

Energy Project Finance

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CAPITAL

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Energy Project Finance Overview

- Nedbank Energy Project Finance serves as the sectoral specialist on behalf of all of Nedbank's various divisions. It is the Energy Industry's entry point to all of Nedbank's product offerings and it will co-opt the required skills from other departments within Nedbank to provide a comprehensive service to the client
- The Nedbank Energy Project Finance Department itself focuses primarily on limited recourse debt financing but will, where circumstances require, structure, arrange and/or provide equity funding, as well as provide financial advisory services
- The department's scope also includes the funding of Black Economic Empowerment transactions in the energy sector
- The Energy Project Finance team comprises 6 individuals from accounting, engineering and agricultural backgrounds with over 50 years of combined project finance experience in commercial banks and development finance institutions

Energy Project Finance Sector Scope

















⊙ Electricity

- **Power generation** : conventional coal, liquid fuel, gas and hydroelectric power stations, co-generation and renewable electricity generation projects; and
- **Transmission infrastructure**

⊙ Oil and Gas


- **Upstream** infrastructure subsequent to the certification of proven P₉₀ natural gas and oil reserves. All exploration activities are excluded with finance being restricted to platform development, production and associated bulk transport infrastructure such as pipelines; and
- **Midstream and Downstream** infrastructure to process crude oil and natural gas such as oil and gas refineries, petrochemical facilities and bulk transportation and distribution of refined products as well as infrastructure required for the production of bio-ethanol and bio-diesel and distribution to market

Nedbank Energy Credentials

<p>2001</p>  <p>ISKEN ISKENDERUN ENERJİ ÜRETİM VE TİC. A.Ş.</p> <p>Co-arranger and Funder</p> <p>US\$45m of the US\$622m 1 200MW coal fired independent power producer plant in Turkey</p>	<p>2002</p>  <p>AFRICAN LEGEND CALTEX</p> <p>Adviser</p> <p>Acquisition of 25% of Caltex Oil SA by African Legend</p>	<p>2002</p>  <p>TOTAL</p> <p>Arranger and Funder</p> <p>Acquisition funding for Tosaco's Investment in Total South Africa (Pty) Limit</p>	<p>2003</p>  <p>GLOBELEQ Generating Power for Emerging Markets Kelvin Power A Globeleq Company</p> <p>Funder</p> <p>R350m refinancing of the 600MW Kelvin Power Station</p>	<p>2004</p>  <p>TULLOW OIL</p> <p>SA Advisor to Tullow Oil</p> <p>Acquisition of Energy Africa</p>	<p>2004</p>  <p>MGC Moloto Gas Company S.A.B.L.</p> <p>Arranger and Funder</p> <p>US\$22,1 million limited-recourse funding</p>
<p>2004</p>  <p>ROLLS ROYCE</p> <p>Arranger and Funder</p> <p>US\$14.9 million re-financing of a power plant for the Morila Gold Mine in Mali</p>	<p>2005</p>  <p>PETRONET</p> <p>Adviser</p> <p>Bid to build, own and operate a 340km extension to the oil product pipeline from Eldoret to Kampala, Uganda</p>	<p>2005</p>  <p>SASOL reaching new frontiers</p> <p>Co-adviser to Tshwarisano</p> <p>Acquisition of 25% of Sasol Oil</p>	<p>2006</p>  <p>EcoElectrica BATEMAN MITAL</p> <p>Mandated Joint Arranger</p> <p>The Eco Emfuleni Independent Power Producer project to build a 110MW gas fired plant at Mittal Steel's plant in Vanderbijlpark</p>	<p>2006</p>  <p>SUEZ ENERGY INTERNATIONAL</p> <p>Mandated Lead Arranger for SEI Short-listed Bidding Consortium</p> <p>DME IPP 1000MW peaking plants estimated at \$450 million to be built in Kwazulu Natal and Port Elizabeth</p>	<p>2006</p>  <p>Reliance Petroleum Limited</p> <p>Lead Manager</p> <p>US\$25million funding for Reliance Petroleum's Oil Refinery and Petrochemicals Complex in India</p>
<p>2007</p>  <p>Reliance Ports and Terminals Limited & Reliance Utilities Limited</p> <p>Lead Manager</p> <p>US\$12million funding for Reliance Utilities Limited 728MW gas fired power plant in India</p>	<p>2007</p>  <p>PANDA</p> <p>Funder</p> <p>US\$10 million funding for the Panda Hereford Ethanol Plant in Texas, USA</p>	<p>2007</p> <p>D4 Power</p> <p>Lead Arranger and Funder</p> <p>Management buy out of Rolls Royce Power Ventures assets in Mali and Tanzania</p>	<p>2007</p>  <p>ILLINOIS RIVER ENERGY</p> <p>Lead Arranger</p> <p>US\$16million for the expansion of Illinois River Energy's existing 50MGPY in Illinois, USA</p>	<p>2007</p>  <p>Roaring 40s THINKING ENERGY</p> <p>Lead Arranger</p> <p>US\$11million for the development of the 50MW Khandke in Maharashtra, India</p>	

Nedbank's sustainability credentials

2006



The Equator Principles
A benchmark for the financial industry to manage social and environmental issues in project financing

Equator Principles for Managing Social and Environmental Issues in Project Financing

Only African Bank Signatory

2006



World Wildlife Fund Conservation Partnership

Only South African Company

2006



JSE SRI Index Outstanding Performer

1st in "low impact" category

2006



United Nations Environmental Programme Finance Initiative

1st of only 2 South African Signatories


2005



2005 Banker Awards

Best "Emerging Market Bank for Corporate Social Responsibility"

2006



Dow Jones Sustainability Index Membership

1 of only 4 strictly South African companies


2006



Financial Mail / Unisa Accountability Rating South Africa

Best Placed Bank

2006



Ernst & Young Excellence in Sustainability Reporting

Best Placed South African Bank

2006



Mail & Guardian Greening the Future

Winner "Most Innovative Environmental Strategies"

2005



Financial Times 2006 Sustainable Banker Awards

Only South African Finalist

What is Meant by Project Financing (Limited Recourse Finance)

- Project Financing is the funding of a major capital project in which the bank looks **principally** to the **cash flows** of the project as the source of funds for repayment and to the asset of the project as security for the loan.
- The general creditworthiness of the project sponsor is usually not a significant factor, either because it is an entity without other assets or because the financing is without **direct** recourse to the sponsors.
- An asset like a transmission line, pipeline or power station has no value other than for its design purpose in a specific location.
- Other generic types of finance include
 - Un-secured; Asset Finance, Balance Sheet Finance, Collateral Finance

Project Finance – Pros & Cons

-	+
Documentation and Time	Limit Liability (Off Balance Sheet)
Cost	Financial Consolidation
Lenders Control	Enables more Capital Investment

Global Energy Project Finance (1st Half 2008)

Sector	Value US\$bn	Deals Closed
Oil and Gas	56.9	53
Power	25.7	41
Renewables	17.8	94
Total All Sectors	155.1 (100 Debt)	334

**Source : Infrastructure Journal*

Project Finance in the Middle East and Africa

- In 2007 a total of 71 projects secured US\$54billion of debt
- Primarily in the Power, Oil & Gas and Petrochemicals sectors
- US\$10 billion of this debt for projects in Africa
- Some energy highlights
 - Cahora Bassa Refinancing in Mozambique
 - Bujagali Hydro in Uganda

**Source : Infrastructure Journal*

The Project Finance Process

→ Sponsors identify idea

→ Feasibility Study (sources of capital, dilution, advisors)

→ Information Memorandum (comprehensive)

→ Invite Finance Proposals

→ Term Sheet

→ Selection – Appoint Financiers

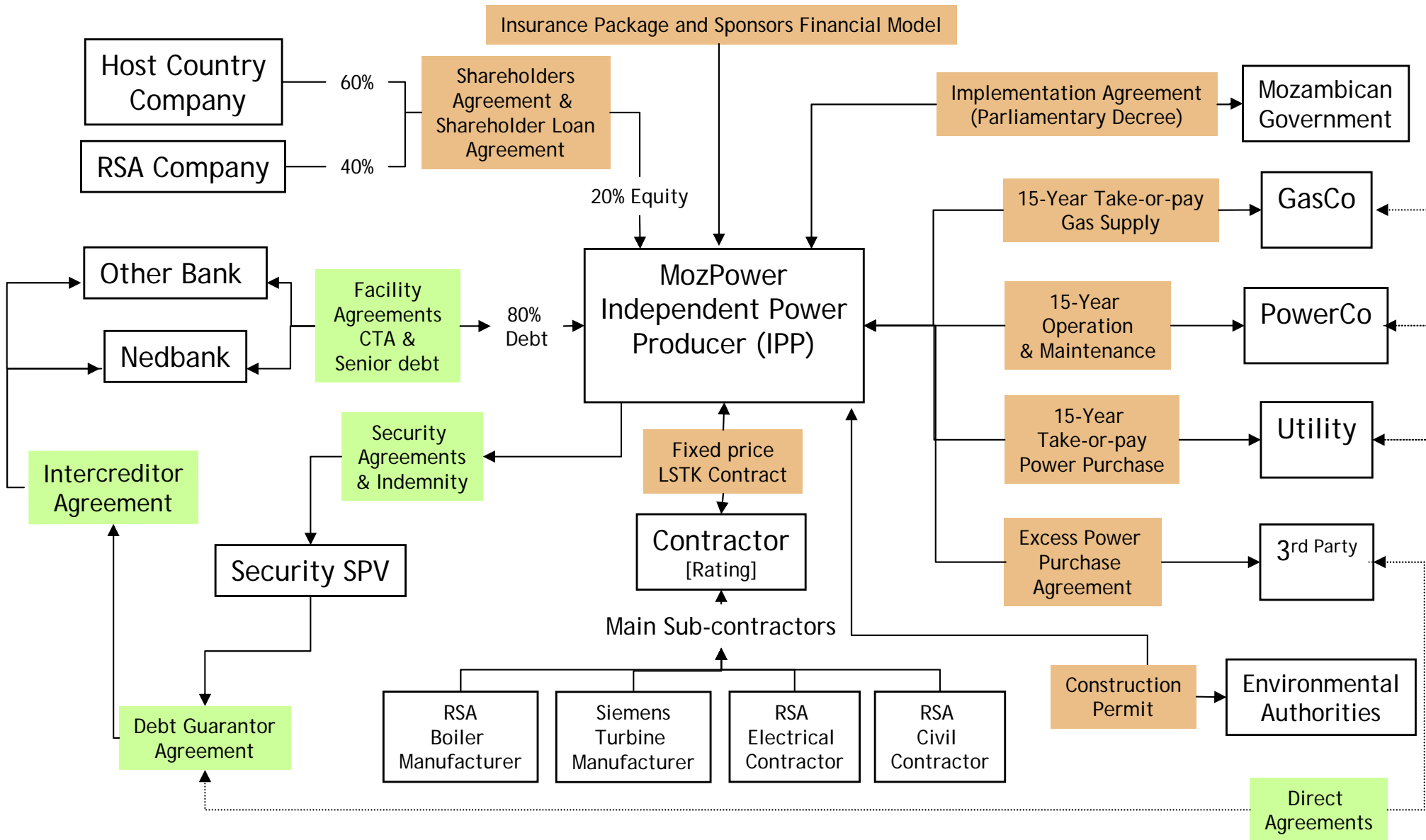
→ Due Diligence

→ Financial Close

Time and money spent
upfront in project
development e.g. appointing
good advisors
increases the chance
of a successful close

Project Finance is a time consuming process that can take months if not years

Example of a Project Finance Structure



Major Risks

- ⦿ Capital Cost Overrun
- ⦿ Fuel supply & reserves
- ⦿ Production and Operating
- ⦿ Marketing and Sales (sales price lower, market demand)
- ⦿ Relative project competitiveness
- ⦿ Political and Legislative
- ⦿ Environmental disaster
- ⦿ Financial and Macroeconomic (inflation, exchange rates)

Current Landscape for Project Finance

-	+
Tightened Commercial Interbank Market	Relief on EPC costs
Cost of Funding	Commodity (input) Prices
Shorter Tenor Debt	Advisor Costs?
Lower Underwriting Amounts	Increasing MLA/ECA roles
Longer Time to Complete Deals	Local Currency Funding

Good deals will still get done

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