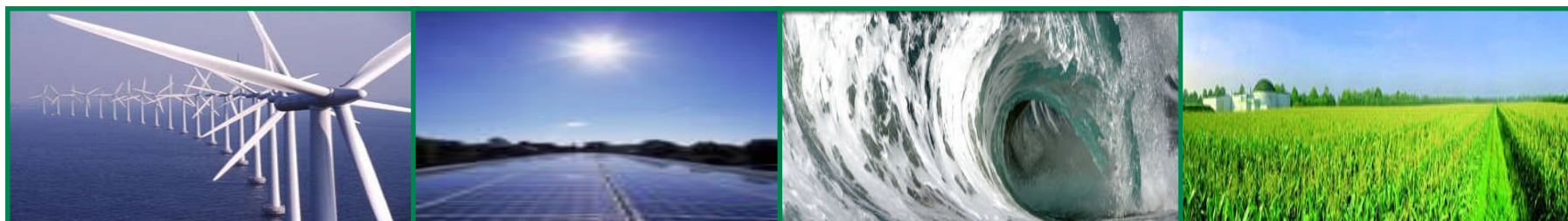


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ALL-ENERGY 2010

Financing Trends in the UK renewable energy sector

20th May, 2010

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Lloyds Banking Group

- ❑ Established in January 2009, and brings together two teams with an excellent track record over the last 7 years with
 - Approximately £2.4bn of arranging / underwriting to the renewables sector to date;
 - Arranging / Underwriting positions in over 40 projects in the renewables sector;
 - Lender to c. 6 GW renewable generation – equivalent to approximately 2 times the total installed UK wind capacity (enough to supply over 3 million homes); and
 - Pro-active roles with the media and key industry bodies and events, such as the RenewableUK, WEF, Carbon Trust, Waste & Wind Conferences and actively engaging with DECC on the Renewable Energy Strategy consultations



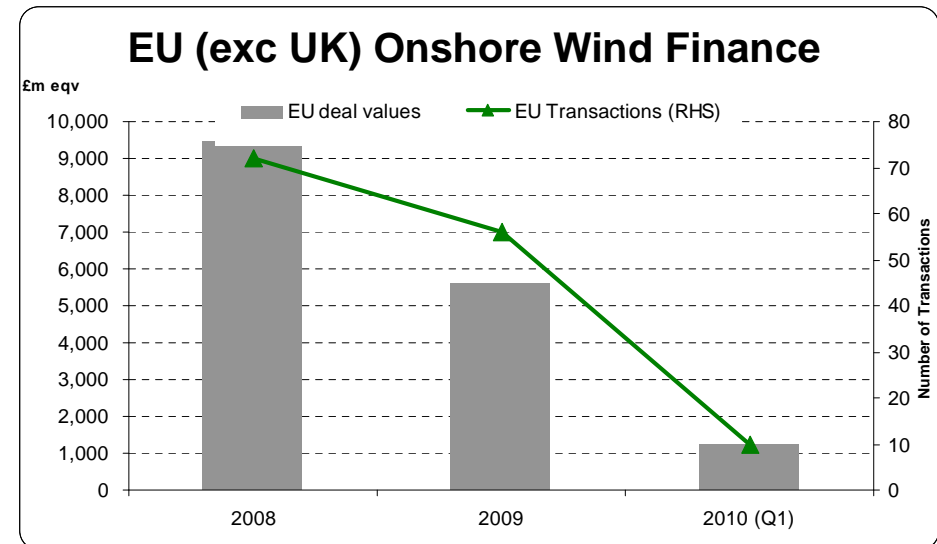
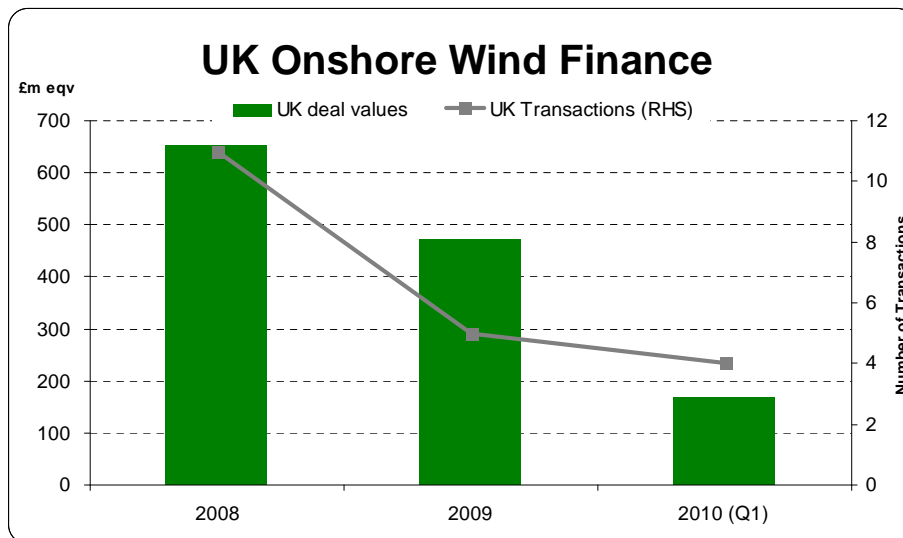
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Historic Renewable Energy PF Overview

- Significant downturn evident in the UK in H1 2009 following very positive growth period historically
- The impact can be seen very clearly in the both deal value and transaction numbers across both the UK and the EU in the most established renewable energy market – onshore wind



Source: IJ Online, Bloomberg New Energy Finance

Capital Investment Estimate to 2015 & 2025

UK Energy Industry



	2009 - 2015 £bn	2016 - 2025 £bn	Total £bn
Renewables Generation	40.4	44.5	84.9
Nuclear Generation	7.7	28.9	36.6
Carbon Emissions Reduction Target (CERT) / Supplier Obligation (SO)	7.3	8.5	15.8
Grid reinforcement / interconnection	4.9	7.5	12.4
Offshore Electricity Transmission	5.7	4.1	9.8
Smart Metering	3.4	5.9	9.3
Gas Storage	7.6	1.1	8.7
Coal with CCS Generation	1.9	5.4	7.3
Gas Generation	7.1	0.1	7.2
Other infrastructure	4.2	2.8	7.0
Total	90.3	108.7	199.0

Source: Ernst & Young (July, 2009)



Financing Market Overview (1)

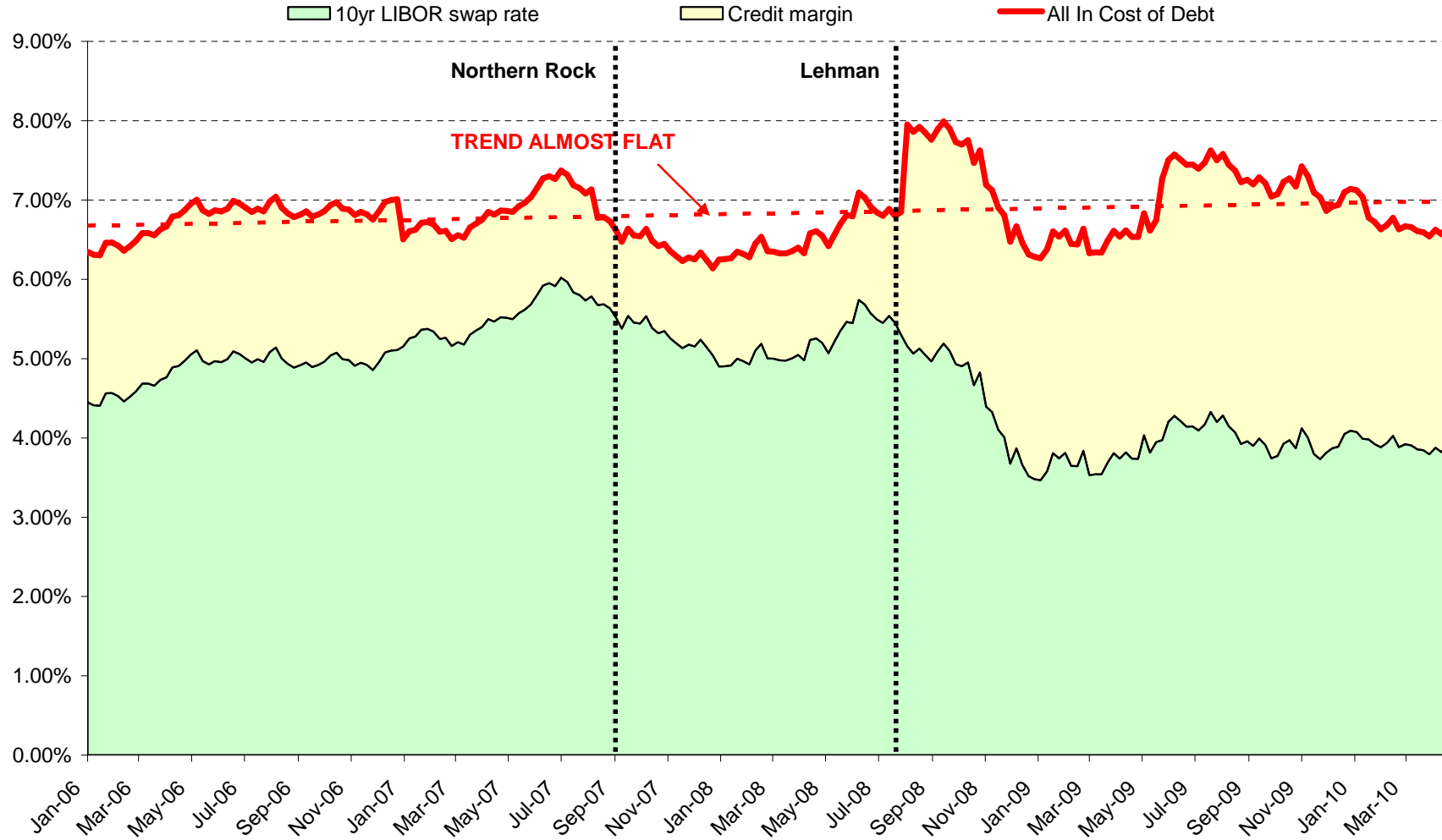
- Lower growth & volume in 2009 **BUT** underpinned by global mega trends
- Project Finance (PF) more resilient than other financing businesses
- UK 2009 remained open for lending albeit at much reduced levels e.g. Boreas
- Banks have been diverting resources into PF due to:
 - perceived lower risk profile and reduced capital requirements under Basel II
 - recognition of significant, non-discretionary investment needs in key sectors
- Higher margin environment driven by a function of reduced liquidity & cost of funding rather than pure credit risk – needs to remain attractive to PF and Investor Markets
- Challenges to be faced:
 - i. Continuing high long term liquidity costs above LIBOR
 - ii. Capital requirements post Basel II
 - iii. Balance sheet management and the need to recycle capital
 - iv. Continued lack of underwriting market
- However - All-in cost of debt relatively unchanged

PF MARKET REMAINS OPEN – DEALS ARE BEING DONE

Indicative Onshore Wind farm “All-in” Cost of Debt



Wind Farm Finance - Indicative All-in LIBOR Cost of Debt (including Credit Interest Margin)



*Note: Excluding any EIB pass through Benefit



Financing Market Overview (2)

- The normally broad selection of active PF banks has narrowed with significant retrenchment into home markets
- 3 broad categories evident:
 - Banks that cannot lend
 - Banks that can lend, albeit constrained by legal tenor
 - Banks that can lend long term
- Direct correlation between size of deal and ability to fully (100%) fund:
 - Larger deals more likely to need structural enhancements/modifications
 - Larger club deals require core banks to take larger tickets and structuring
 - Alternative distribution channels being explored by PF Lenders
- UK deal size currently constrains underwriting requirement
- Evidence of greater collaboration amongst key public and private sector stakeholders
- Emergence of multi-laterals such as EIB and co-funding by HMG alongside commercial lenders; for example, EIB UK Renewable Financing Programme

LATE 2010/11 BIG OFFSHORE WIND & BIOMASS PROJECTS INSTIGATE RETURN TO SOFT UNDERWRITING



UK EIB Intermediated Lending Scheme

- Launched in November 2009, LBG is one of three Banks selected to provide up to £1bn of EIB financing to the UK Onshore Wind Sector over the next three years
- The funding is part of the proposal £4 billion of EIB lending to support UK energy projects and is focused solely on the UK onshore wind sector
- To date, successfully utilised on UK projects with the projects benefiting from the pass through of benefit saved on the cheaper EIB funding proportion - equating 50% of Total Investment Costs
- Designed to support the role out of projects with:
 - Cost-effective electricity production;
 - Planning consent including compliance with all UK environmental laws;
 - A firm connection date.

NET RESULT: IMPORTANT LIQUIDITY RETAINED IN ONSHORE WIND MARKET



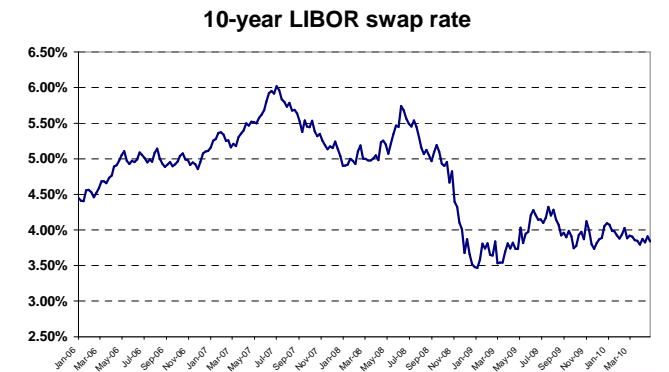
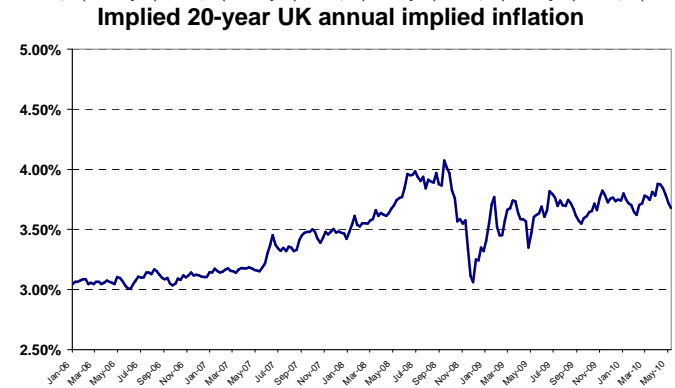
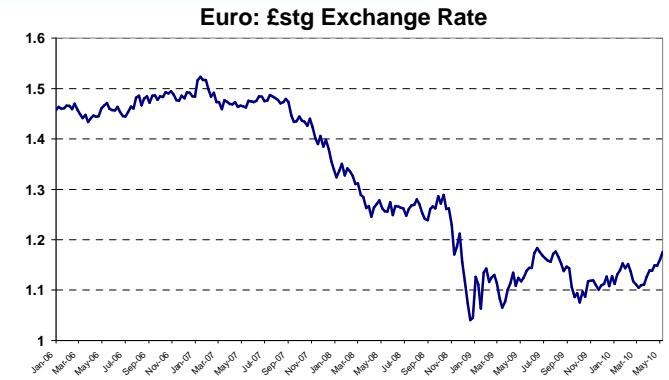
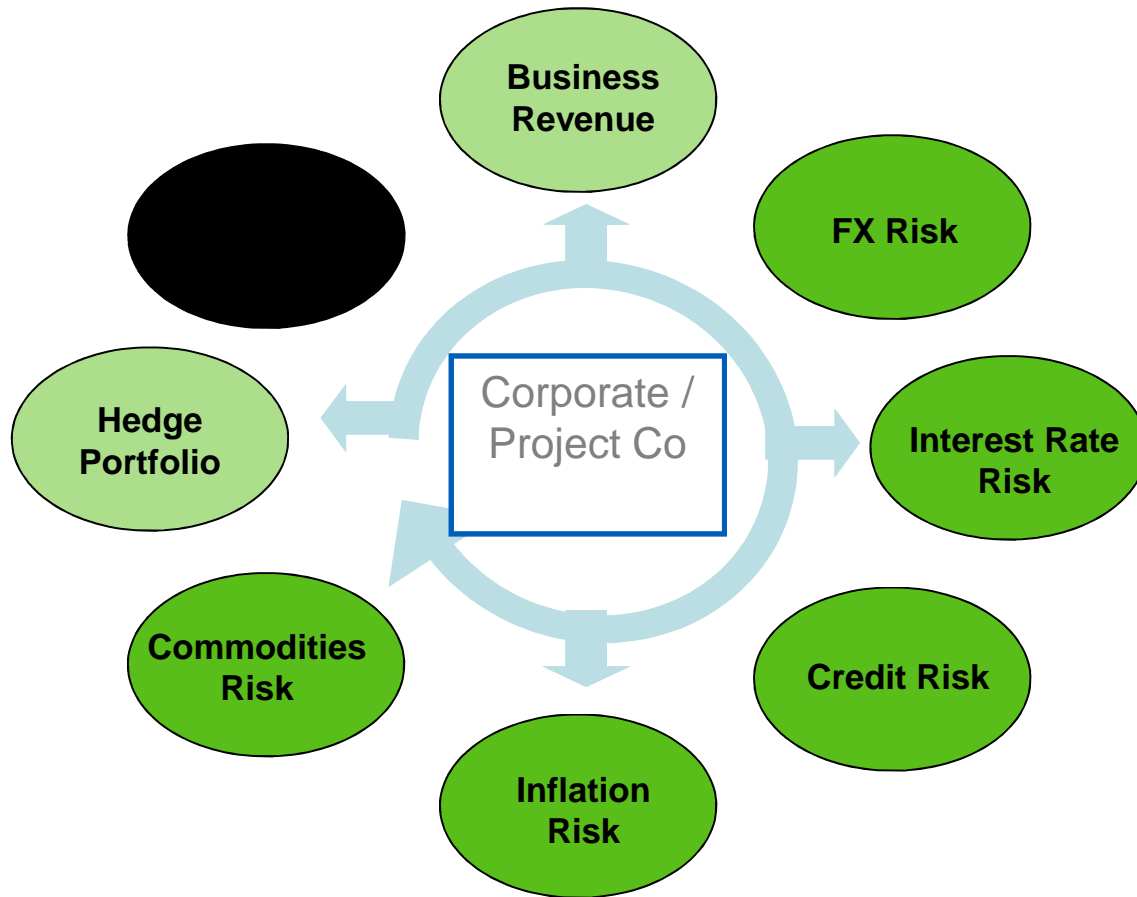
Common Themes & Behaviours (1)

- Relationship banking in the ascendancy
 - ‘Through-the-Cycle’ relationship lenders to the fore
 - Trusted partners that can offer both sound advice & balance sheet commitment in times of increased volatility and uncertainty
- Flight to quality
 - PF banks will not accept aggressive structures
 - Little appetite for off-market terms – able to “cherry pick”
 - Precedent important – the more ‘proven’ the better
- Banks looking to maximise the efficiency of funding
 - Trend for shortening tenors becoming less pronounced
 - ‘Top Table’ economics being sought
 - Loan & Hedging economics required
 - But Banks need the ability to manage balance sheet requirements with enhanced transferability provisions to increase liquidity in the market
- Bank are ultimately looking for ‘winning combinations’ in increasingly volatile markets

WINNING COMBINATIONS = CLIENT + SECTOR + STRUCTURE + RETURN

Increased Market Volatility

- Holistic review of risks required on a Project and Corporate Basis

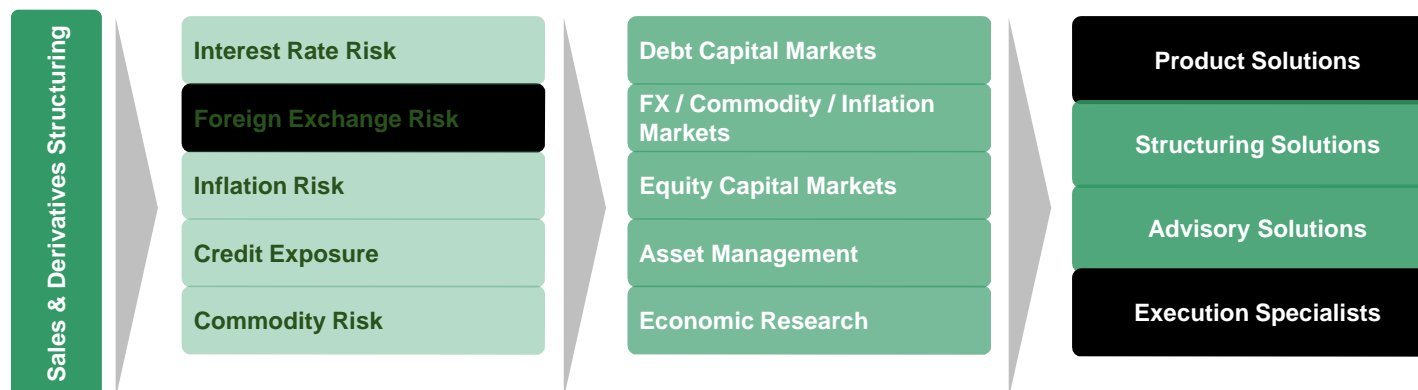




Improved Corporate and Project Risk Management

- **Increased macro market volatility means Treasury management critical**
- **Sponsors need to engage Lenders and advisors early to discuss and structure customised risk solutions**
- **These are specifically important to:**
 - Lock-in expected Project economics whether through acquisition, or both pre and post financial close
 - Hedge primary market risks such as interest rate and foreign exchange but also hedge across a wider range of financial risks such as inflation, credit (country and counterparty) and commodity exposures etc
 - Execution strategies, driven by transaction size, needs to be managed to prevent market distortion

Treasury Alignment in the Lloyds Banking Group Framework





Common Themes & Behaviour (2)

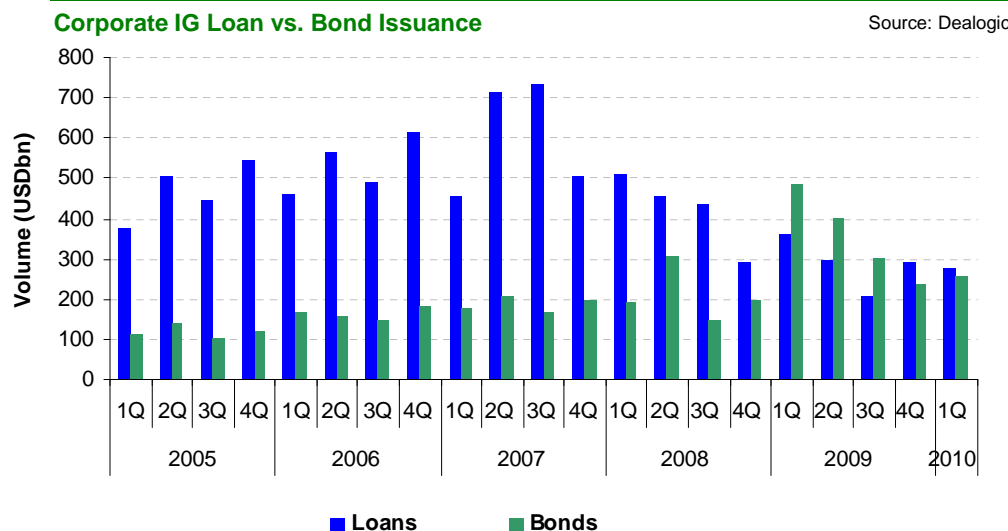
- **Increasing focus on key markets & sectors**
 - Resources are being redirected towards 'Home' and 'Close to Home' markets
 - Energy infrastructure viewed as attractive given significant potential for PF market
 - Use of scarce intellectual capital needs to be maximised on "leading" projects
- **'Merit Order' of opportunity**
 - Important for sponsors and authorities to engage early and differentiate strong projects
 - Visibility required around future projects across sectors to attract capital e.g. WIP
 - Potential 'Achilles Heels' need to be identified and mitigated early on as Banks become increasingly selective
- **'Winners' emerging amongst the trinity of low carbon technologies**
 - Renewable energy viewed favourably by PF lenders but ongoing support by HMG required
 - CCGT also well understood and likely to 'take strain' given inherent flexibility & carbon benefits
 - Grid opportunities (e.g. OFTOs) will draw interest from PF lenders together with gas storage and smart meter deployment
 - Nuclear new build in process but unlikely that PF will be funding solution during construction phase

WE ARE A BANK THAT IS SUPPORTING OUR CUSTOMERS THROUGH THE CYCLE

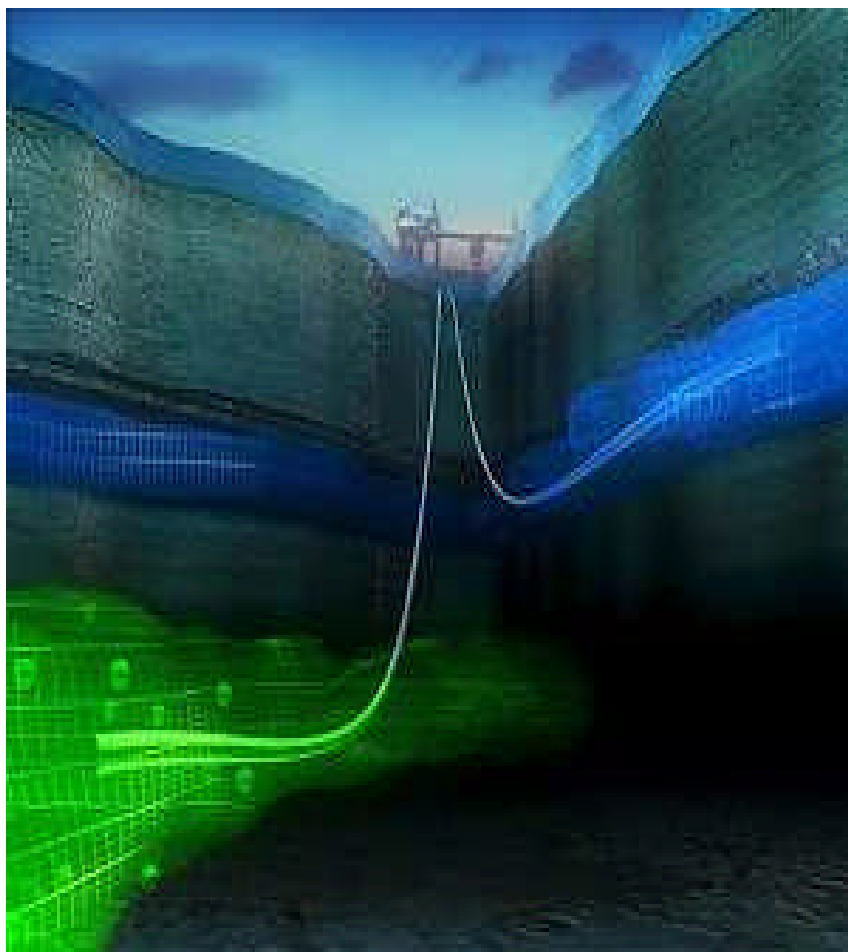
Corporate Loan Market Update – YTD 2010



- **Many of the trends seen in the bond and corporate loan market towards the end of 2009 and 2010 do not translate into the Renewable Energy sector such as:**
 - Tightening margins and longer tenors for high-quality credits;
 - Refinancings account for the majority of deals.
- **The Bond and Corporate Loans markets are not yet widely open for the Renewable Energy Market due to:**
 - Lack of experience, hence demand on the investor side;
 - Existing assets are so cheaply priced that Bond take out can not compete.
- **To improve long term liquidity in the market and to facilitate ramp up in construction, where the Bank's capital is most efficiently utilised, alternative distribution channels are required, including:**
 - Bond investors in the debt capital market on the back of low risk renewable operational assets providing stable cash flows;
 - CLO of the Banks existing debt investments can also be transferred off balance sheet



Financing Energy Infrastructure: Looking Ahead



- **Strong balance sheets of incumbent utilities, specialised funds, new utility entrants and developers will be to the fore in taking key investments forward**
- **Joint venture partnerships become mainstream to build out “mega” projects such as offshore and large scale biomass**
- **Continued Government support for investment remains key to provide regulatory stability of required support mechanisms**
- **The UK will remain at the fore of the ‘Energy Revolution’ subject to overcoming obstacles such as planning permitting, grid connection etc. HMG likely to become more interventionist rather than relying on the market construct to deliver required infrastructure.**



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David has over 9 years experience working in the Energy / Corporate Finance sectors having spent more than 4 years working in PwC's Energy & Utilities advisory team. Since joining the Bank's Energy & Environmental Finance team in January 2005 he has worked on a large number of renewable energy transactions on a global basis. As a core team member with an established and wide ranging transaction history covering wind (on and offshore), solar (PV and thermal), biofuels, landfill gas and conventional fossil fuel he has both assisted and led teams in all transaction steps including; origination, structuring, credit assessment, due diligence, documentation negotiation and syndication at MLA level primarily across Western Europe. Deals closed to date have covered an extensive capital structure, including; Senior, Junior, Corporate, Acquisition and Equity Bridge Facilities. As such, this enables him to actively develop and apply financing structures to various circumstances. He graduated in Banking and International Finance from Cass Business School, London and is a CFA charter holder.