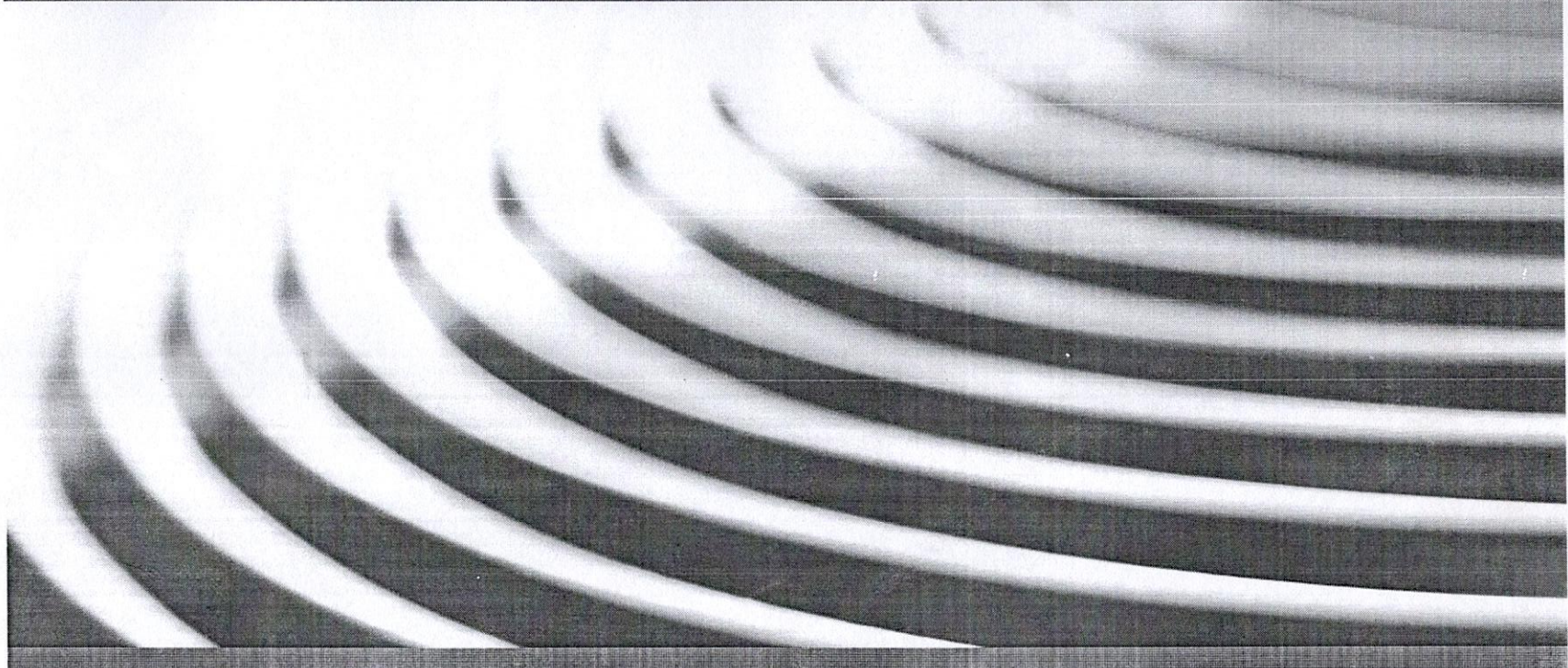


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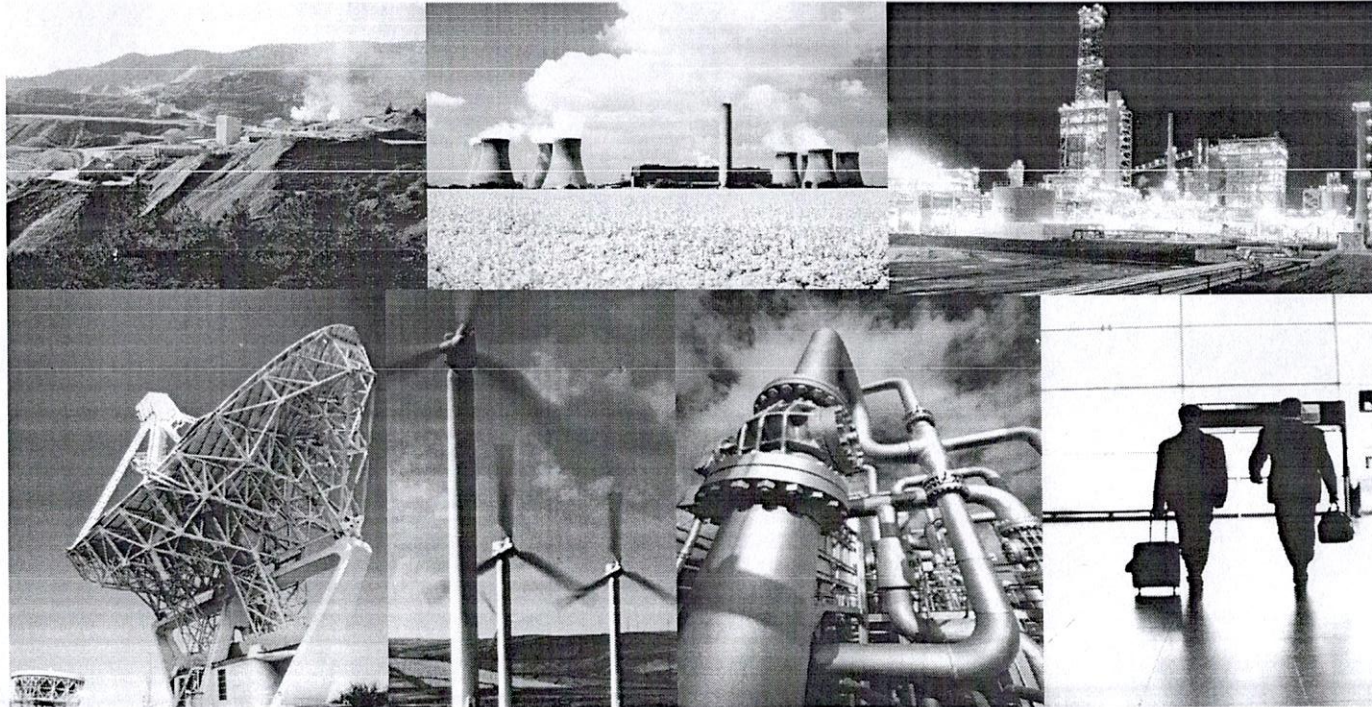
Introduction to Project Finance

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Project Finance – Who, What and Why!?



Oil & Gas

Power/Electricity

**Transport &
Infrastructure**

Mining & Metals

Telecoms

Heavy Industries

PPP/PFI

Real Estate/Hotels

Introduction to Project Finance

- **Project Finance:**

- Sponsors seek to raise money for the construction/ implementation of a project
- Lenders look principally to the cash flow generated by the operation of the project as the source of funds from which their loans will be repaid

- **Non-recourse nature:**

- The key feature of project financing is that it is “off balance sheet financing”
- Repayment of the project loans will be from the proceeds derived from the project, not from the Sponsor itself
- Usually no-recourse (or very limited recourse) to the assets of the Sponsor itself if the project loans are not repaid

Introduction to Project Finance

- **Security:**

- Usually the assets of the project: project contracts and the cash flow may also include land, equipment etc.

- **Varied nature of cash flow generated by project financings:**

- Oil Field Development - crude oil/gas
- Oil Refineries – refined petroleum products
- LNG Plants - Liquefied Natural Gas
- Power Stations - electricity
- Aluminium Smelters - aluminium
- Mining - gold/silver/copper etc.
- Roads - toll for the use of road
- Railway – fares
- Petrochemical Plants – PVC, Olefins, Fertiliser, Methanol

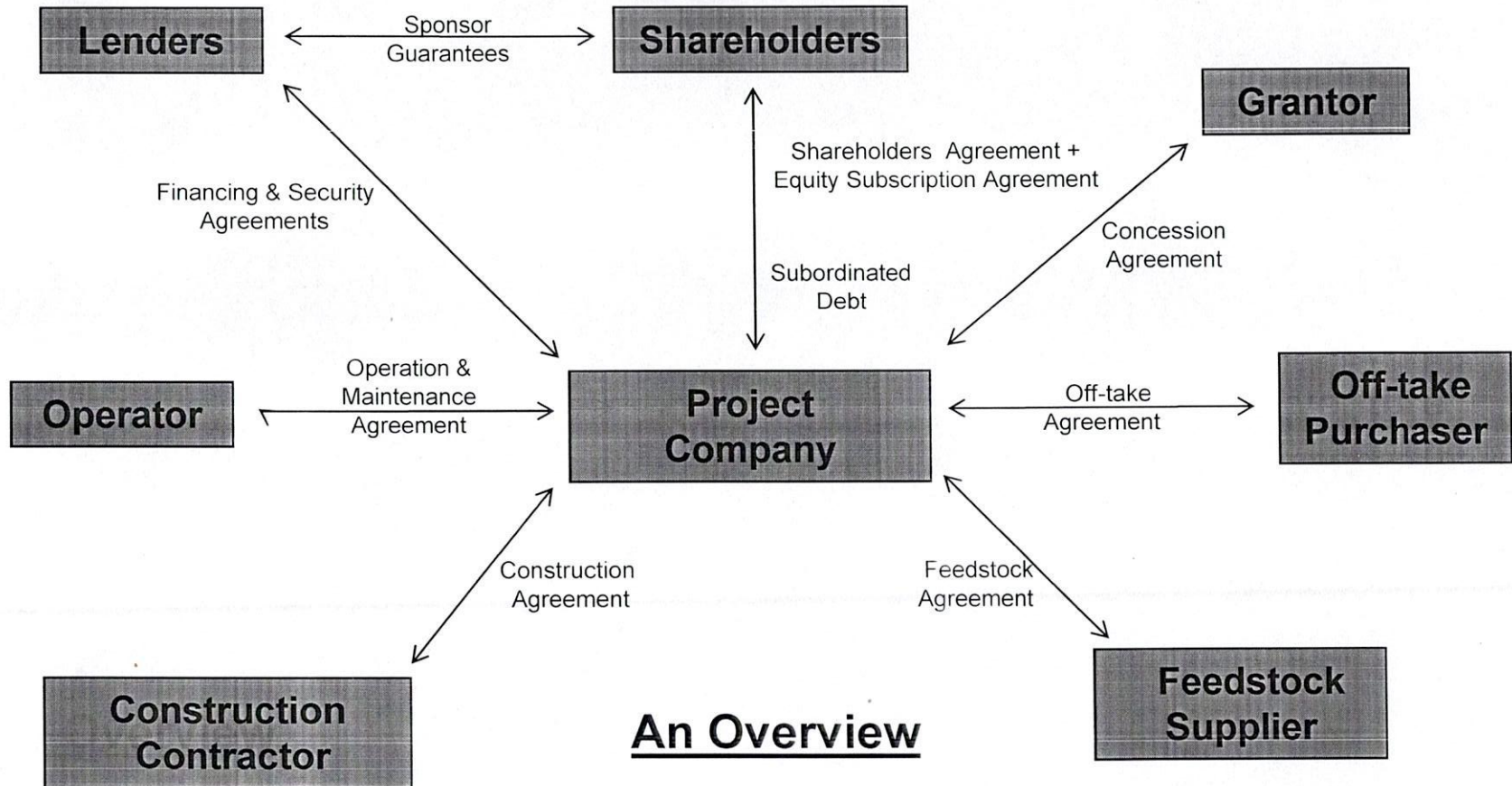
Project finance v. corporate finance

Project finance	Corporate finance
"Limited recourse" or "non-recourse"- loan to an SPV	Full recourse
More extensive lender risk (i.e. beyond non-payment of the debt)	Loan to an established corporate entity (or if an SPV, will typically be guaranteed by the parent for the life of the loan)
Debt repayment reliant on Project cash flow	Lenders rely on an established balance sheet and cash flows
Security over all Project assets	Credit analysis and rating
Detailed and time consuming economic and financial due diligence carried out by lenders with support of independent consultants	Usually unsecured
Comprehensive covenant package	Limited covenants (financial, cross default and negative pledge)
Relatively high fees and margins	Relatively lower fees and margins
Long term tenor	Short to medium-term tenor

When is project finance appropriate?

- **Sponsors unwilling to take long-term risk of project**
 - Unfamiliar, high-risk jurisdiction
 - Large project relative to size of sponsor's asset portfolio
- **Large capital plans**
- **Sponsors have limited "on balance sheet" debt capacity**
 - Rate of return
- **Joint venture**
 - JV partners have unequal financial positions
 - Concern as to whether one or more sponsors unable to raise required funds on an unsecured basis

Contractual Framework Overview



The Players and Key Issues (1)

- **Sponsors:**

- Recourse – sponsors want limited/non-recourse
- Shareholders in the Project Company
- Equity funding usually is subordinated to commercial lender debt
- Guarantee - may be given e.g. during Construction Phase

- **Government:**

- Grants Concession Agreement
- Both national and local government may be relevant – approvals etc.
- Political Risk
- Determines structure : BOT, BOO etc.

- **EPC Contractor:**

- Lump Sum Turnkey basis
- Strict Construction Timetable (Damages provisions)
- Must be Bankable - Contractor a good credit risk or a creditworthy guarantor

The Players and Key Issues (2)

- **Commercial Lenders:**

- Will want security over all Project Assets :
 - **Mortgages**
 - **Assignment of Contract Rights**
 - **Bank Accounts**
 - **Direct Agreements**
 - **Share Pledges**
 - **Insurance Assignments**
 - **Completion Guarantee**
- Intercreditor Agreement with ECAs and other lenders e.g. shareholders

The Players and Key Issues (3)

- **Export Credit Agencies (ECAs):**

- Entities established to promote the sale of goods and services from suppliers in their respective countries
- Why do they do it?
 - **Promoting sale of domestic goods and services**
 - **Premium – can be hefty**
- Environmental Issues – the Equator Principles
- Offer Political / Comprehensive cover
- OECD Consensus Rules – Average Life

The Players and Key Issues (4)

- **Suppliers:**

- Guaranteed Source of Raw Materials (oil, gas, alumina etc.)
- Foreign sourced supplies may allow for insurance against Political Risk with Export Credit Agencies
- Limits Market Risk

- **Offtake Purchaser(s):**

- Take or pay - Off-taker provides the key source of project revenues
- Limits Market Risk – Off-taker must be bankable
- Key issues: Non-termination / Pricing

- **Operator:**

- Project Operator must be bankable - experienced and creditworthy
- Banks often require right to replace Operator

- **Insurers/Reinsurers**

Project Finance: Documentation

- **Financing:**

- Loan Agreements
- Common Terms Agreement
- Intercreditor Agreement

- **Security:**

- Mortgages
- Assignment of Contract Rights
- Bank Accounts
- Direct Agreements
- Share Pledges
- Insurance Assignments
- Sponsor Support Documents

Project Finance: Documentation

- **Shareholders Agreement / Equity Subscription Agreement**
 - Formation and Control of Project Company
 - Conflict of Interest where Shareholders take more than one role
 - Confidentiality
 - Deadlock Provisions and Dispute Resolution
 - Share Transfer Restrictions
 - Subordinated Debt

- **Concession Agreement**
 - Granted by Governmental Authority
 - Quasi-monopolistic Advantage
 - Limits Political Risk - Gives the project the right to exist
 - Public / Private Partnerships
 - Build-Operate-Transfer (BOT)
 - Build-Own-Operate (BOO)

Project Finance: Documentation

- **Offtake Agreement - Power Purchase Agreement**
 - Guaranteed Product Market
 - Take or Pay Arrangement
 - Off-taker provides the key source of project revenues - must be Bankable
 - Limits Market Risk
 - May be structured to allocate Currency Risk
 - Pricing
 - Obligation as to where to pay sale proceeds (offshore)
 - Step-in rights of Lenders
 - Non-termination
 - Consent to Assignment

Project Finance: Documentation

- **Feedstock Agreement - Gas Supply Agreement**
 - Guaranteed Source of Raw Materials (oil, gas, alumina etc.)
 - Pricing
 - Limits Market Risk
 - Sourced supplies may reduce Currency Risk
 - Foreign sourced supplies may allow for insurance against Political Risk with Export Credit Agencies
 - Step-in rights of Lenders
 - Non-termination
 - Consent to Assignment

Project Finance: Documentation

- **Construction Agreement**

- Lenders will not take Construction Risk - allocated to Construction Constructor
- Engineering, Procurement and Construction
- Lump Sum Turnkey basis
- Strict Construction Timetable
- Liquidated Damages
- Must be Bankable - Contractor a good credit risk or a creditworthy guarantor
- Sourced supplies may reduce Currency Risk
- Foreign sourced supplies may allow for insurance against
- Political Risk/Commercial Risk with Export Credit Agencies
- Step-in rights of Lenders
- Obligations as to where to pay money due
- Non-Termination
- Consent to Assignment

Project Finance: Documentation

- **Operation and Maintenance Agreement**
 - Allocates Operation Risk
 - Operator must be Bankable - experienced and creditworthy
 - Balance between Incentives and Penalties
 - Direct step-in rights against the Operator
 - Right to replace Operator

- **Sponsor Support Documents**
 - Few Projects can be truly Non-Recourse
 - Covers non-Bankable Risks not otherwise allocated (often the Construction Phase)
 - Duration

Project Finance: Documentation

- **Direct Agreement**
 - Tax Undertaking
 - Exchange of Local Currency
 - Permission to Supply and Off-take
 - Continuity of Concession and Lender's step-in rights
 - Direct link to relevant players – Offtaker, Supplier, Contractor.
 - Consent to Assignment

What can be project financed? (1)

- **Oil and Gas Developments**

- Upstream : oil field development
 - **Sakhalin II (Phase 2) US\$11.3 billion project in Russia (Recently closed)**
- Mid stream : pipelines/refineries
 - **Nordstream Pipeline (Current)**
 - **Chad Cameroon Pipeline**
 - **Rabigh Refinery**
- Downstream: petrochemicals/ fertiliser plants/oil and gas terminals
 - **JSC Atoll in Kazakstan (current)**
 - **EBIC in Egypt**
 - **OMIFCO fertiliser plant in Oman**
- LNG facilities (LNG trains, unloading terminals/regasification plants)
 - **Qatargas II, 3 and 4 LNG Projects (recently closed) in Qatar**
 - **Damietta LNG Project (recently closed)**
 - **Brass LNG Project in Nigeria (current)**
 - **Nigeria LNG Plus – US\$1.06 billion project in Nigeria**

What can be project financed? (2)

- **Power Plants/ IPPs**
 - Enerjisa Coal Plant in Turkey
 - Iskenderun IPP \$1.45 billion project in Turkey
 - Shams Solar Power Project, Abu Dhabi
 - Rajasthan Solar Power Project, India
 - Shuweihat 3 Power Project, Abu Dhabi
- **Metals & Mining**
 - Qatalum - aluminium smelter project in Qatar
 - EMAL (recently closed) - aluminium smelter project in UAE
 - Sohar - aluminium smelter project in Oman
- **Water /Wastewater/ Sewerage Plants**
 - St Petersburg Waterworks approx US\$200 million project in Russia
 - Dar es Salaam water and sewerage plants project in Tanzania

What can be Project Financed? (3)

- **Infrastructure**

- Rail
 - **Tours to Bordeaux High Speed Railway Project**
- Roads
 - **Ivory Coast Toll Bridge, Ivory Coast**
 - **Mexican toll Road - \$4 billion 30-year toll roads concession in Mexico**
 - **Indiana Toll Road - \$3.8 billion Indiana Toll Road project in the US**
 - **M5 Phase 2 Motorway Project, Hungary**
- Airports
 - **Madina Airport Project, Saudi Arabia.**
 - **Hajj Terminal, Saudi Arabia**
- Ports
 - **Damietta Container Terminal in Egypt**
 - **Caucedo Port Project in Dominican Republic**
- Petrochemicals
 - **Sadara Petrochemicals Project, Saudi Arabia**
 - **Eleme Fertilizer Plant in Port Harcourt, Nigeria**
 - **TCI Chemicals Plant in Port Said Egypt**

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