

A Banker's Perspective on Financing FiT Projects in the UK

BDO Feed In Tariff Seminar 2010

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An introduction to Investec

Key Features

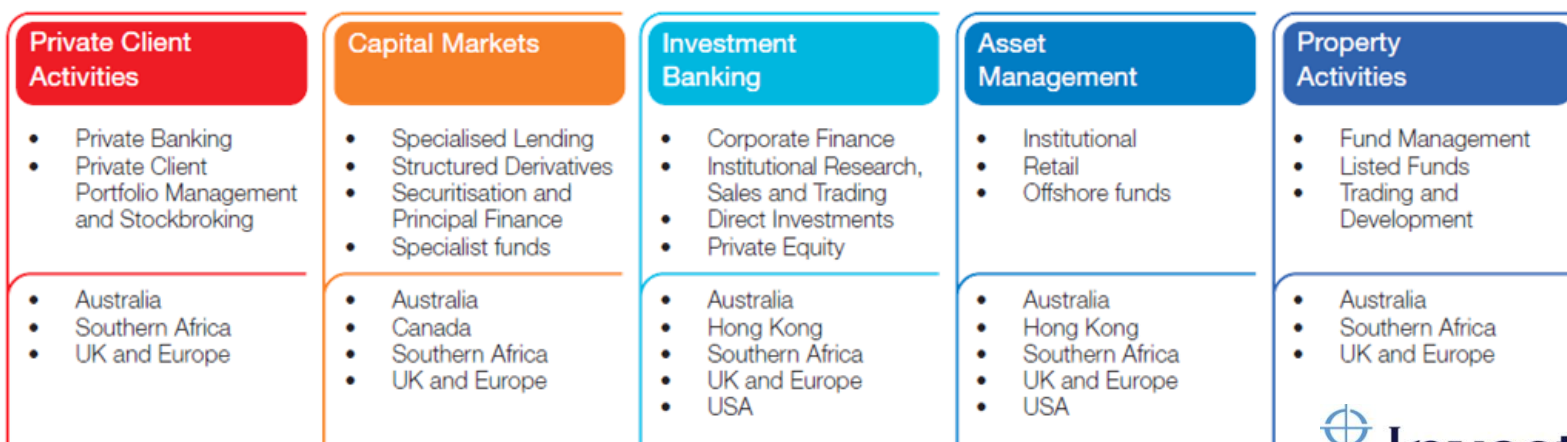
- Specialised Investment Bank
- Core market coverage: Europe, North America, Australia and New Zealand, Southern Africa
- Over 6,000 people in the group
- Market cap c.£3.8 bn (as at March '10)

Approach

- Client/Relationship focused
- Not “all things to all people”
- Sector specialisation
- Strength and flexibility

Financial Features FY 2009

- Operating profit* before impairment losses on loans and advances increased 4.8% to £652.9 m
- Operating profit* before taxation decreased 22.0% to £396.8 m
- Adjusted earnings attributable to shareholders* decreased 21.9% to £269.2 m
- Recurring income as a % of total operating income increased to 70.0%
- Core loans and advances to customers increased 26.2% to £16.2 bn
- 3rd party assets under management decreased by 7.4% to £48.8 bn
- Customer deposits increased 20.1% to £14.6 bn



The FiT Market

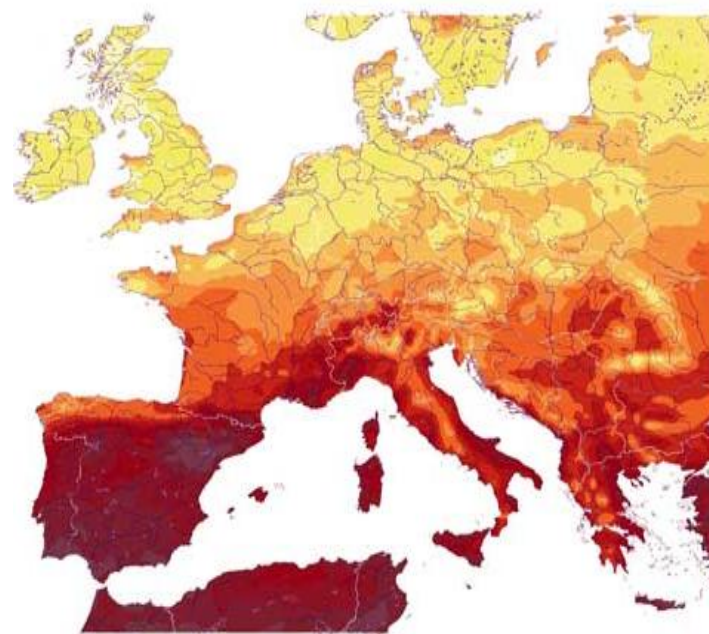
The UK is a latecomer to the FiT party

- Other EU countries have led the way with feed in tariffs for
 - Solar PV
 - Wind, both small and large scale
 - Biomass, CHP and other peripheral technologies
- Of these, Solar PV will be by far the biggest growth market under the FiT's
 - We estimate that over the next 18 months the UK will install 1- 2GW of PV, representing a total investment of £2.5 – 5.0bn
 - A large proportion of this will be domestic installations and industrial roof mounted schemes as opposed to multi megawatt schemes which dominate in southern Europe
 - Competition will be high amongst installers, maintenance providers, equity investors and developers

Barriers to investing / lending in FiT projects in the UK

Where are the projects?

- UK development process
 - Planning (particularly wind)
 - Grid connections
 - Ticking clock on tariff ramp-down
- Regulatory stability
 - Generally positive with good structure / visibility
 - Some regulatory holes / lack of legislative detail
- Key issues
 - Timing of grid connection / Disco response time
 - Process / investment and funding structure
 - Project leveraged / unleveraged returns



Financing UK FiT Projects (I)

- The Project Financing Model
 - The majority of industrial scale FiT projects are financed using project finance principles and structures
 - Limited / non recourse financing without corporate support but secured against the long term cash flows generated by the FiT
 - Projects can be funded from construction using high levels of leverage (circa 80%), long fully amortising tenors and an attractive cost of borrowing
 - There is a long track record and experience in project financing FiT based renewable projects in Europe – a dependable financing source for UK FiT's

Financing UK FiT Projects (II)

- The Project Financing Model
 - Issues
 - Project finance is a prescriptive form of financing requiring certain standards in structure, documentation and contractual counterparties to minimise the risk profile (e.g. turnkey construction contract)
 - Size of projects or portfolios is important as the costs of a project finance transaction can be prohibitive to smaller scale projects
 - Project finance is not suitable for new or unproven technology

Financing UK FiT Projects (III)

Other forms of financing

- To address smaller size projects, Investec is currently testing market appetite for a standardised project financing package structured in a similar way to residential mortgage transactions and processes
 - Standard finance and commercial documentation
 - Fixed commercial terms including borrowing rates and tenors
 - A simplified application and transaction process akin to mortgage borrowing
 - Targeted towards large scale residential and small scale industrial / commercial projects

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