

Conning has been mandated to design investment funds for certain countries.

The following presentation is designed to answer the question of which projects are bankable.

This is not meant to be definitive and Conning will be pleased to provide further clarification.



UNECE Investment Fund Designer

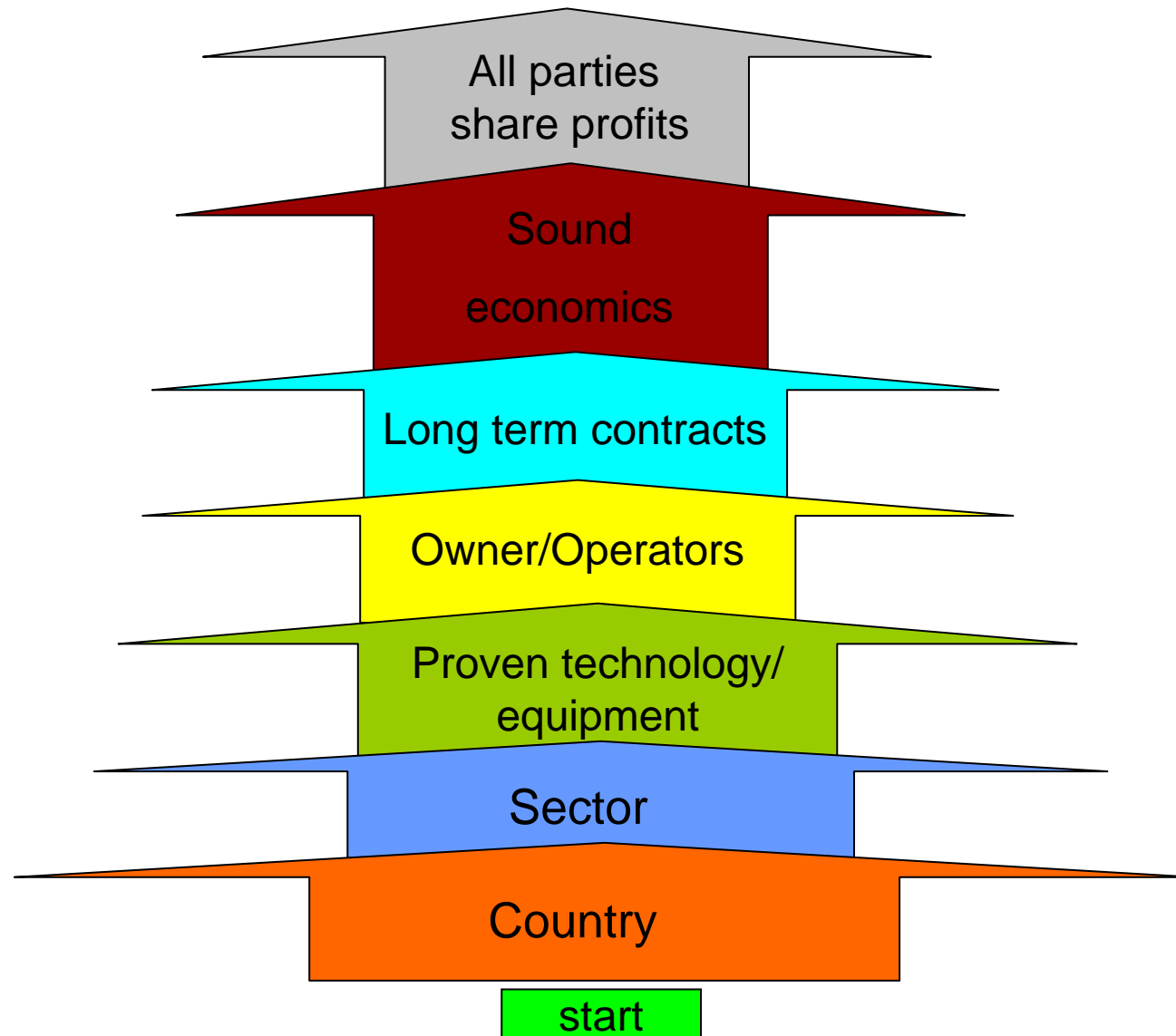
What is a Bankable Project?

Presented by

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UNECE - What is a Bankable Project?

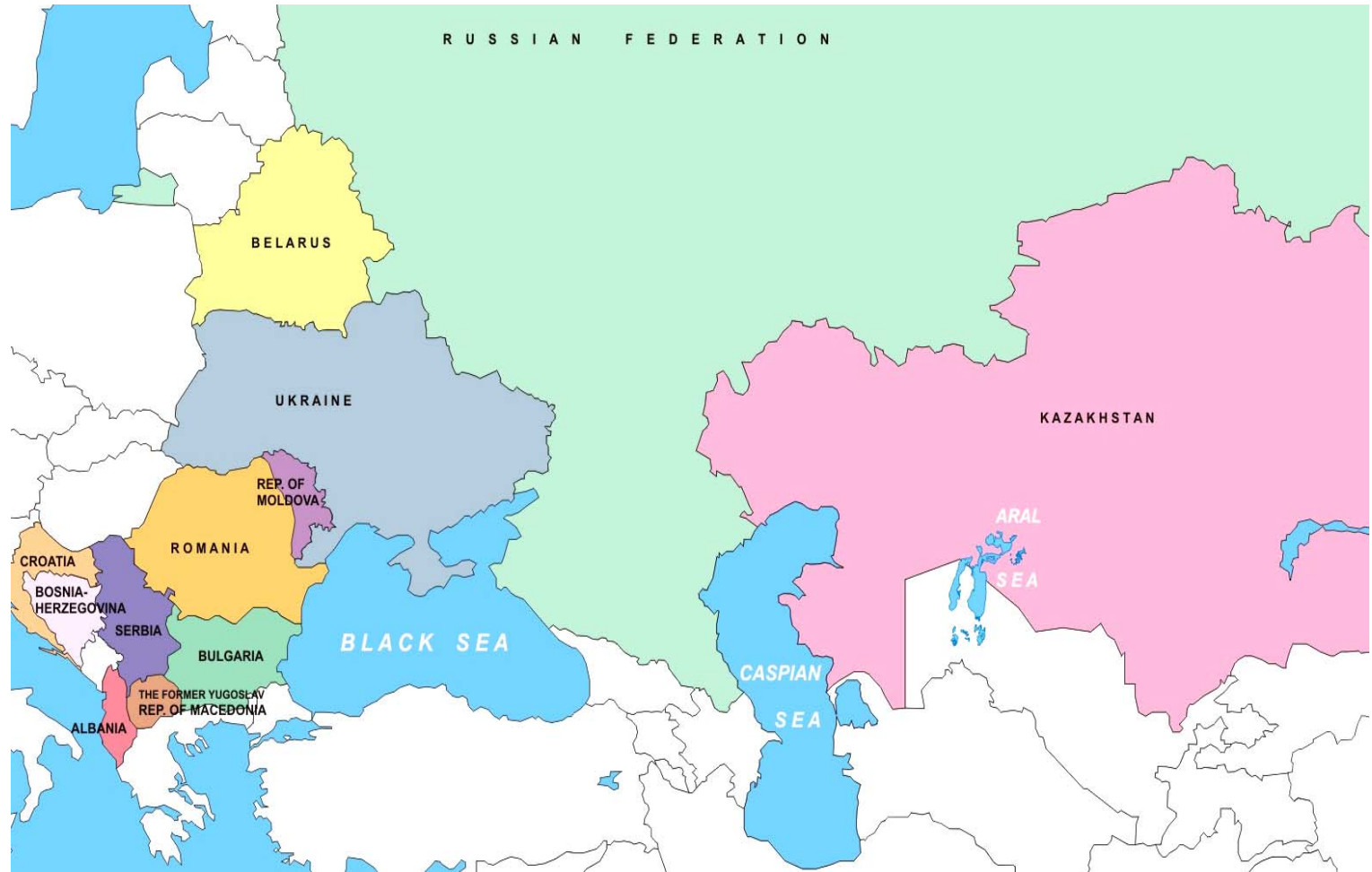




UNECE - Where is project – country?

The project needs to be in:

- Albania
- Belarus
- Bosnia and Herzegovina
- Bulgaria
- Croatia
- Kazakhstan
- Former Yugoslav Republic of Macedonia
- Republic of Moldova
- Romania
- Russian Federation
- Serbia
- Ukraine



IF NOT, IT CANNOT BE CONSIDERED

end

continue

UNECE – Does the sector qualify?

- ❖ For example, for power projects is it renewable or clean?
- ❖ For energy efficiency, does it reduce energy consumption or shift time of use?

Types of renewable and clean projects: Wind energy, solar energy, hydro-electric, biomass, cogeneration, combined-cycle, fuel switching, geothermal, clean coal, waste-to-energy, district heating and electric, waste fuel, combined heat & power (CHP), efficiency retrofit and related projects and companies.

IF NOT, IT CANNOT BE CONSIDERED

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UNECE - What is the technology?

- ❖ Is it a known and proven technology?
- ❖ Is it used by others successfully?
- ❖ Is it built by a creditworthy firm?
- ❖ Are the supplier warranties creditworthy?

IF NOT, IT CANNOT BE CONSIDERED

end

continue

UNECE - Who is the owner / operator?

- ❖ Is the owner/operator experienced in the sector?
- ❖ Are they financially viable as an operator?

IF NOT, IT CANNOT BE CONSIDERED

end

continue



UNECE - Who are the project owners?

- ❖ Will they invest in the project?
- ❖ Do they have experience with similar project technology?
- ❖ Do they have experience in the region?
- ❖ Do they have a financial incentive to meet/improve on the base case?

IF NOT, IT CANNOT BE CONSIDERED

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UNECE - Is there a cash generation source?

- ❖ Is there a long term off take contract in place?
- ❖ Does the contract allocate economic and operational risks fairly?
- ❖ Is the payer creditworthy?

IF NOT, IT CANNOT BE CONSIDERED **end**

continue



**A project which reaches
this stage
should be bought forward!**

UNECE – What happens next?

- ❖ A project description is needed
- ❖ A financial model will be requested

What is a project description?

What is a financial model?



UNECE - What is a project description?

- ◆ A detailed written description, including the following
 - ❖ The country and location of the project
 - ❖ The sector and how the project fits into the sector
 - ❖ The technology used by the project
 - ❖ Description of the owner/operators
 - ❖ Track record of the operators
 - ❖ Description of the long-term cash generating contracts



UNECE - What is a financial model?

- ◆ Summary of the project economics
 - ❖ Revenue
 - Contracted revenues
 - Tax incentives
 - Potential incremental revenue
 - ❖ Expenses
 - Operations and maintenance
 - Management & employees
 - Parts, overhaul / replacement account
 - Fuel
 - Taxes
 - Rent/Lease
 - Cost of Financing

UNECE – Debt Characters

- ◆ Senior Debt:
 - ❖ Has fixed repayment amounts
 - ❖ Has fixed repayment dates
 - ❖ Has a fixed term

- ◆ Mezzanine Debt:
 - ❖ Has unknown repayment amounts
 - ❖ Has a fixed term
 - ❖ Has minimum repayment amounts

- ◆ Equity:
 - ❖ Has unknown dividend payments
 - ❖ Has an unknown term
 - ❖ Has unknown residual value

◀ UNECE – What is IRR?

$$NPV = \sum_{t=0}^N \frac{C_t}{(1+r)^t} = 0$$

$$-IN + \frac{C_1}{(1+IRR)^1} + \frac{C_2}{(1+IRR)^2} + \frac{C_t}{(1+IRR)^t} = 0$$

$$EUR7m + \frac{C_1}{(1+17\%)^1} + \frac{C_2}{(1+17\%)^2} + \frac{C_t}{(1+17\%)^t} = 0$$

Where C is the post-debt servicing free cash flow.



UNECE - What is IRR?

- ◆ It allows a project to happen
- ◆ It grants flexibility to the debt financing
- ◆ It meets investor needs i.e. long-term but worthwhile returns
- ◆ It is not expensive; market rates ensure competitors don't step in
- ◆ It has advantages over equity finance, which can be expensive

- ◆ What is self amortisation?
 - ❖ Self amortisation is the single most important factor which allows for the financing of a project to happen, as it defines the base case while it allows for up-side events like an IPO* or trade sale

* IPO = Initial Purchase Offering of shares in a company

The project generates cash sufficient to repay its debts and provides as acceptable return to equity without a sale or other exceptional event or improvement in contractual terms.

Conclusion

- ◆ National economies benefit from greater supply efficient i.e. lower cost
- ◆ Society benefits from good resource allocation, more from less
- ◆ Efficient regulatory structures permit more projects to be built
- ◆ Efficient financial structures encourage asset transfers to the most efficient operators

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