EBRD Financing as a Prerequisite for Financial Success of Wind Projects in Ukraine

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EBRD: Key Strengths and Objectives

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Key Strengths

- Strong, internationally recognised financial partner with long-term perspective
- Extensive knowledge of local economy, business environment and practices
- Private sector focused and operating in "business time"
- Wide range of product, currency and tenor
- Facilitates inward and cross border investments in the region
- AAA rated, well capitalised, profitable, commercially focused

Objectives

- To promote transition to market economies by investing mainly in the private sector
- To mobilise significant foreign direct investment
- To support privatisation, restructuring and better municipal services
- To encourage environmentally sound and financially sustainable development

EBRD – Power and Energy Utilities, a Trusted Partner to Clients and Governments

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Team of ca. 35 bankers, based in London, Almaty, Amman, Bucharest, Cairo, Istanbul, Kiev, Moscow, Skopje, Tbilisi and Warsaw

Promoting renewable and sustainable energy

Supporting sector reforms and allowing market principles to develop (e.g. increased competition, market liberalisation and increased private ownership)

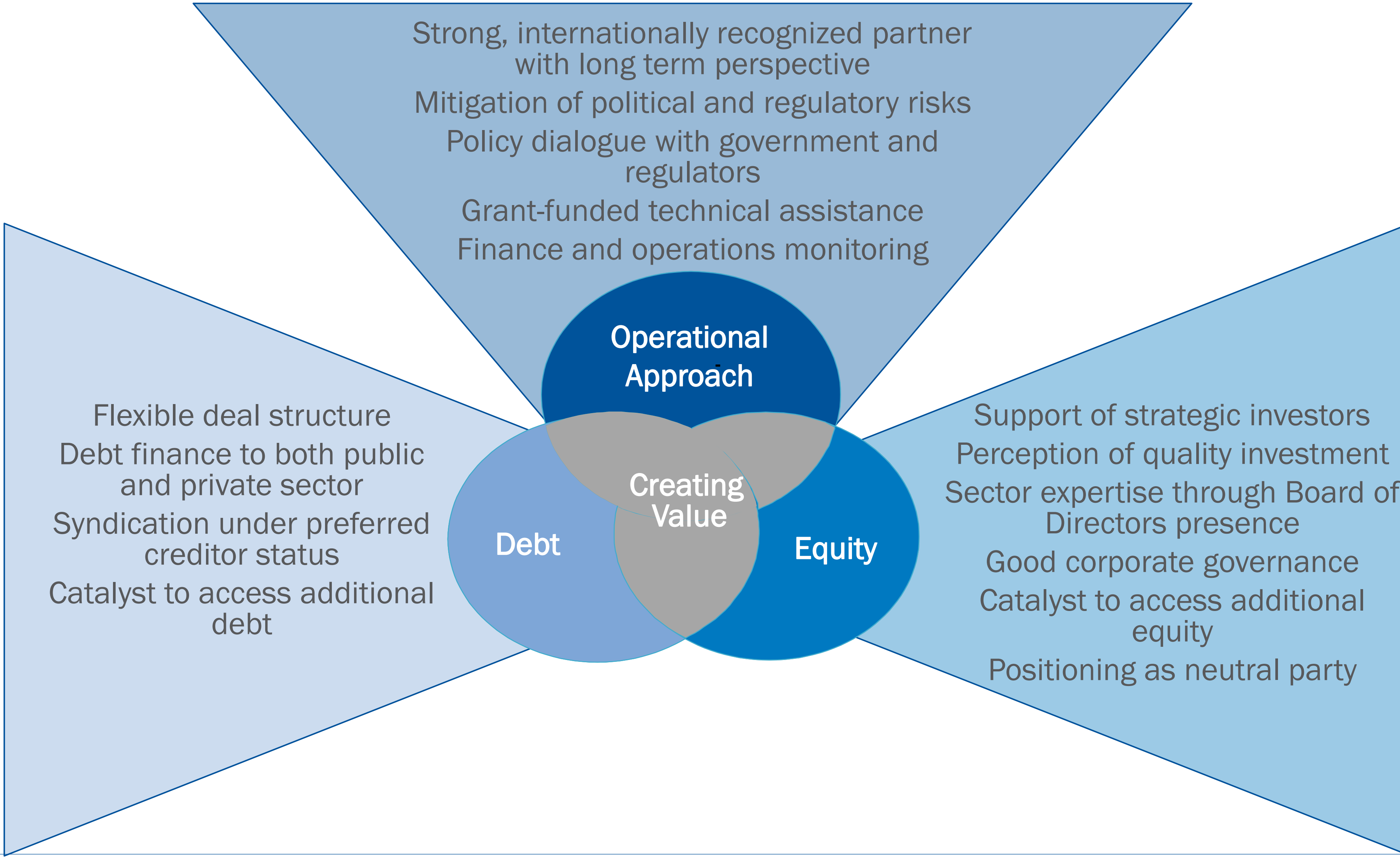
Strengthening cross-boarder frameworks and infrastructure (e.g. transmission lines, regional trading hubs)

Ground-breaking projects and innovative structures

Developing and deploying new technology

Crisis response

Benefits of Working with the EBRD



EBRD in Ukraine:
369 projects worth €12 billion

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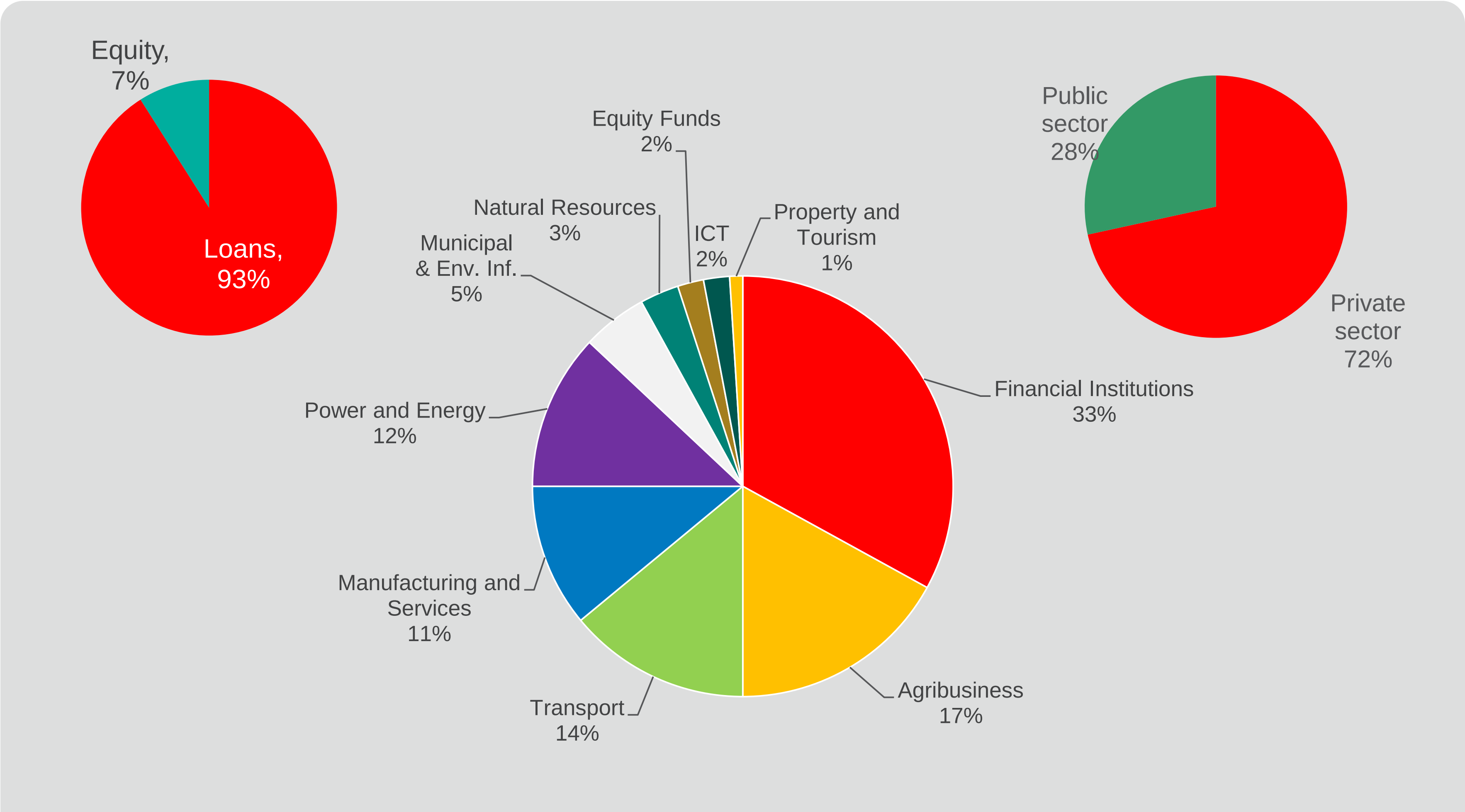
Cumulative business investment since the beginning of operations in Ukraine in 1993



EBRD in Power&Energy sector Ukraine:

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Key features

- Working in public and private sectors
- Sovereign, corporate and project finance structures
- Active support of large and small renewable projects (loan funding need below EUR25m)
- Support to the key reform initiatives
- Co-financing with the main donors and other IFIs

EBRD portfolio in Power sector

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Odessa High Voltage Line Project	Public	25.8
Rivne-Kyiv High Voltage Line Project	Public	150
Zaporizhzhia-Kakhovs'ka High Voltage Line Project	Public	175
K2R4 start-up Safety Upgrade Programme	Public	37
Nuclear Power Plant Safety Upgrade Programme	Public	300
Hydro Power Plant Rehabilitation Programme	Public	200
Novoazovsk Wind Project	Private	33.3
10 small renewable projects in biogas, biomass, wind, small hydro and solar segments	Private	44.4
TOTAL		965.5

Example: direct lending facility for renewables

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- Special mechanism for streamlined processing of small renewable projects
- Portfolio of 11 renewable projects
- Pipeline of more than 20 renewable projects
- Green-field project financing
- EBRD together with a co-financier can provide up to 60% debt financing on a project finance basis
- Sponsor guarantee is required before commercial operation of the Project
- Lending can be provided up to the end of the green-tariff support mechanism period, i.e. until 2030.

Policy dialogue initiatives

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On the policy reform front the EBRD closely co-operates with other donors and IFIs

- Regulator law approval
- Electricity market reform preparation and future implementation
- Enhancement of corporate governance and corporatisation of state owned companies, including Ukrenergo and Energoatom
- Work on improvement of renewable legal support framework, including future introduction of bankable long-term Power Purchase Agreements
- Privatisation of power sector companies
- Introduction of RAB tariff regulations for electricity distribution and transmission companies.

Typical project timetable

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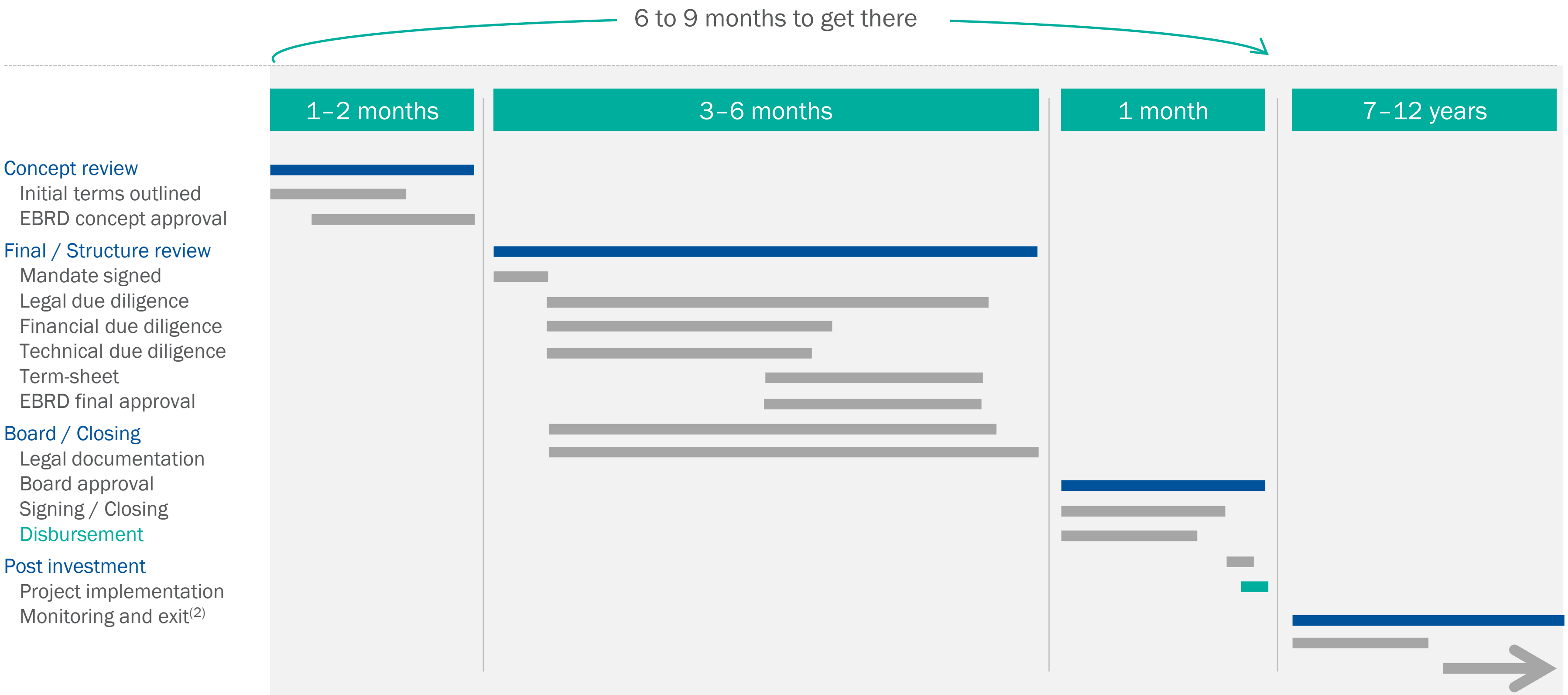

- Gathering of basic information and drafting of concept approval memo by the Banking Team

- Legal due diligence launched; Banking Team starts working with a client on financial model
- Consultant is retained to check, among others, market background, client's business model, strategy, etc.
- Management and EBRD discuss value creation and corporate governance action plans setting long-term goals for the Company, defining how these goals should be achieved, and setting monitoring milestones.
- Final term-sheet agreed and EBRD receives final approval

- Key legal documents agreed
- Project approved by the EBRD Board of Directors
- Legal agreements signed
- Funds transferred to a client

- Project implementation by the Client
- Monitoring procedures performed by EBRD (e.g. analysis of quarterly financials, covenants, etc.)
- Repayment of a loan

Wind Project Due Diligence by the EBRD

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Typical wind project development lasts for around 3-5 years (from the time of project initiation till project commissioning);

The EBRD can start looking at project financing opportunity from an advanced stage of project development:

- Project Sponsor(s) (main equity investor(s)) have been identified and can demonstrate good business reputation and equity capital availability;
- Project rights are secured (land, grid connection arrangements are underway, project design approved, construction permit has been filed);
- Wind measurements by reputable consultants are under way, business case analysis can demonstrate project viability;
- ESIA draft documents are available.

The Bank runs its independent project due diligence: financial, technical, environmental and legal.

In case of “small” renewable energy projects (EBRD loan financing is below EUR 25m), external technical due diligence consultant can be grant funded.

Wind Project Due Diligence and Approval by the EBRD

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Due diligence and project preparation process for small renewable projects is streamlined and can be implemented quicker than the one for large projects.

Grant funded consultants available on standby basis conduct financial, technical and environmental due diligence of a project on behalf of the EBRD

P50 wind scenario based on reputable one-year wind measurements is used for the base case scenario of the model

EBRD financing in individual renewable projects can start from EUR 1m and in case of need exceed EUR 150m

Equity contribution is required at the level of up to 40%

EBRD loan proceeds can finance up to 35% of total project costs, the rest can be funded by parallel/b-loans

For small projects the Bank covers up to 60% of total project costs with loan funding package formed of the EBRD and CTF loans

Interest rate of the EBRD is a market one for such type of projects

Typical project timetable

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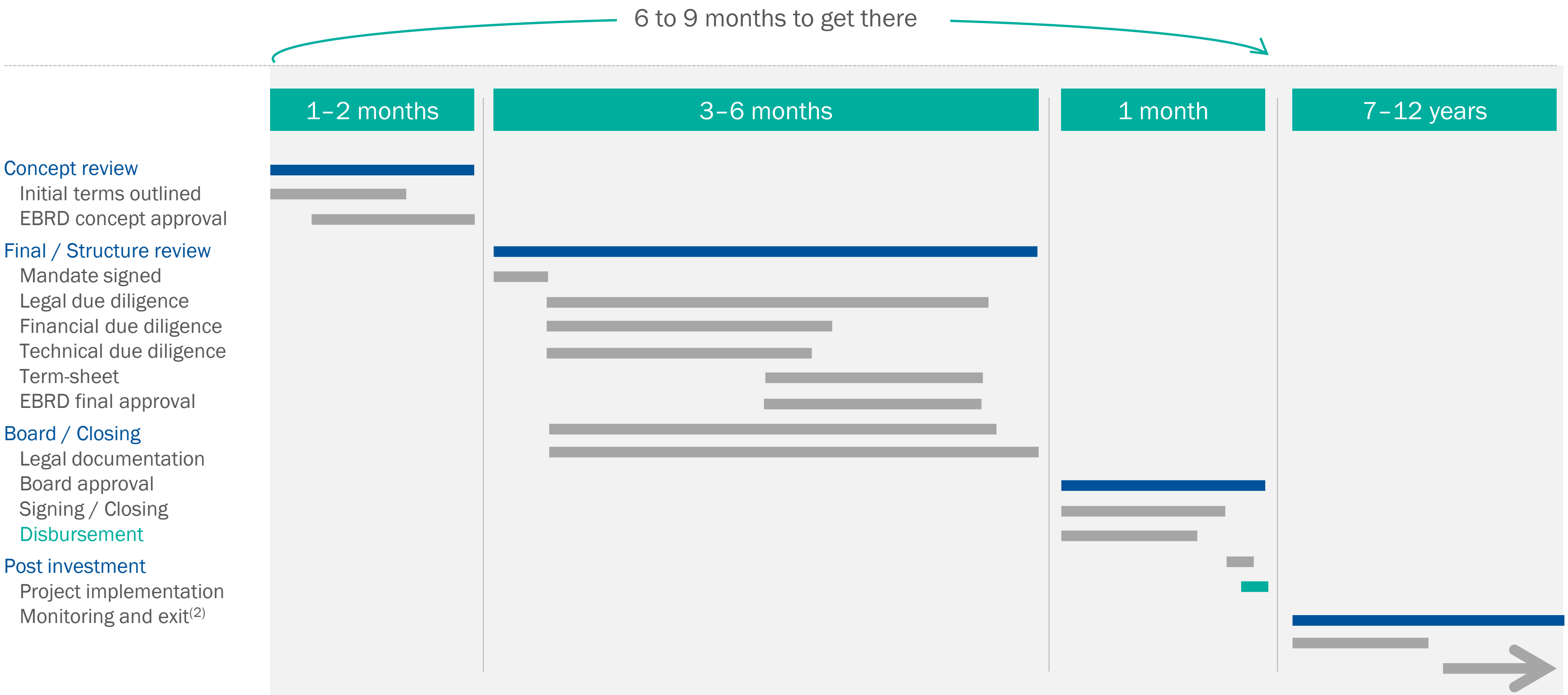

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What is still needed for Ukraine to further develop renewables

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- Understanding by key sector officials that renewables are needed for the country to develop and to be energy independent;
- Consistency in behavior of key authorities towards renewables;
- This would improve investment Climate in the sector;
- A stable regulatory framework going forward, which provides a stable, predictable and transparent investment environment going forward;
- Bankable long-term PPAs need to be introduced in the sector as soon as possible;
- Window of opportunity for further development of renewables under the current renewable support scheme is closing down in few years;
- New bankable renewable support framework need to be developed in the country within very short period of time.

Contacts

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