing mandates (MLA) in 2003 and 2004
- Excellent relationship with EBRD and EIB (top co-financier of EBRD)

BACA Footprint in CEE

Market position, total assets and number of offices as at 31 December 2003



CEE region

- € 23 bn total assets
- 891 offices
- 5%-10% market share in key markets
- 17,587 employees
- 4 m customers

International Ranking



European Bank
for Reconstruction and Development

Top Mandated Arrangers of Syndicated Credits 2003 Eastern Europe (by volume)

Rank	Group	# of Deals	Market Share
1.	Citigroup	23	11.04%
2.	BACA/HVB Group	26	7.11%
3.	BNP Paribas	14	6.56%
4.	WestLB	12	5.77%
5.	ABN Amro	13	5.32%
6.	SG	13	5.29%
7.	ING	16	5.22%
8.	KBC	10	4.54%
9.	Deutsche Bank	12	4.04%
10.	RZB	22	3.61%

Source Thomson Financial / Dealogic, January 2004

TOP Ten Banks Participations Cumulative to 30 June 2004

1. **BA-CA (HVB Group)**
2. **Raiffeisen Zentralbank**
3. **Rabobank**
4. **Citibank**
5. **ING Bank**
6. **CALYON**
7. **ABN Amro Bank**
8. **JP Morgan Chase International**
9. **Dresdner Bank**
10. **Nordea Bank Sweden**

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