

Methane to Markets
Project Finance Workshop
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Essentials of Project Finance

Requirements for a Capital Markets Financing

- ✓ Sound project fundamentals
- ✓ Proven technology
- ✓ Well-defined operating costs and capex
- ✓ Solid sponsorship
- ✓ Successful track record
- ✓ Knowledge and commitment to the sector
- ✓ Robust project economics
- ✓ Ability to meet scheduled debt service
- ✓ Clarity on tax regime

Investors will be receptive to credits that meet the above criteria.

Keys to Mobilizing Project Financing:

Why is debt financing important:

- ✓ Delivered cost of power, water, oil&gas is dominated by cost of capital, then cost of fuel, and then other costs
- ✓ Debt financing structure has the biggest single impact in lowering overall cost of capital for a project

What debt investors like:

- ✓ Sponsor track record and readiness to put capital at risk
- ✓ Long-term contracts with fixed profit margin
- ✓ Credit-worthy counterparties

What is hard to lend against:

- ✓ Commodity price risk
- ✓ Spot market volatility
- ✓ Regulatory out clauses

In the past few years, capital markets have become increasingly receptive to financing renewable credits, a sector that has historically been dominated by banks.

Capital Markets Renewables Financings Since 2003

DATE	PROJECT	SECTOR	FINANCING	AMOUNT
Feb '05	Hawkeye Renewables	Ethanol	Institutional Loan	\$185mm
Feb '05	FPL American Wind	Wind	Inv. G. and HY Bonds	\$385mm/\$100mm
Feb '04	Omat Funding	Geothermal	Inv. G. Bonds	\$190mm
Dec '03	FPL National Wind	Wind	HY Bonds	\$125mm
Jun '03	FPL National Wind	Wind	Inv. G. Bonds	\$380mm
Nov '03	American Ref-Fuel II	Waste Energy	HY Bonds	\$225mm
Jun '03	American Ref-Fuel I	Waste Energy	HY Bonds	\$200mm

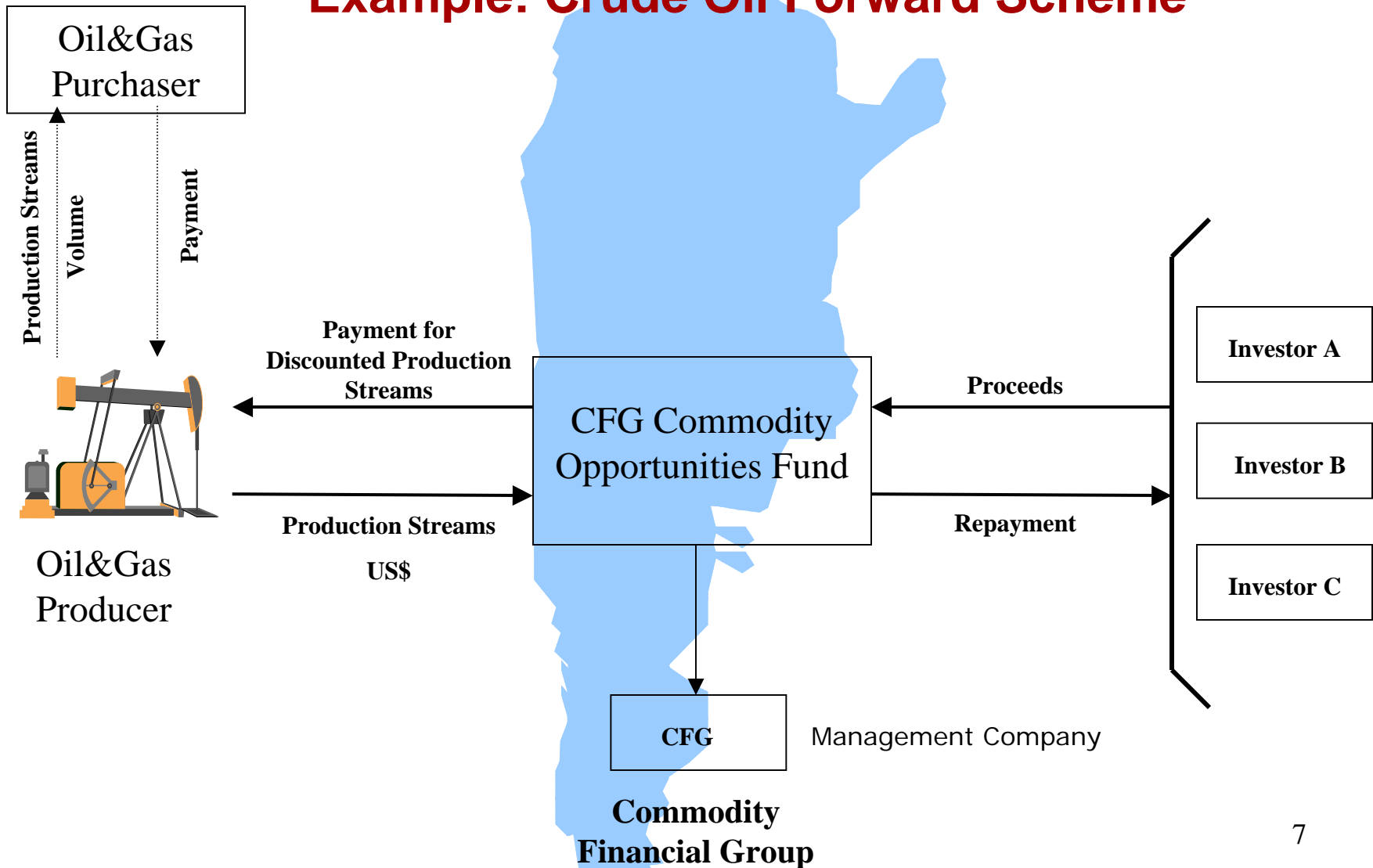
Critical issues for financing projects with private funding

- ✓ **Some emerging countries lack long-term stability, a fundamental requirement for private investors and creditors.**
- ✓ **Projects are constrained not only by economic & financial feasibility parameters, but also by political and social provisions: i.e. tariff as a key electoral argument, affordability by end-users, long term political support.**
- ✓ **Projects are often promoted by local authorities, with long term-undertakings and creditworthiness sometimes difficult to assess by private funders.**
- ✓ **Experience has shown that macro-economic risks (foreign exchange in particular) cannot be mitigated by contracts, when host countries face major economic crises.**

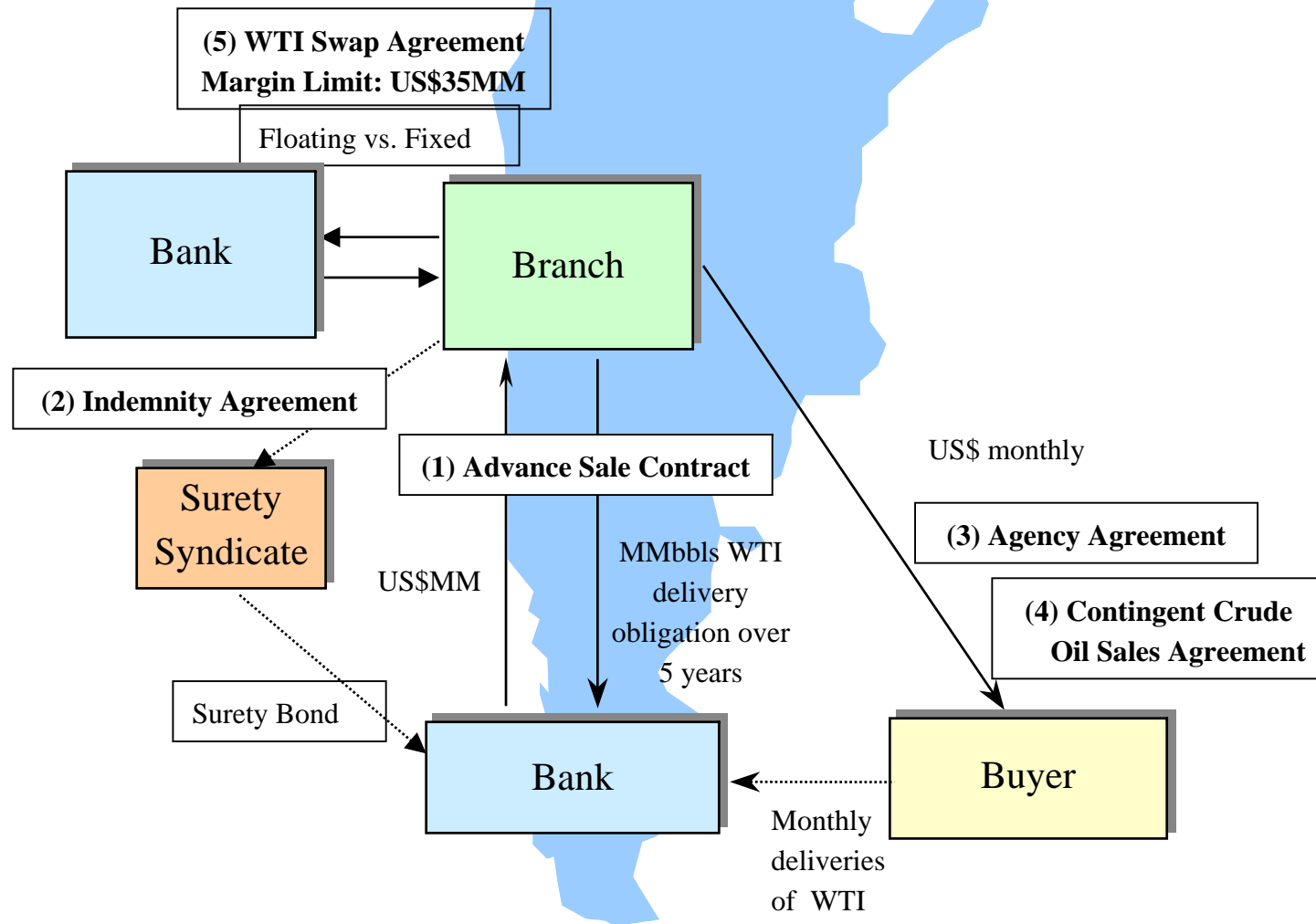
Example: Crude Oil Forward Sale Agreement

- ✓ Target Lessors: Top Tier Export Commodity Companies.
- ✓ Through Forward Sale Agreements (FSA) and short-term financial instruments (STFI) issued in connection with commodity trade finance transactions on a global basis.
- ✓ Transaction size between \$5 and \$10 MM.
- ✓ Companies with successful Debt Re-Structuring.
- ✓ Focus on Companies that export at least \$30 MM.
- ✓ Maximum exposure ratio (FSA/Export) of 20%.
- ✓ Companies ability to enter other FSAs will be limited by our contract covenants.

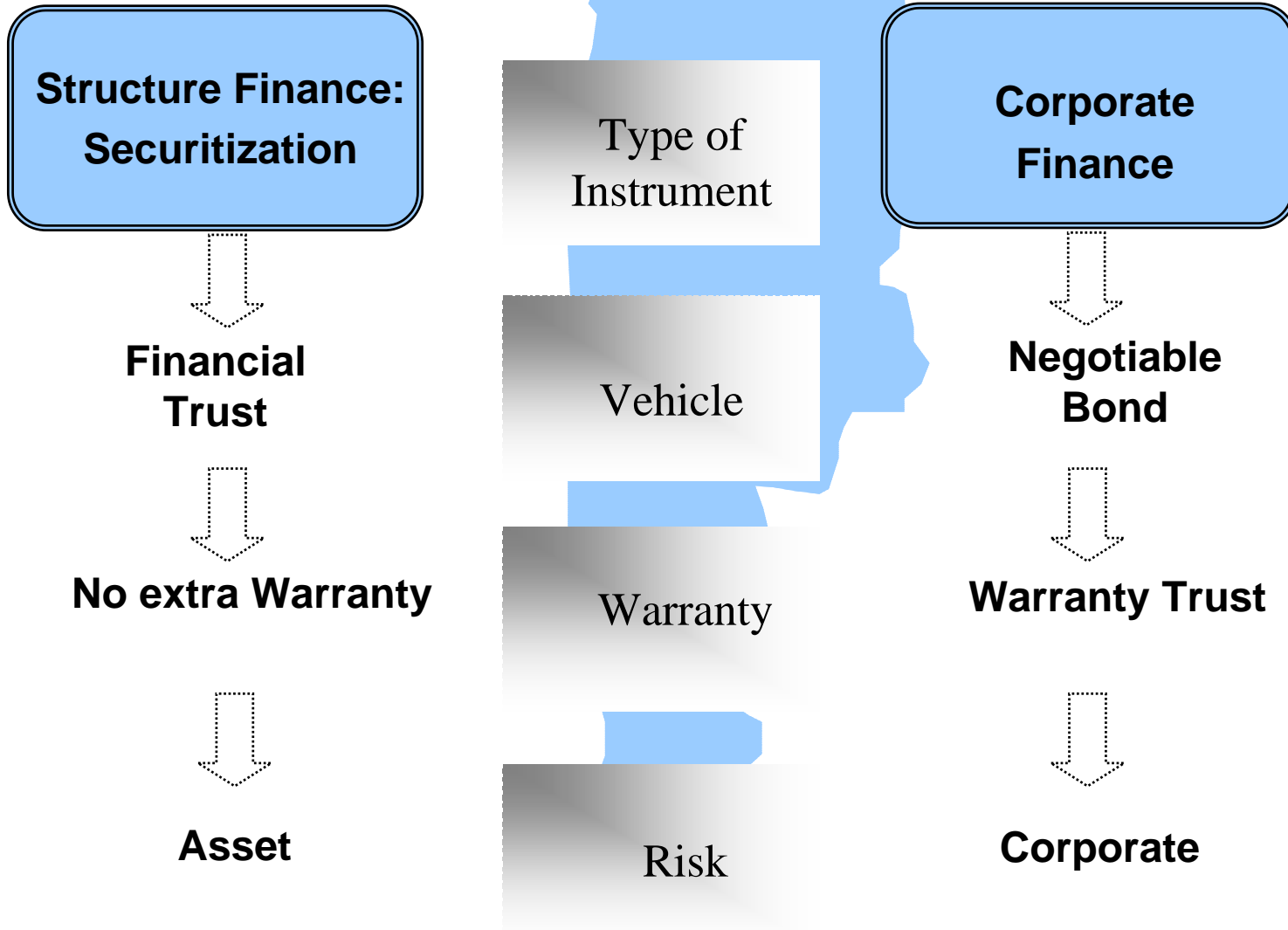
Example: Crude Oil Forward Scheme



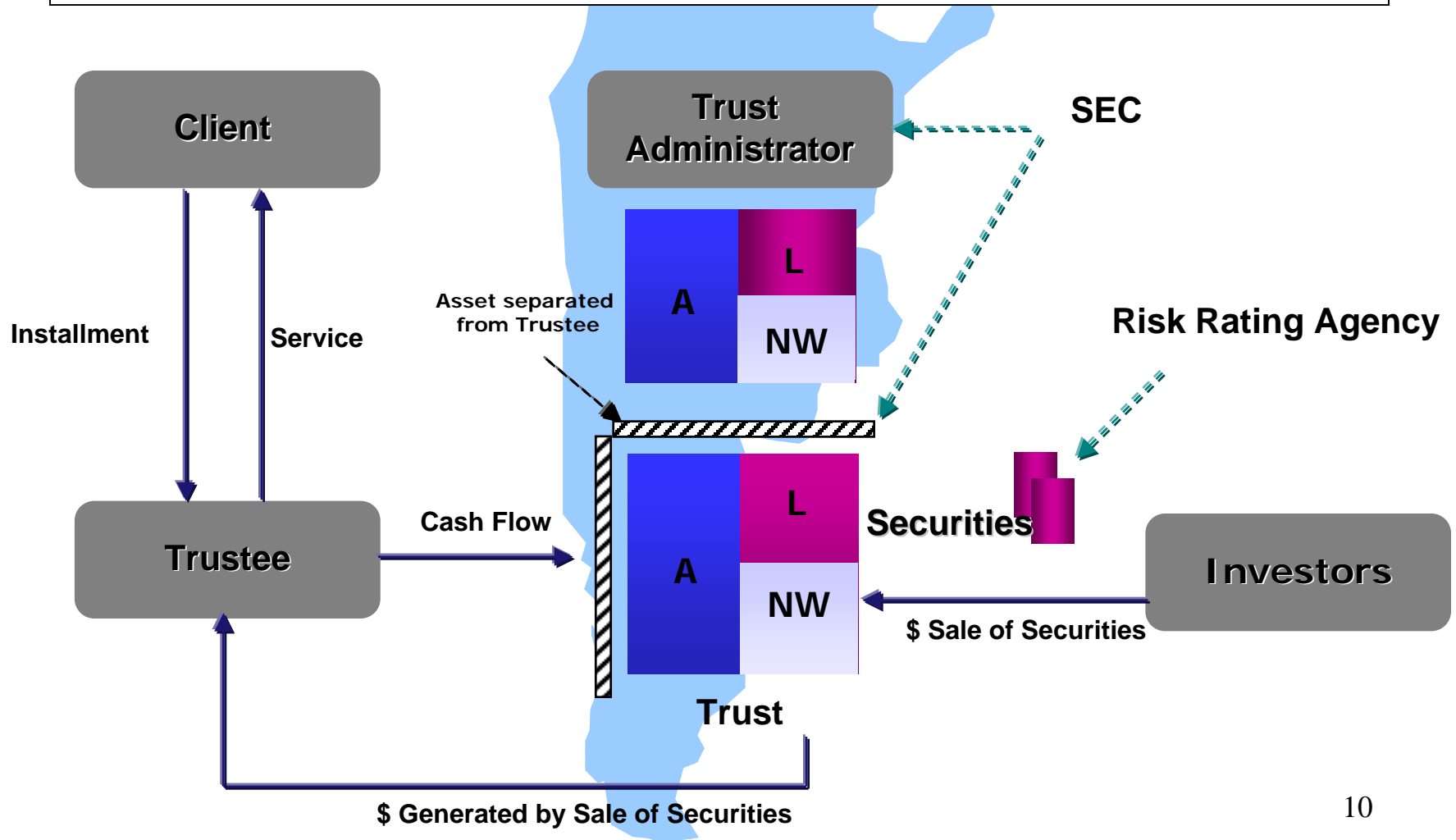
Example: Crude Oil Forward Sale Agreement



Example: Financial Trusts



Financial Trusts: Functional Scheme



Participants of Financial Trusts

- ✓ Organizer
- ✓ Trust Administrator
- ✓ Financial Advisor
- ✓ Legal Advisor
- ✓ Security Sale Agent
- ✓ Servicer
- ✓ Audit Company
- ✓ Risk Rating Agency