

Asia Pacific Partnership on Clean Development and Climate

Role of Private Finance Project Finance

Michael Whalen
Managing Director, Head of Project and Export Finance –
Americas

Berkeley, California

April 19, 2006



What is Project Finance?

An extended definition of project finance could include the following...

- Form of lending which can be applied to a wide range of industries and involves the financing of a single major capital investment
- For which repayment (either largely or exclusively) of the lenders relies on the cash flow and assets of the project, with such debt facilities being “limited” or “non-recourse” to the shareholders
- Project finance facilities are typically extended to a SPV (a project company) established by the project sponsors solely to own and operate the project
- Project finance is a form of structured, leveraged lending, e.g. in a project financing, gearing (debt / equity) is usually in the order of 150% - 400% (60:40 - 80:20), with the relative balance depending on the project’s economics and risk sharing between shareholders and lenders

How does it differ from Corporate Lending?

Key differences between corporate lending and project finance

Corporate Lending

- Full recourse
- Lenders rely on established balance sheet and cash flow
- Credit analysis and rating
- Usually unsecured
- Limited covenants (financial, cross default and negative pledge)
- Relatively low fees and margins
- Short to medium term tenor
- Refinancing risk

Project Finance

- Limited or non recourse
- Debt repayment from project cash flow
- Security over project assets including physical and accounts
- Detailed economic and financial analysis carried out by lenders with support of independent consultants
- Comprehensive covenant package (affirmative, negative)
- Equator Principles
- Usually relatively high fees and margins, although current trends favourable to borrowers
- Long term tenor

Why is Project Finance used?

Depending on the country / industry, project finance may offer significant advantages for Project hosts or sponsors...

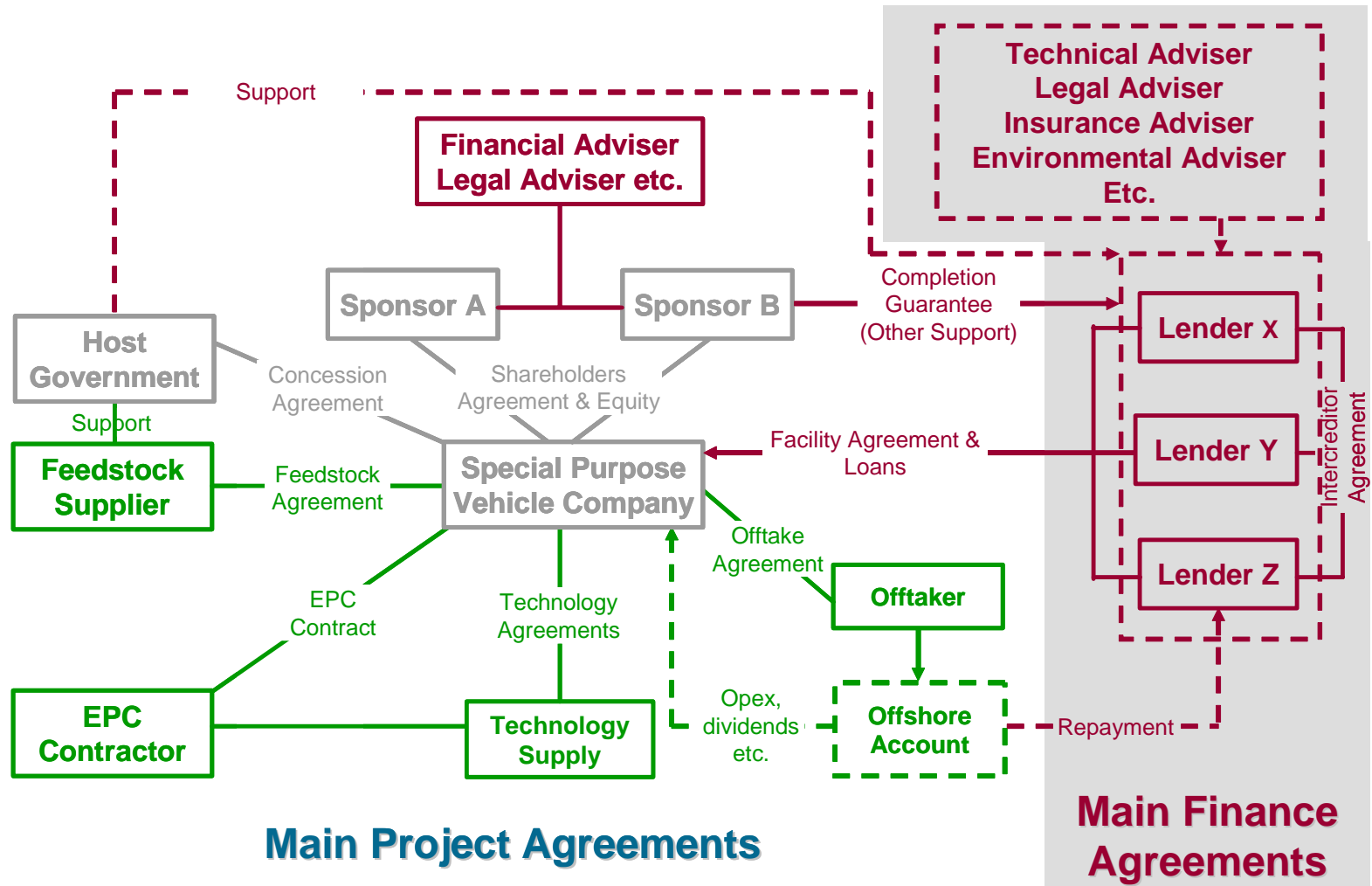
- Excellent way to procure public energy / utilities infrastructure and FDI, technology transfer etc at a low cost compared to traditional State alternatives
- Excellent way for multiple joint venture partners to raise finance to undertake major projects, especially if the partners have different credit standing
- Enables cash constrained - or risk averse - private sector project sponsors to raise significant amounts of debt - and share risks - whilst still retaining the benefit of equity upside
- Enables sponsors to leverage off general banking relationships to (1) potentially circumvent constraints on corporate debt and / or (2) access longer term funding

Who is involved and why?

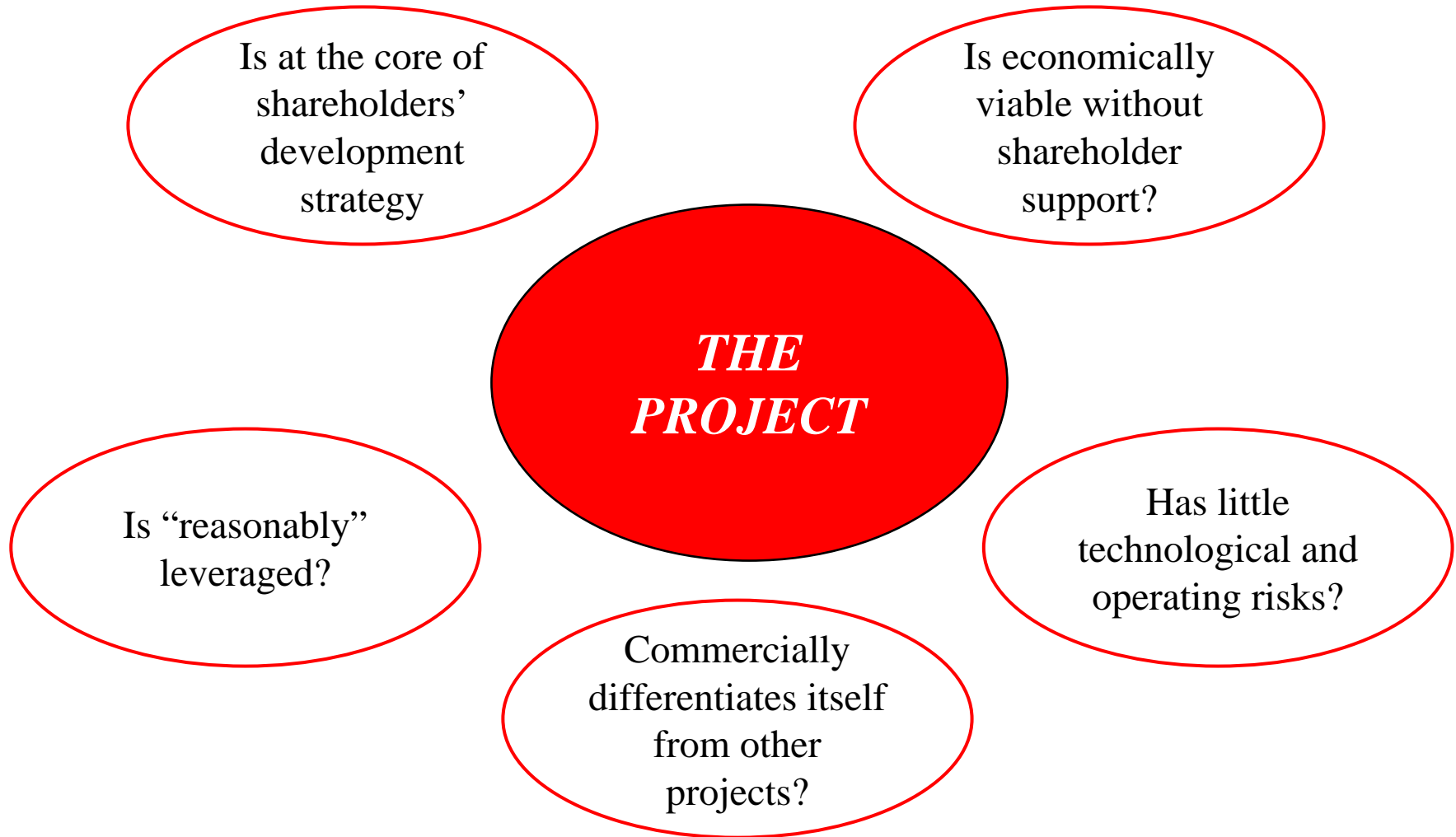
Project finance is a way of bringing together a large number of economic actors each with their own financial objectives

- Government agencies:
 - To improve industrial infrastructure
 - To reduce Government funding burdens
 - To generate employment, tax revenue etc
 - Technology transfer
- Shareholders:
 - To develop markets
 - To share risks incl. political
 - To generate profits/return on capital
- Lenders:
 - To support strategic projects
 - To have better control over lending
 - To take more risks
 - Earn higher interest and fee income
- Multilateral and other official agencies
 - To promote exports and international trade
 - To assist emerging economies
- Suppliers and purchasers
 - To generate profit margins
 - To supply raw materials
 - To provide services
 - To purchase project output
- Independent Consultants:

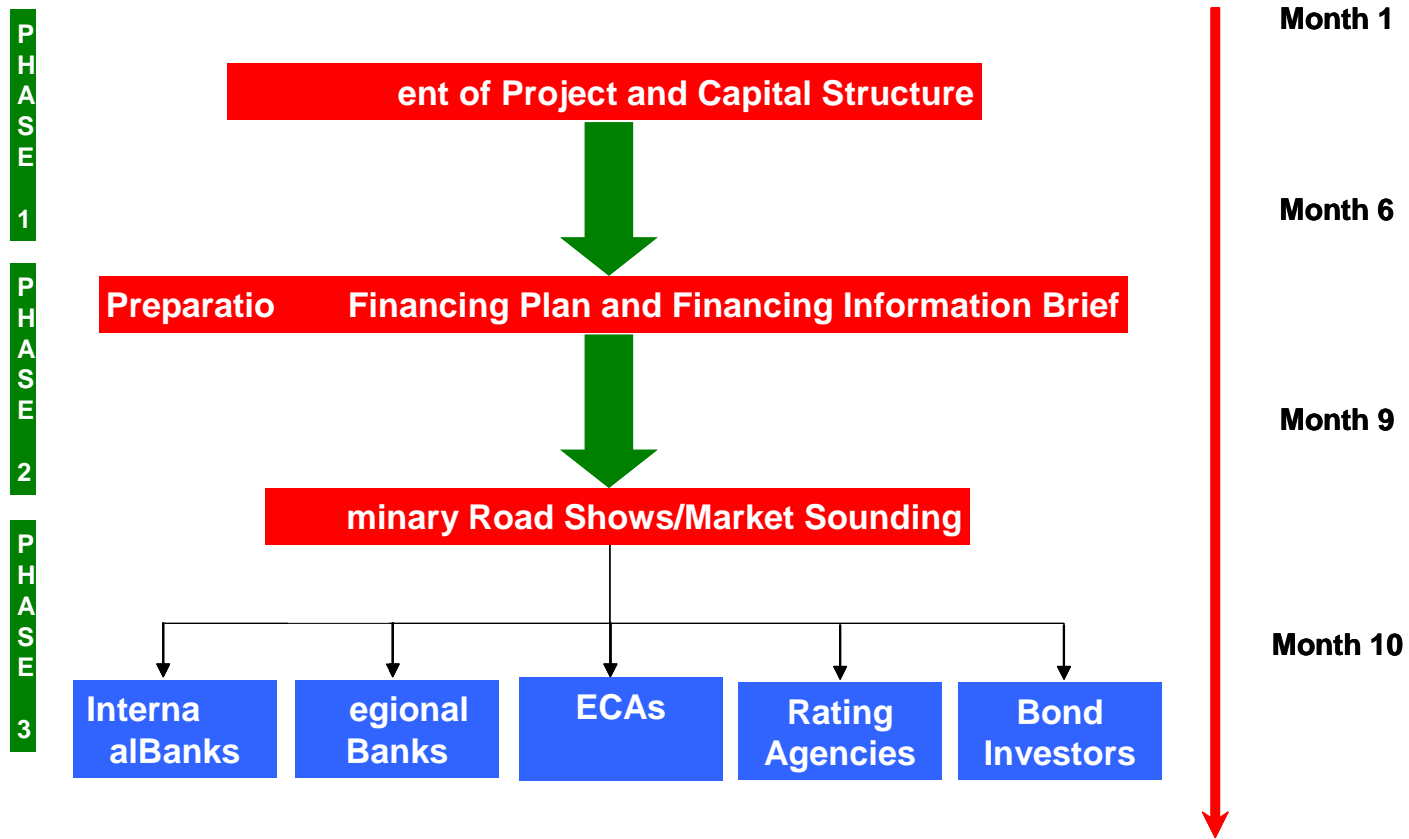
Complexity of typical project finance structure



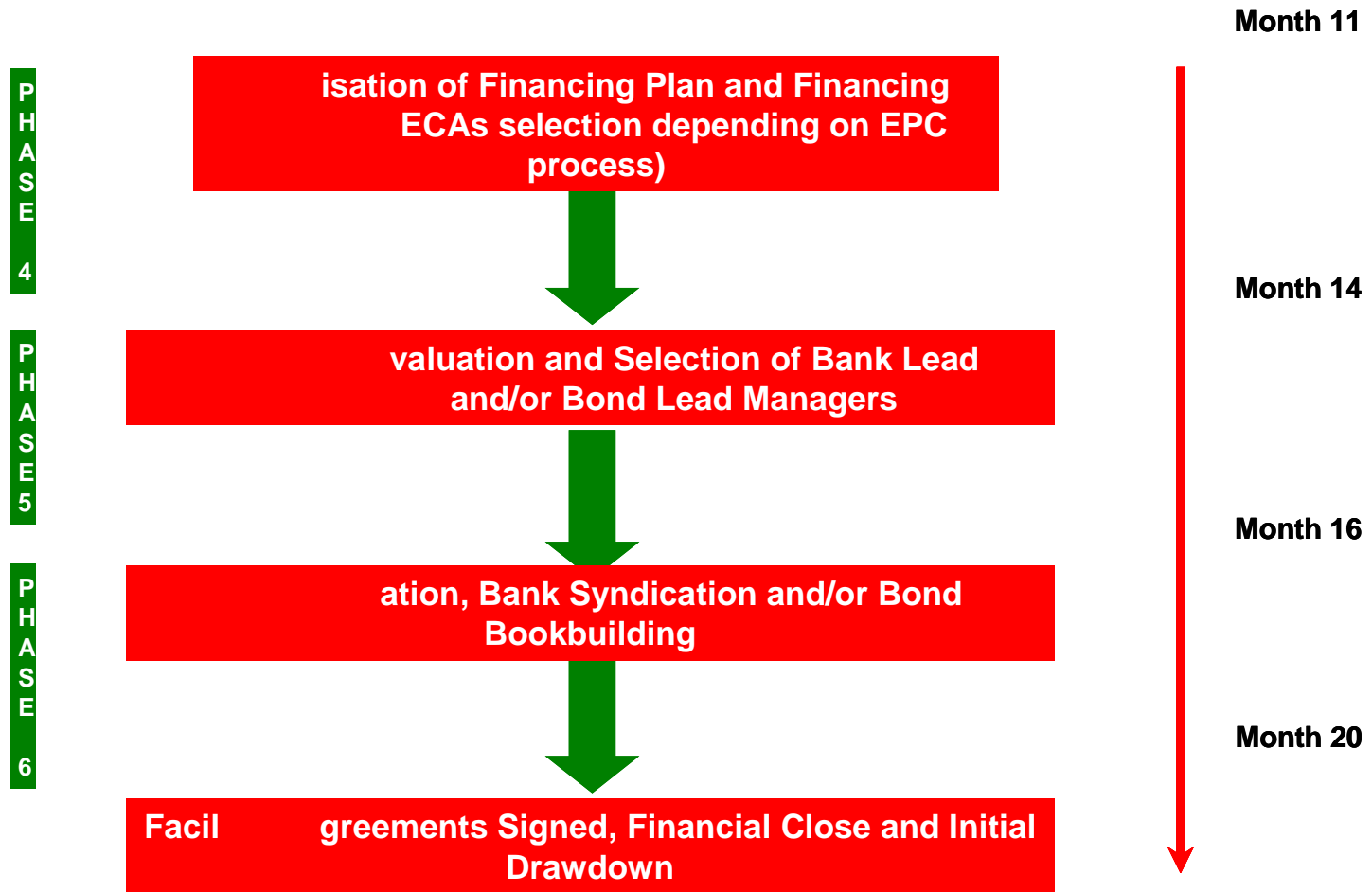
What is a credible story for lenders?



Timetable for success



Timetable for success (cont.)



Key issues for environmentally beneficial projects

- Completion risks loom large for complex technologies (eg, IGCC, GTL)
- Private market lenders tend to be cautious about “version 1.0” of new technology
- Green can sometimes be in the eye of the beholder
- Private sector lenders do increasingly focus on their corporate and social responsibility objectives
- ... but compelling economic rationale remains a key threshold issue for any project

Case Studies

Case study – OPTI Canada Inc., Canada



Borrower:	Opti Canada Inc.
Sponsors:	Opti Canada Inc., Nexen Inc.
Status:	Closed June 2004
Project Cost:	C\$3.4 billion, (C\$800 million financing)
Project:	Development, construction and operations of the Long Lake Oil Sands Project in Alberta, which will produce and upgrade bitumen into a higher value synthetic crude oil.
HSBC Role:	Managing Agent

North American Oil & Gas Deal of the Year” by Project Finance Magazine

- First non-recourse financed Canadian oil sands deal.
- The Project is a large-scale and complex undertaking to exploit a substantial bitumen reservoir in the Athabasca Oil Sands near Fort McMurray.
- The Project achieves lower operating costs via its integrated operations between the Steam Assisted Gravity Drainage (“SAGD”) production facilities and an upgrader facility, which splits diluted bitumen into high grade synthetic crude and asphaltenes from which synthetic gas can be produced thus eliminating exposure to volatile natural gas prices.
- The transaction included the following innovative mitigants with regard to technology and construction risks:
 - The facility was structured as a 6-year "mini-perm" with a bullet repayment at final maturity. Cash sweeps served as a mitigant against market volatility.
 - Construction risks were mitigated through 13% contingencies in the capex budget, and contingent equity of C\$200 million.
 - Technology concerns were addressed through the commissioning and successful operation of a pilot plant.



Case Study – Sabine Pass LNG, United States



Borrower:	Sabine Pass LNG, L.P. (“Sabine”)
Sponsors:	Cheniere Energy, Inc.
Status:	Closed February 2005
Project Cost:	US\$1.0 billion
Project:	Design, build, operate and maintain an LNG receiving terminal in Cameron Parish, Louisiana, U.S.A.
HSBC Role:	Financial Adviser and Joint Lead Arranger



- “Americas Oil & Gas Deal of the Year 2005” by *Project Finance International*
- “North America Oil & Gas Deal of the Year 2005” by *Project Finance Magazine*
- “North America Project Finance Deal of the Year 2005” by *Project Finance Magazine*

- HSBC was retained by Cheniere Energy to structure project finance solutions for a liquefied natural gas terminal to be constructed in Louisiana. The terminal, with a regasification capacity of 2.6 billion cubic feet per day, had signed 20-year terminal use agreements with Total and ChevronTexaco for a significant portion of its capacity.
- HSBC advised Cheniere Energy on key commercial issues – including negotiations with the terminal tenants and the construction contract, developed the financial structure, and organized the competitive selection of the joint lead arranger and co-arrangers.
- The syndication of the facilities attracted a total of 47 financial institutions and was significantly oversubscribed. In addition, HSBC jointly executed \$700 million of a 7-year interest rate hedge program.

Case study – Oryx GTL, Qatar



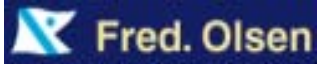
Borrower:	Oryx GTL
Sponsors:	Qatar General Petroleum Company (QGPC); Sasol Ltd.
Status:	Closed in 2003
Project Cost:	US\$700 million
Project:	Construction of a gas-to-liquids (GTL) plant to convert natural gas into environment- friendly fuels, with production capacity of 24,000 bpd of fuel, 9,000 bpd of naphtha and 1,000 bpd of liquefied petroleum gas
HSBC Role:	Mandated Lead Arranger and Security Trustee

“EMEA Petrochemical Deal of the Year 2003” award by *Project Finance International*



- First project financing of a GTL plant.
- First GTL plant in Qatar, aiming to exploit the vast Qatari gas reserves and positioning Qatar as one of the world’s largest gas-to-liquids producer.
- The Project to use Sasol’s Slurry Distillate Process, the latest development of the Fischer-Tropsch Technology.
- Oryx to consume approximately 330 million cf/d of gas to be supplied by Exxon Mobil.
- 14 years financing with a balloon up to 22% if the project was to under perform, and with a 50% cash sweep at year 7 and a 100% cash sweep at year 11.
- Sasol Ltd and QGPC as equity partners with 49% and 51% position, respectively.
- Gearing ratio 100%.
- FEED contract: Foster Wheeler Corp.
- EPC Contractor: Technip Coflexip.

Case study – Rothes and Paul’s Hill Wind Farms, U.K.



Borrower: Rothes Wind Limited and Paul’s Hill Wind Limited

Sponsors: Fred Olsen Renewables Limited (100%)

Status: Rothes (closed November 2004), Paul’s Hill (signed November 2004)

Project Cost: £130 million

Project: The financing of the 51 MW Rothes and 64 MW Paul’s Hill greenfield wind farm developments

HSBC Role: Mandated Lead Arranger of LC Facility, Sole Lease Arranger, Interest Rate Swap Co-ordinator

“European Renewables Deal of the Year” by *Project Finance Magazine*

- The first lease financing of a wind farm
- The first UK wind farm lease financing, supported by a £70 million 16.5 year project finance LC facility and a £20 million 5 year Junior Loan facility. The plants are wholly-owned by Fred Olsen Renewables.



HSBC in Project Finance

Market leadership – 2005

HSBC is a market leader in Project Financing and was awarded Global Adviser of the Year in 2005

Financial Advisor Global Project Finance Deals	
	US\$ million
1 HSBC	12,220
2 Royal Bank of Scotland	11,480
3 Citigroup	11,374
4 SG Corp & I-Banking	8,990
5 Macquarie Bank	5,638
6 Credit Suisse	5,468
7 Deloitte & Touche	4,677
8 PriceWaterhouseCoopers	4,384
9 Deutsche Bank	2,674
10 Standard Chartered	2,369

Dealogic

Global PFI/PPP Project Finance Mandated Arranger	
	US\$ million
1 Dexia	1,807
2 SG Corp & I-Banking	1,604
3 Caja Madrid	1,239
4 HBOS	1,174
5 Royal Bank of Scotland	1,162
6 Sumitomo Mitsui Banking	928
7 BSCH	819
8 HSBC	633
9 BBVA	552
10 Calyon	547

Dealogic

North America Project Finance Mandated Arranger	
	US\$ million
1 CSFB	2,913
2 Goldman Sachs Group	1,292
3 WestLB	1,020
4 SG Corp & I-Banking	1,006
5 Citigroup	604
6 Lehman Brothers Holdings	531
7 General Electric Co	477
8 HSBC	411
9 Calyon	402
10 Dexia	394

Dealogic

Global Project Finance Mandated Arranger	
	US\$ million
1 Royal Bank of Scotland	5,956
2 BNP Paribas	5,076
3 SG Corp & I-Banking	4,798
4 Calyon	4,664
5 Credit Suisse	3,488
6 Dexia	3,183
7 WestLB	3,173
8 HSBC	3,084
9 Citigroup	2,701
10 Sumitomo Mitsui Banking	2,676

Dealogic

Global Export Finance Mandated Arranger	
	US\$ million
1 BNP Paribas	5,954
2 HSBC	3,229
3 Citigroup	3,082
4 ABN AMRO	2,211
5 SG CIB	1,953
6 Calyon	1,411
7 Mizuho	1,251
8 Deutsche	1,133
9 ING	839
10 BSCH	538

Dealogic

Transaction highlights – 2005

Additionally, HSBC was recognized for a broad range of “deals of the year” in 2005

pfi awards 2005
Sabine Pass LNG
 United States
 US\$822 million
“Americas Oil & Gas Deal of the Year”
 HSBC acted as a Financial Advisor and Joint Lead Arranger

pfi awards 2005
Egypt LNG2
 Egypt
 US\$880 million
“EMEA Gas Deal of the Year”
 HSBC acted as Mandated Lead Arranger/ Pathfinder Bank/ Account bank

EUROMONEY Project Finance Deal of the Year 2005
A41
 France
 €940 million
“EMEA Transport/Road Deal of the Year”
 HSBC acted as Arranger

pfi awards 2005
Perpignan-Figueras
 France/ Spain
 US\$638 million
EMEA Infrastructure Deal of the Year
 HSBC acted as Lead Manager

pfi awards 2005
EnerCon Chile
 US\$410 million
 HSBC acted as a arranger
“Americas Latin American Deal of the Year”

EUROMONEY Project Finance Deal of the Year 2005
Qatofin
 Qatar
 US\$760 million
“EMEA Petrochemicals Deal of the Year”
 HSBC acted as Financial Advisor and Mandated Lead Arranger

pfi awards 2005
“Global Advisor of the Year”
HSBC 

pfi awards 2005
Shuaibah
 Saudi Arabia
 US\$967 million
“EMEA Power Deal of the Year”
 HSBC acted as Financial Advisor to Water and Electricity Company, WEA, the awarding authorities

pfi awards 2005
“Global Bank of the Year”
HSBC 
Shortlisted

EUROMONEY Project Finance Deal of the Year 2005
Dolphin
 UAE
 US\$1,345 million
“EMEA Oil & Gas Pipeline/Islamic Deal of the Year”
 HSBC acted as Mandated Lead Arranger, Islamic Lender

pfi awards 2005
“EMEA Advisor of the Year”
HSBC 

pfi awards 2005
Horizon Terminal
 Singapore
 US\$240 million
“Asia Pacific Oil & Gas Deal of the Year”
 HSBC acted as Mandated Lead Arranger

pfi awards 2005
EUROMONEY Project Finance Deal of the Year 2005

EUROMONEY Project Finance Deal of the Year 2005
Mexico City Airport
 Mexico
 US\$400 million
“Latin America PPP Deal of the Year”
 HSBC acted as Joint Lead Arranger, and Joint Book Runner