KPMG SAMJONG

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ASIA CLEAN ENERGY FORUM 2012

Levelizing Expectations

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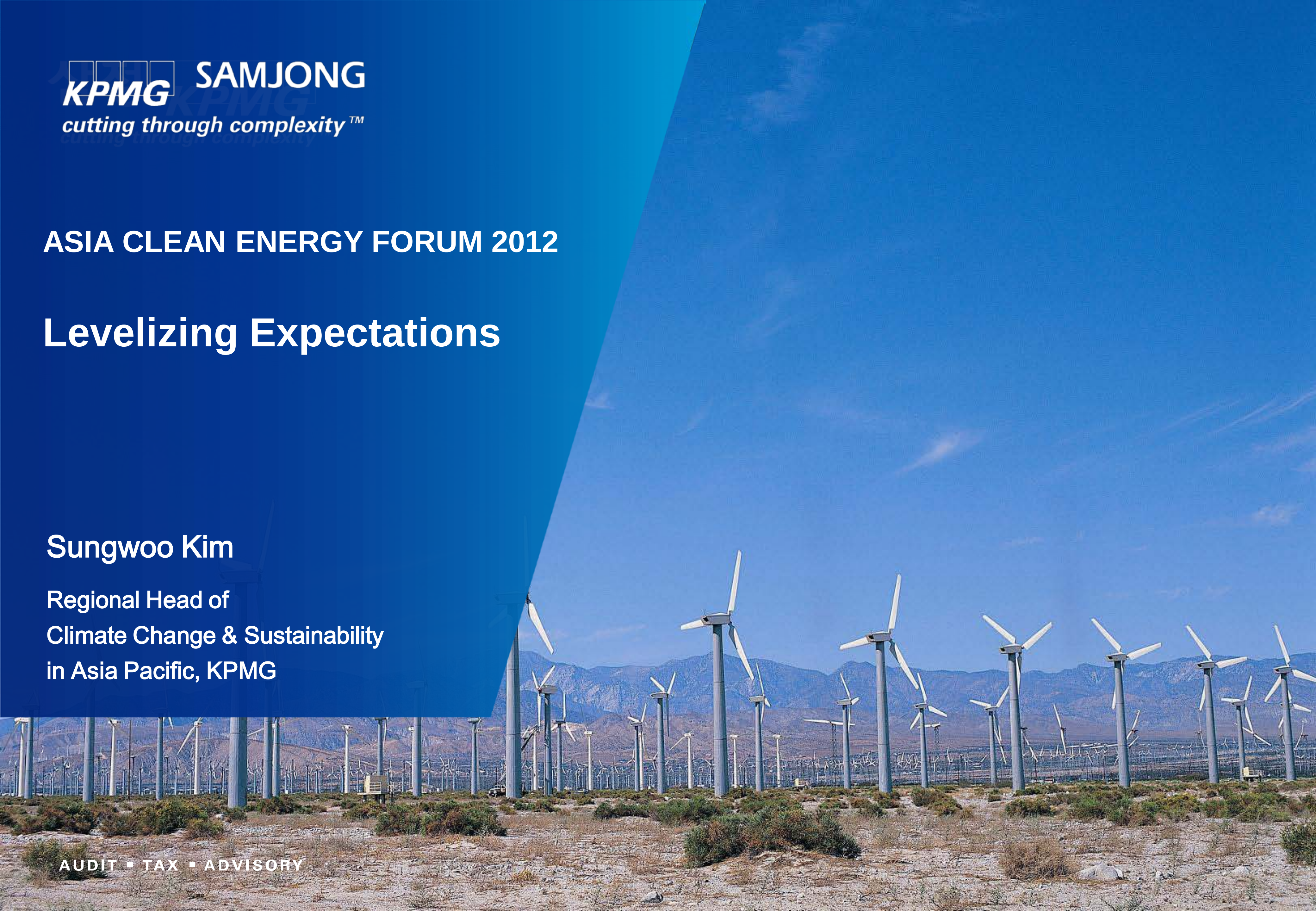


AUDIT ▪ TAX ▪ ADVISORY

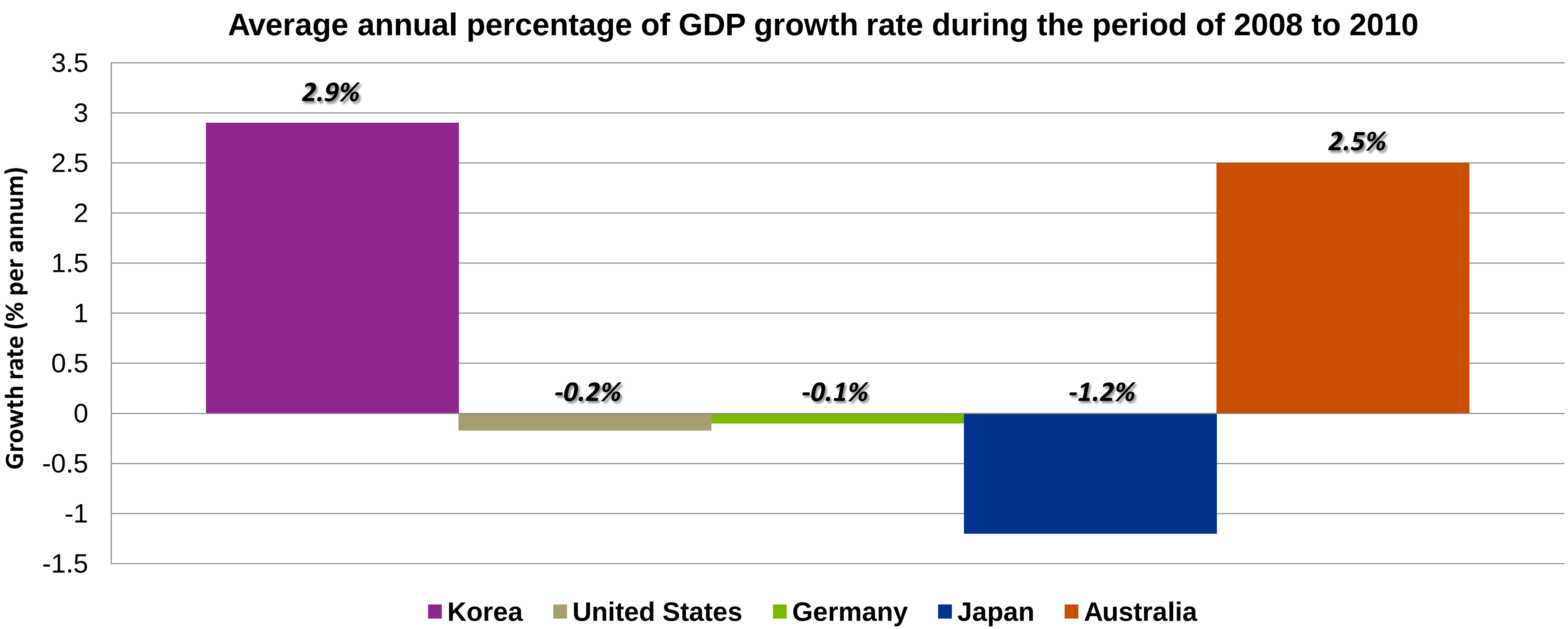
Table of Contents

Global shift of investors

Business opportunities with Korean investors

❑ **In the midst of the current global financial crisis, Korea's economy has remained robust.**

- Korea shows positive GDP growth rate despite the global economic downturn.



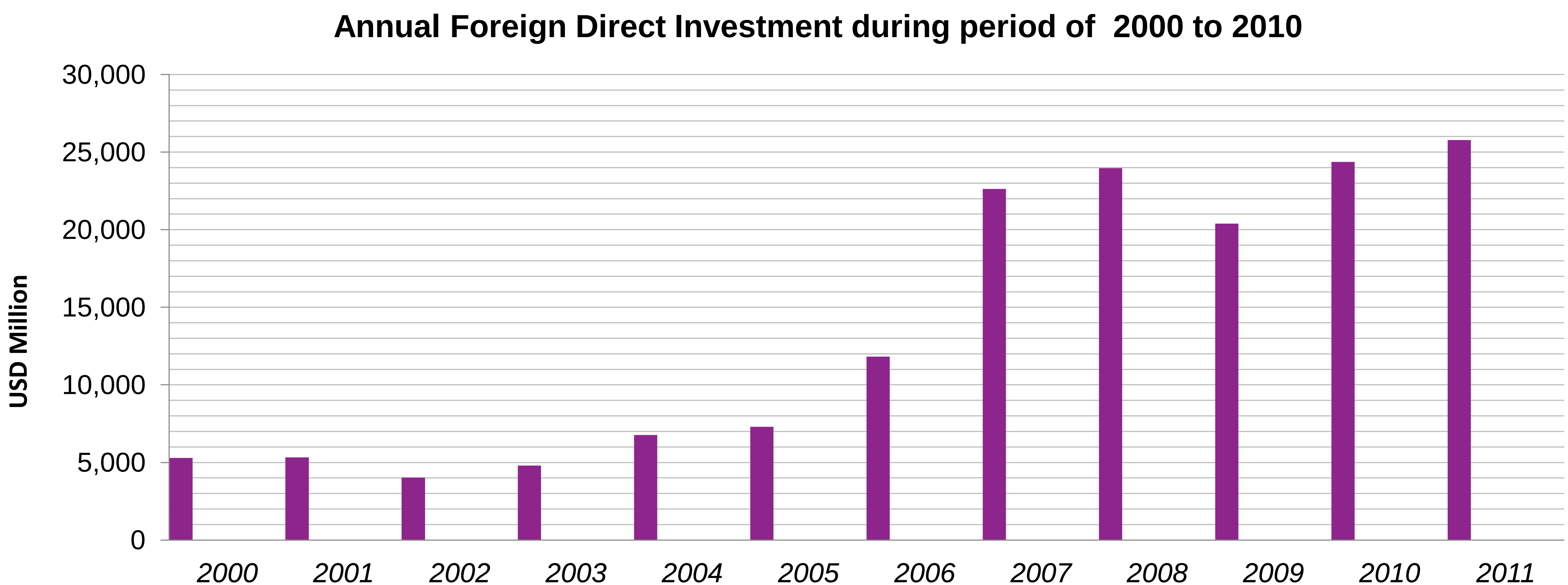
Source: World Bank

Business opportunities with Korean investors

❑ **In the midst of the current global financial crisis, Korea's economy has remained robust.**

- Since 2000, Korea has been increasing its FDI which reached USD 25 billion in 2011.

- Based on its national vision of "Green Growth", the Korean government encourages green investment at home and abroad.



Source: KEXIM Overseas Economic Research Institute

Business opportunities with Korean investors

❑ **Korean investors have:**

- good understanding of Asia's business practices

(40.8% (10.5 billion) of Korea's total FDI in 2011 was injected into the Asian market)

- emerging needs of off-shore carbon credits following the introduction of the national Emission Trading Scheme (2015)

❑ **Korean investors pursue long-term partnerships rather than project-based approaches.**

- higher possibility for scaling up the business

❑ **Obstacles to overcome**

- very conservative approach, last minute joiner

(Investment withdrawal due to lack of clarity on the FIT policy in the Philippines)

Possible investment from Korean investors

Equity Investment

Strategic Investors (SIs)

- *are* power companies and equipment manufacturers
- *have* longstanding experience and expertise in the power industry as well as strong funding power
- *are* new to the renewables industry
- *have the* desire to participate in both funding and EPC/O&M of projects
- *may have* possibly lower investment criteria to build track records
- *may* provide stronger warranties to cover their limited experience

KOESP(power company) and DSME(manufacturer) jointly developed a 40 MW wind farm in the US, scheduled to commence construction in May, 2012.

Financial Investors (FIs)

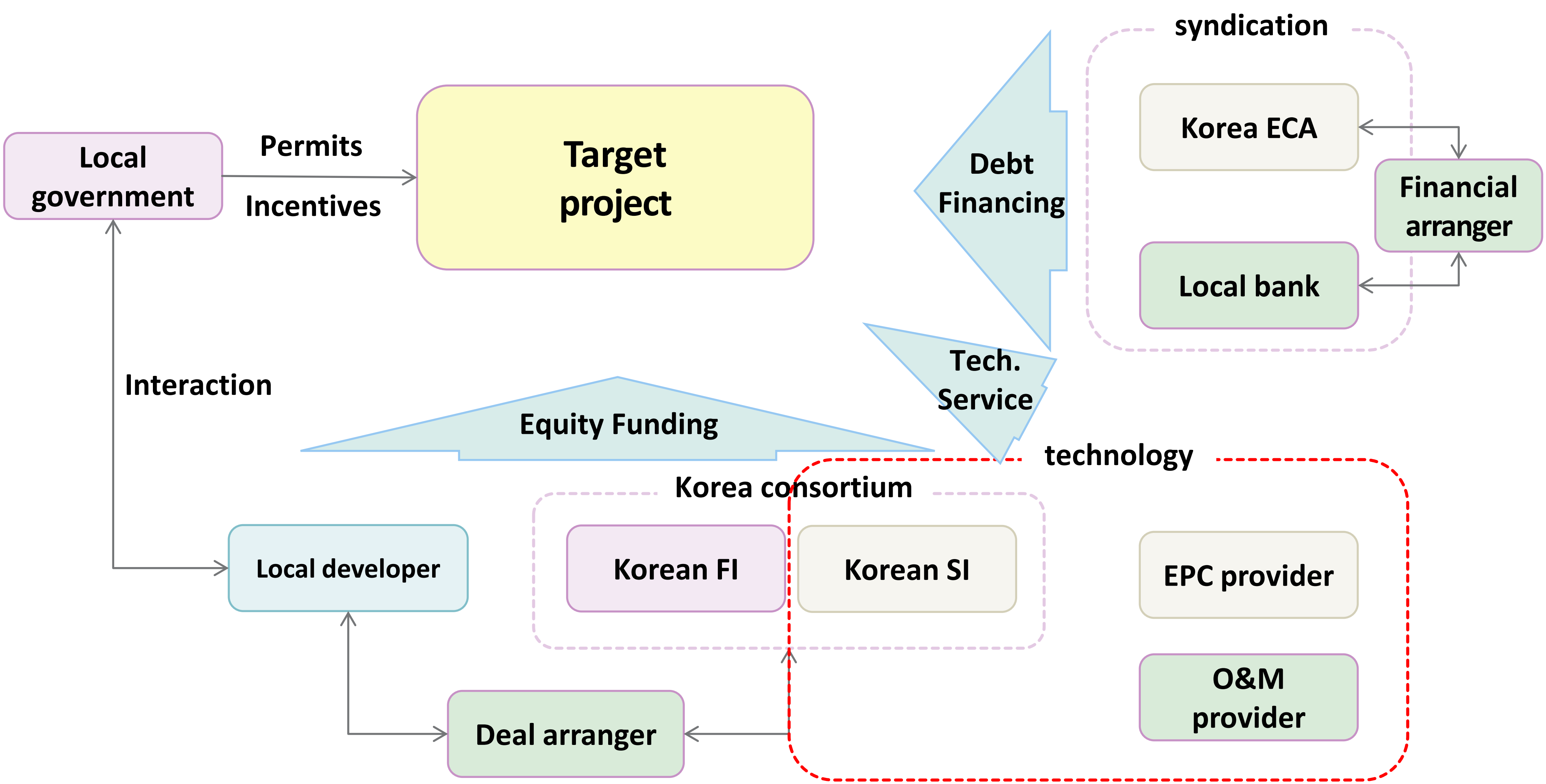
- *are* private funds, financial institutions and conglomerates
- *have* high interest in renewable projects in Asia and reasonable hurdle rates
- *have the* desire to work jointly with SIs
- *prefer* experienced EPC/O&M contractors

In 2010, Korea Carbon Fund and LG International invested in a 60 MW biomass project in China. (currently under construction)

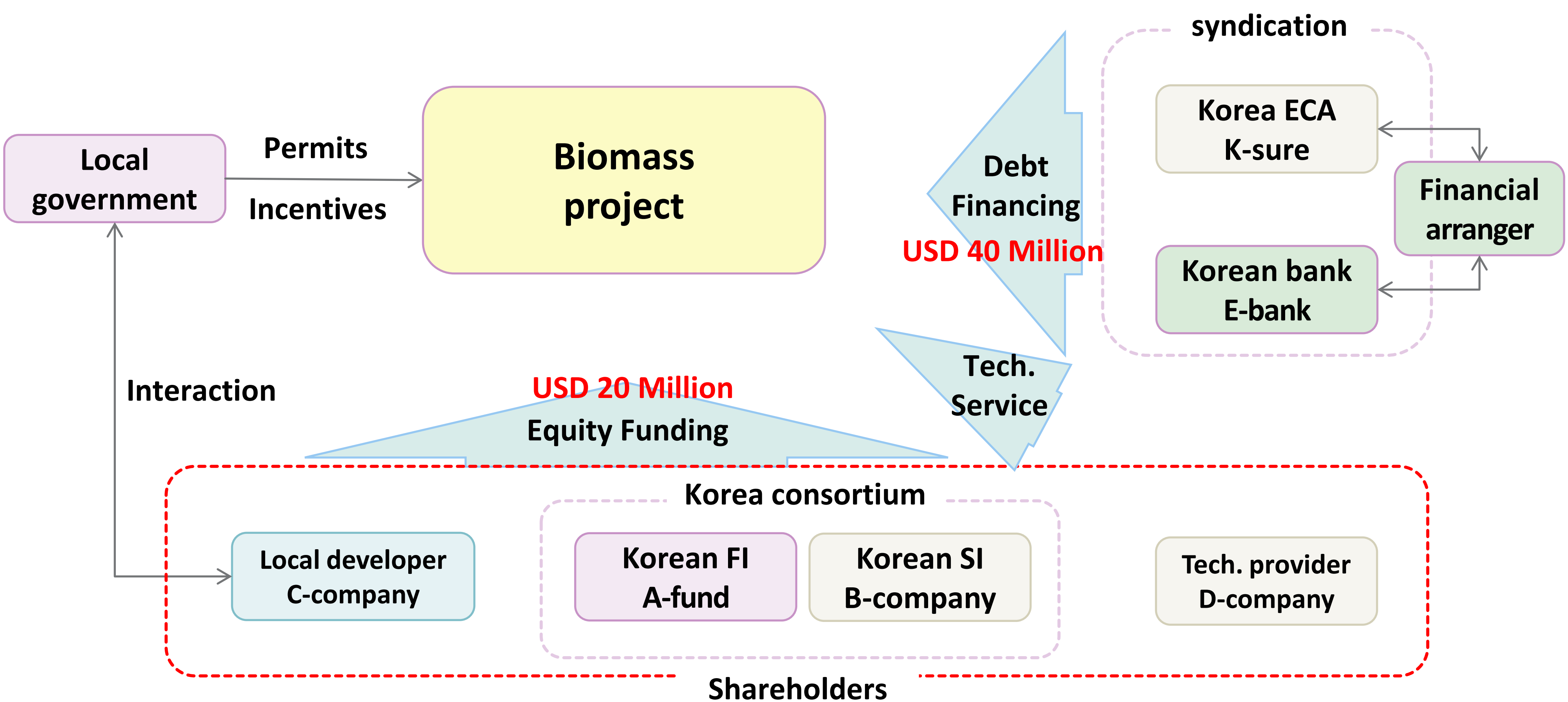
Possible investment from Korean investors

Debt Financing	Korean ECAs (KOREA EXIM BANK, KOREA TRADE INSURANCE) - *M*ulti-billion dollar financing is possible - *Offer services* only when Korean parties participate in EPC and/or O&M contracts - *prefer* a syndicated loan structure with local banks
	In 2011, KOREA EXIM BANK committed USD 100 million debt financing to a 100 MW wind farm project in the US

Example of investment structure



Case study – 60MW biomass project in China



Major risks concerned

Deal breakers – Risks at first sight

❑ Major risks

Country Risks	Government permits and policies - The process of obtaining necessary permits may be delayed or fail. - lack of transparency in the process of obtaining permits - unstable or ineffective incentive policies
	Local partners - insufficient financial resources (in general, a minimum investment of 30% of the total equity is required) - credit insufficient to provide recourse to lender
Technical Risks	Wind source evaluation - inaccurate forecast of long-term trends due to insufficient data - doubt in credibility and expertise of evaluation companies.
	EPC and O&M - Price over-run - insufficient security package of contractors - argument on performance default between EPC and O&M contractors

Deal breakers – Risks at first sight

❑ Major risks

Financial Risks	
Financial Risks	Revenue plan - absence of long term off-take agreement - lack of predictability of policies, in particular pending status of incentive (e.g. FIT, REC) policies
	Sunk cost - expenses for initial coordination, data gathering & analysis, preliminary due diligence and etc. - Investors are reluctant to spend any expenses before a firm decision is made.

➡ **Identifying solutions for all these concerns and developing projects that meet investors' expectations are key to attracting successful investment.**

How to meet investors' expectations

Levelizing expectations

❑ **Gap between sellers and buyers**

- Many projects are released into the market despite their immaturity in development.

- Further development is needed to meet investors' expectations: the aforementioned concerns should be addressed.

❑ **When am I ready?**

- When initial milestones such as clearance of all permits and execution of major contracts before disclosing projects for sale have been achieved.

- Or, at least, should have solid plans for the milestones backed by clear timelines and sufficient information.

❑ **How do I become ready?**

- By preparing a comprehensive solution package from investors' perspective.

- And, in addition, utilizing outside expertise can be an efficient way.

Case study – managing and minimizing the risks

Country Risks

Government permits and policies

- The process of obtaining necessary permits may be delayed or fail.
- lack of transparency in the process of obtaining permits
- unstable or ineffective incentive policies

Important permits such as Environmental Impact Assessment should be completed or in progress before presenting the project to investors.

⇨ Developers' relationship building with government officials should come first.

Local partners

- insufficient financial resources (in general, a minimum investment of 30% of the total equity is required)
- credit insufficient to provide recourse to lender

⇨ Diverse financial instruments should be considered to comply with local regulations as well as to meet stakeholders' needs.

[case study - biomass project in the Philippines]

The developer contributed 60% of common stocks with corresponding security in the form of parent company guarantee and invited preferred stock investors. (ratio of the common to the preferred – 3:7)

Case study – managing and minimizing the risks

Technical Risks	
	Wind source evaluation - inaccurate forecast of a long-term trend due to insufficient data - doubt in credibility and expertise of evaluationcompanies
	⇨ Quality of data should be enhanced through diverse methods such as third party verification, standardized methodology application and named company's participation. [case study – Wind farm project in Australia] +4 years of on-site wind measurement from 3 wind monitoring masts was undertaken by Garrad Hassan. Nearby long-term (+15 years) reference station exists.
	EPC and O&M - Price over-run - insufficient security package of contractors - argument on performance default between EPC and O&M contractors
	⇨ Technical risks should be managed through safety harbour clauses in contracts. [case study – Wind farm project in Australia] A fixed price/time turn-key EPC contract and a 10 year O&M contract covering both scheduled and unscheduled maintenance (to a cap) were executed with one contractor backed by a resource utilisation guarantee.

Case study – managing and minimizing the risks

Financial Risks

Revenue plan

- absence of long term off-take agreement
- lack of predictability of policies, in particular pending status of incentive (e.g. FIT, REC) policies

⇨ Legal instruments to secure solid revenue stream such as off-take contracts or local policies should be present.

[case study - Wind farm project in Australia]

A 15 year fixed price off-take agreement was executed with a government (AAA- rated) owned utility company.

Sunk cost

- expenses for initial coordination, data gathering & analysis, preliminary due diligence and etc.
- Investors are reluctant to spend any expenses before a firm decision is made.

⇨ Developers need to treat such expenses as marketing costs or investment.

[case study – Biomass project in China]

⇨ The local developer made a solid information memorandum in consultation with a project advisor. The developer was compensated with high premium (paid 10% of total equity but acquired 40% of shareholding).

Questions or Inquiries,

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