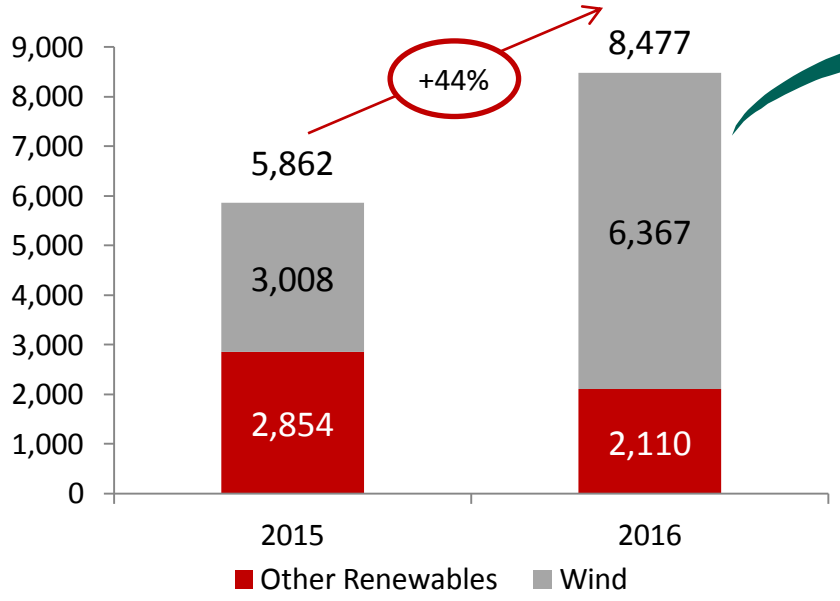
FINANCING OF WIND ENERGY PROJECTS

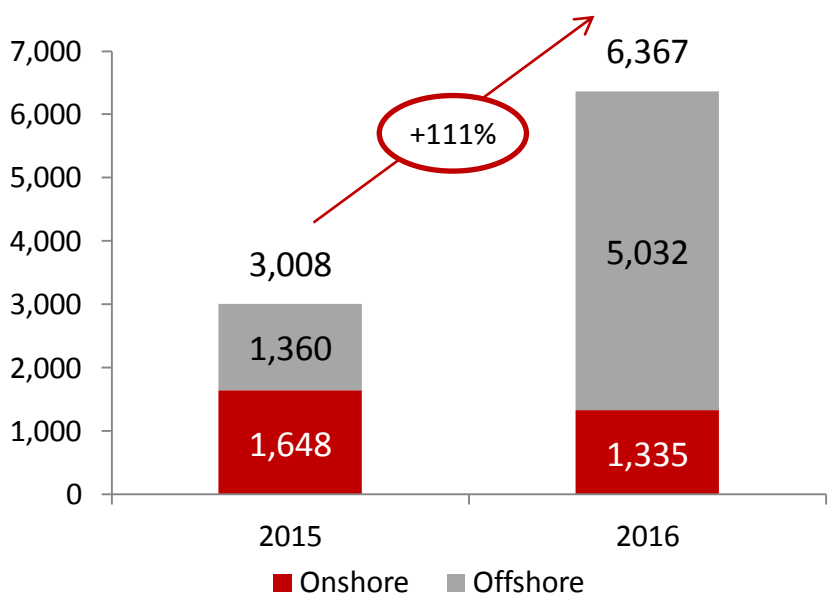
Evolution of the UK Renewable Energy and Wind Financing Market in 2015 and 2016

- A total of 111 UK Renewable Energy deals with a total value of £14.3bn were closed during 2015 and 2016. 57 financial closings took place in 2016 Vs 54 during 2015.
- More specifically, the wind energy market experienced an important increase in the number of closed transaction (from 27 in 2015 to 34 in 2016) with financing volumes growing by 111% (£6.3b Vs £3,0bn) strongly influenced by the Offshore Wind activity

2015 – 2016 Renewable Energy financing activity (£m)



2015 – 2016 Wind financing activity (£m)



Wind Energy projects combine many of the features that senior funders target when assessing capital allocation. This applies not only to traditional bank lending but also other sources of liquidity like ECAs, Multilaterals and Institutional Investors.

Stable Regulatory Framework + **Commercially Proven technology** + **Strong Counterparties** = **Cash Flow Stability**

Financing landscape and potential new players

- Traditional sources of financing have remained strong during 2015 and 2016, with commercial lenders being predominantly present across all the asset spectrum (Onshore/Offshore both Brownfield and Greenfield) and EIB and ECAs providing additional liquidity to the Offshore sector where the investment requirements per asset were significantly higher.
- However, Institutional investors' demand for UK infrastructure and energy assets remains robust with expectations to continue to be so over the next few years. Even though these players provide additional long term liquidity and competition to the financing market, the level of flexibility provided and approach to refinancing is more limited.

	Traditional Landscape	Institutional and Public Landscape	
	Commercial Space	Institutional Space	Public DCM Space
Players	Santander, MUFG, European Investment Bank, coface, EULER HERMES, HSBC, LLOYDS BANK, ING	MACQUARIE, HASTINGS, AVIVA, Allianz, ifm investors, AEGON Asset Management, PENSION INSURANCE CORPORATION	
Tenors	▪ Short, medium and long term	▪ Long Term	▪ Medium and Long Term
Asset Type	▪ Greenfield and Brownfield	▪ Brownfield	▪ Brownfield
Debt Type	▪ Floating, with requirement to swap to fix	▪ Fixed, Floating and Index Linked	▪ Fixed and Index Linked
Treasury / Risk Management	▪ IRS, RPIs and Revenue swaps	▪ N.A	▪ N.A
Refinancing approach	▪ Refinancing flexibility	▪ Prepayment Penalties	▪ Prepayment Penalties
Public / Private instrument?	▪ Private / No external rating	▪ Private / No external rating	▪ Public / External rating required
Covenant Package	▪ Strong covenant requirement	▪ Strong covenant requirement	▪ Light covenant Requirement

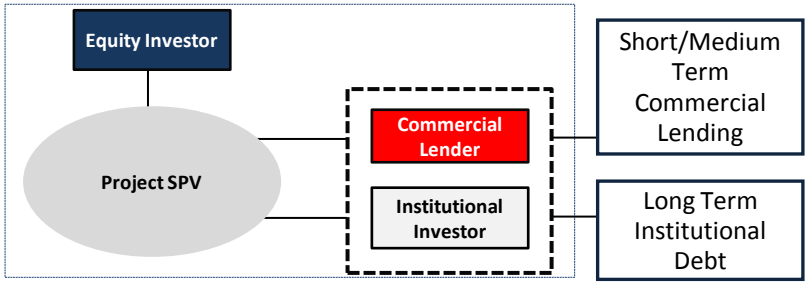
Level of Financing Flexibility

HIGHER **LOWER**

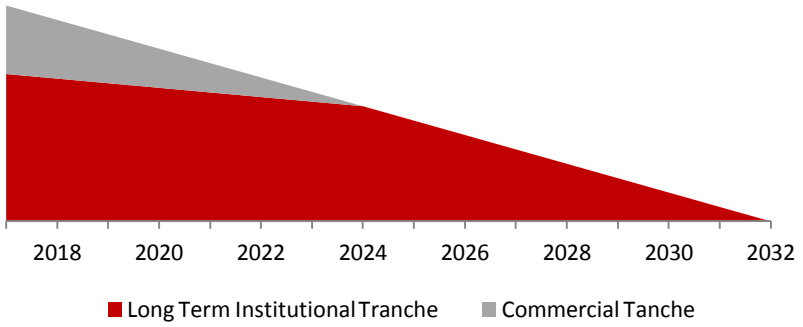
Commercial and Institutional partnerships: Hybrid financing structures

- 2016 has experienced a number of institutional and hybrid transactions in the solar PV space, in a financing structure that has the ability of being portable to the wind sector.
- These structures bring together the benefits of both the commercial and institutional alternatives in a long term fully amortising solution that eliminates refinancing risk. A long term institutional tranche (which can be fixed or index-linked) sits along a medium term commercial tranche. Both tranches present their own independent pricing for the term, providing an overall economic benefit to the structure.
- The commercial tranche does not carry prepayment penalties and offers a level of prepayment flexibility without the requirement of prepayment compensation.

Hybrid Financing Structure



Example of Hybrid Amortisation Profile



- Both tranches sit pari passu to each other in terms of security and cash waterfall, even though some intercreditor relationships need to be governed between the debt providers.

Intercreditor Considerations

- Two different set of creditors require a more tailored intercreditor relationship

- Voting Mechanics
- Quorum Mechanics
- Special Majority Decisions
- Enforcement action
- Entrenched Rights
- Amendments/Waivers

Main Benefits

- ✓ Avoid refinancing risk
- ✓ Optimize financing costs
- ✓ Inflation linked Capabilities
- ✓ Increase Liquidity Pool

Other Considerations

- X Prepayment Penalties in Institutional Tranche
- X Conservative Debt sizing
- X Operational Assets

Commercial and Institutional partnerships: Case Study

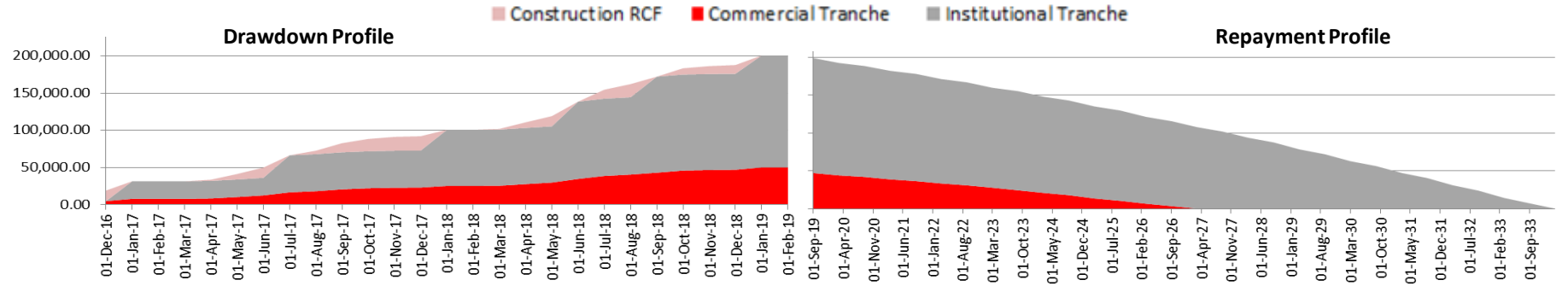
Case Study: Financing the construction, delivery and maintenance of an onshore wind farm portfolio located in the UK

Transaction Timeline

1 month	1 month	3 months	1-2 months	Financial Close
Agreement of T&C's with the Company / RfP + Mandate	Santander engagement with Institutional Investors	Due Diligence, Financing Contract Negotiation and Credit Approvals	Syndication Process (in parallel with final stage of documentation)	

Santander executed the whole process, from arranging the financial structure to partnering up with the Institutional Investor and syndicate the commercial tranches

Hybrid Structure



- A **hybrid financing structure** was implemented, inclusive of a fully amortising long term **Institutional Tranche** and a fully amortising **short term Commercial Tranche** provided by Santander and 3 Commercial Lenders. Additionally, roads and **decommissioning bonds** were provided
- A **Guarantee Facility** was put in place to **guarantee the repayment of the drawn amounts under the Institutional Tranche until COD is achieved**. This tranche was used also to issue LCs in favour of the turbine provider. Any LC issued from the Guarantee Facility is deducted from the Facility limit to **avoid any double exposure**
- A **Construction RCF** was provided by Santander to front drawdowns under the Institutional Tranche and minimise the number of required drawdowns (6 drawdowns anticipated). This was required due to the limited capacity of the institutional investor to deal with constant drawdown requirements. The Construction RCF is cleaned down with the scheduled drawdowns under the Institutional Investor Term Facility

FACILITY	PROVIDER	REPAYMENT	PURPOSE	AMOUNT	TENOR
Commercial Tranche	Santander + Lenders	Amortising	• Fund Project Costs	£50m	10 years (2.5+7.5)
Institutional Tranche	Institutional Investor	Amortising	• Fund Project Costs	£150m	17.5 years (2.5+15)
Guarantee Facility	Santander + Lenders	Bullet	• Guarantee drawdowns of the Institutional Tranche/ LCs to the turbine supplier	£150m	Longstop Date
Bond Facility	Santander	Revolving	• Provision of Roads/Decommissioning Bonds	£20m	17.5 Years