Atradius
Dutch State Business

Project finance

Index

1. Who is Atradius Dutch State Business?

Atradius is one of the world's leading credit insurers with offices in more than 40 countries and over 90 years of credit management experience. Our knowledge of global trade and our up to date intelligence on over 100 million companies around the world, enable us to offer our clients tailor-made services both locally and internationally.

Apart from the commercial operations referred to above, Atradius acts as the Export Credit Agency (ECA) of the Netherlands. The ECA activities are carried out by a separate entity within the Atradius Group: Atradius Dutch State Business (Atradius DSB). Atradius DSB manages the Dutch export credit and investment insurance scheme with the Dutch State being the insurer of record. The mandate of Atradius Dutch State Business is to promote Dutch exports and investments abroad. To that end we offer credit and investment insurance complementary to that available in the private market.

Atradius DSB insures a range of payment risks arising from the export of capital goods transactions and construction projects. Most prominent is our buyer credit cover against the risk of non-payment by borrowers. The borrowers may be sovereign or corporate entities (incl. special purpose companies established within a limited recourse setting). Eligible transactions must have substantial Dutch content.

Atradius DSB has three underwriting teams. Our account and regional underwriting teams focus on public and corporate buyers. The Project Finance team deals with non or limited recourse risks (project and asset based finance). In the table below an overview is presented of the various underwriting teams and their main areas of attention.

Team	Account Team & Regional Team			Project Finance Team	
Financing Type	Sovereign Financing	Corporate Financing	Structured Financing	Project Financing	Asset Based Financing
Due Diligence Focus	Country risk	Company financials	Company financials, cash flow, securities	Cash flow, completion risk	Asset repossession and resale value

2. What is project finance?

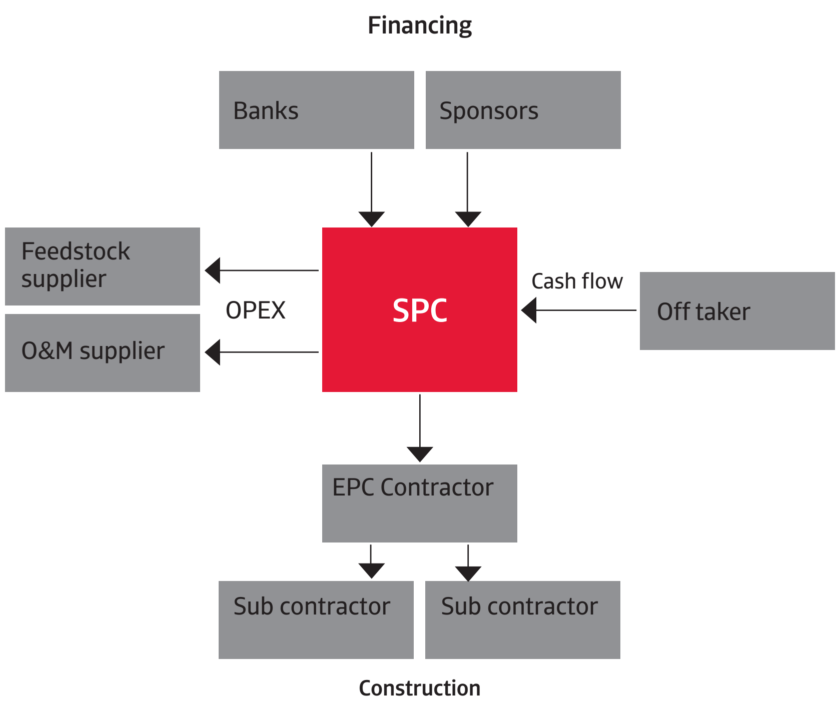
In project financing the financiers have to rely primarily on the expected cash flow from the project for the repayment of the loan, using the project's assets and contracts as security.

In the figure below a typical project finance set up is shown. To develop and operate a new project, a project company is set up by the project sponsors (the shareholders of the project company). The project company is often referred to as a Special Purpose Company (SPC).

Sponsors contribute equity to the project and banks grant debt financing directly to the SPC. The proceeds of this loan and the equity contribution are used for the realisation of the project by one or more contractors. Usually a main contractor or EPC contractor is responsible for the engineering, procurement and construction of the project. Once a project is fully realised, the output will be sold in the market or to a designated off-taker. The cash flows generated will be used for the operational expenses (staff, maintenance, supply of feedstock etc.) of the project and, last but not least, the repayment of the loan.

If the SPC fails to repay the project loan, there are no, or very limited, opportunities for recovery from the sponsors or other stakeholders. Project financing is therefore known as non- or limited recourse financing. The risk assessment requires a thorough analysis of the expected cash flows. This forms the main difference with 'regular' export finance, where an existing public or corporate borrower can be assessed on the basis of its operational track record, its past financial performance and (in some cases) our own payment experience.

Other methods of financing that bear some resemblance to project finance are asset-based finance and structured finance. Asset-based finance is typically used for the financing of movable assets such as aircraft or ships for which a liquid, second hand market is available.
Structured finance is a hybrid type of financing, which combines typical elements of corporate finance, project finance and asset-based finance. This type of financing is often used for an overhaul or major expansion of an already existing industrial facility or asset fleet.



3. Which risks can be insured?

Project Finance Insurance
Our project finance cover protects banks against the repayment risks associated with the debt financing of a project. This cover takes the form of a buyer credit policy and stretches over the pre- and post-completion phase. It includes cover for commercial as well as political risks. The applicable general conditions of our Buyer Credit policy can be found on the website of Atradius DSB (www.atradiusdutchstatebusiness.nl).

Our cover is being granted on behalf, and in the name, of the Dutch State. As such the Dutch State is enhancing the loan agreement with their creditworthiness. From a solvency requirement perspective the covered portion of the loan amount has a risk weighting similar to that of (other) Dutch sovereign risks.

Political Risk Cover
Our political cover offers protection against non-payment resulting from:
- Moratorium
- Transfer problems
- Conversion problems
- Force majeure
- Government intervention

Commercial Risk Cover
Our commercial cover offers protection against non-payment resulting from:
- Insolvency of the borrower
- Protracted default

The scope of our cover includes the principal loan amount, commitment fees, interest and late interest due by the borrower and collection expenses. On a case-by-case basis, cover for interest rate hedge agreements (incl. swap breakage costs) can be included.

Investment Insurance
Atradius can also offer protection against the risks associated with investing abroad. This may be of particular interest for project sponsors investing equity or subordinated capital in an SPC. Our investment insurance scheme covers expropriation, war, transfer risks and breach of contract. The scheme is available for Dutch-based investors/sponsors. The maximum amount which can be insured is EUR 100 million per investment. For more details on our investment insurance scheme please see our brochure on investment insurance (available in Dutch) or website (in Dutch and English).

4. What are the conditions for cover?

In this chapter we provide you with an overview of the most important conditions and requirements that need to be fulfilled in order to obtain project finance cover. Those conditions and requirements are based on national as well as international rules.

Additionality to the private sector?

Atradius Dutch State Business offers credit insurance in addition to what the private sector can provide. Whether the criterion of additionality is satisfied or not depends on various factors such as transaction size, risk horizon and the debtor country. Project financings usually satisfy this criterion due to the long tenor of project loans.

In which countries can Atradius DSB support export credits?

For each country Atradius DSB publishes the availability of cover, the exposure limit and the current exposure. The difference between the exposure limit and the current exposure indicates the available capacity on that country to do new business. On our website you can find our country policy. If no cover can be provided for a certain country, externalisation of the relevant risk might be a solution. For instance, transfer risks can be externalised if the main project revenues are kept outside the project country by using offshore accounts.

When is an export credit eligible for support by Atradius DSB?

A condition for providing cover for a project loan is that there must be an underlying export transaction with a Dutch contractor. The export trans-action must also represent a meaningful level of Dutch content. In practice this means that we may cover project loans related to Dutch export transactions that include a Dutch content of at least 20% of the contract value[1]. Dutch content, to this end, is defined as the contract price minus the value of supplies and services with an origin outside of the Netherlands.

In order to support Dutch based exporters using foreign subsidiaries or affiliates as their suppliers, the supplies of those parties may qualify as Dutch content as well.

The following criteria must be met:

- The ultimate parent of the group of companies is Dutch;
- The Dutch exporter bears full contractual responsibility towards the buyer for the contributions by the affiliates or subsidiaries.

If the above criteria are met, an allowance of max 5% of the contract price is permitted for the Dutch content calculation. Please see the examples below.

Monetary Value in million EUROS (% of contract price)				
ContentCal-culation	Con-tract price	Sourced outside NL, from non-affiliated com-panies	Sourced outside NL, from subsidi-aries or affiliates	Calculation of Dutch content
Example 1	100	82	0	18%
Example 2	100	74	8	23%

[1] It occasionally happens that, although the 20% Dutch content rule is fulfilled, supplies from a third country make up the lion's share of the value of the contract. In such case reinsurance by or co-insurance with the ECA of that particular third country may be required.

In both examples 82% of the contract value is sourced outside the Netherlands, albeit that in the second example 8 % stems from affiliated companies. Example 1 yields a Dutch content of only 18% and does not pass the Dutch content test. Example 2 does pass the test, however.

The fact that a portion of the contract value comes from affiliated companies abroad adds (a maximum of) 5% to the Dutch content calculation.

The Dutch content rules have primarily been designed for regular export transactions. In large scale projects we often see contractors from many different countries, sourcing worldwide. In such setting no single contract in itself might satisfy he Dutch content rules. Atradius has the flexibility to take a slightly different approach in these circumstances. Instead of looking at the Dutch export contract(s), we can link our support to the Dutch content on a project level (i.e. the total Dutch content in all the contracts within the project). This approach might be helpful in multi-sourced projects where Dutch contractors act as suppliers or subcontractors to foreign main contractors.

What is the size of our export credit support?

In determining the size of our support we have to observe the following OECD rules:

1) The OECD rules state that the export credit support for a project cannot be greater than 85 % of the project's Export Contract Value (ECV). In a project context, the ECV should be interpreted as the combined value of the export contracts (Dutch as well as non-Dutch) to a project, minus the local costs in these contracts. In order to calculate the maximum Atradius share in the overall export credit support, this rule must be applied against the Dutch part of the ECV (i.e. 85% of the ECV of the Dutch contracts only).

2) Atradius can support the financing of local costs up to a maximum of 30% of the ECV. Please note that these local costs do not necessarily have to be part of an export contract. Local costs arising from a contract between the project company and a local contractor can also be considered for cover, as long as the above mentioned “30% rule” is adhered to. Please note that in the context of a multi sourced project, the 30% rule must be applied against the Dutch part of the ECV.
3) In addition to the ECV and local costs, Atradius does also provide cover for the financing of the credit insurance premium. Our premium is due and payable upfront and can be included in the financing/loan amount.

Please see the examples below for the calculation of potential Atradius support:

Example I **single sourced project**	**Size of contract**	**Local Costs**	**ECV**
Dutch contractor	200	30	170
Local contractor	25	25	0
Atradius premium	10	0	0
Total Project value	235	55	170

Example I gives a (theoretical) limit to our support equal to: 85% of Dutch ECV + Local costs (max. 30 % of ECV) + Atradius premium = 144.5 + 51 + 10 = 205.5

Example II **multi sourced project**	**Size of contract**	**Local Costs**	**ECV**
Dutch contractor	120	20	100
Third country contractors	80	10	70
Local contractor	25	25	0
Atradius premium	6	0	0
Third country ECA prem.	4	0	0
Total Project value	235	55	170

Example II gives a (theoretical) limit to our support equal to: 85% of Dutch ECV + Local costs (max. 30 % of Dutch ECV) + Atradius premium = 85 + 30 + 6 = 121.5

The amounts mentioned are theoretical numbers as they only show the potential scope for cover when applying the OECD rules. In practice various other considerations come into play such as the results from the cash flow analysis of the project (which may limit the scope for debt financing), the available room under our country ceiling and the share of Dutch content vs. the share of third countries in the project. The latter factors could potentially limit the size of our cover or could lead to the requirement of co-insurance or reinsurance by other ECAs.

What are the terms & conditions of a loan supported by Atradius DSB?

In order to create a level playing field internationally, the OECD countries have agreed on a framework for supporting export credits. This framework, referred to as the OECD Consensus or Arrangement, provides a set of rules with regard to scope, tenors and repayment profiles of export credits.
Over time various subsets of rules have been added to the Consensus, accommodating the specific nature of (i) project finance, (ii) renewable energy financing and (iii) ship financing.

Furthermore, all export credits supported by OECD countries need to meet the international Corporate Social Responsibility standards. These standards include environmental requirements, labour standards and the combating of bribery.
An environmental due diligence will be performed prior to providing an insurance policy. Please see our brochure on Corporate Social respon-sibility for further details on this subject.

Can Atradius support the refinancing of project costs already incurred?

Export credits are usually being disbursed directly to the exporter. In international projects, however, it is not uncommon that the exporters are being paid out of the sponsors' equity first.
These equity payments are then reimbursed to the project (sponsors) out of the project financing.
Atradius can accommodate this practice and provide cover for such refinancings or reimbursements.
It should, however, be borne in mind that Atradius must be made aware of the sponsors refinancing wishes in a stage where the export contract has not yet become effective.

Which banks are eligible for Atradius DSB cover?

Our cover is available to Dutch banks as well as foreign banks. For banks domiciled outside the EU or OECD area, we follow a case-by-case policy.

What are the risk sharing requirements?

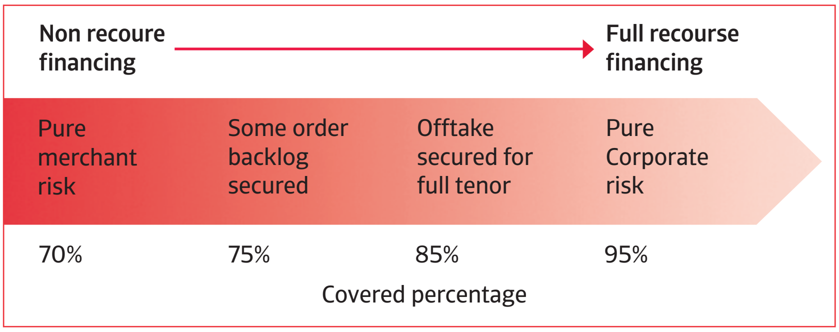
In order to realise a successful project financing structure, Atradius considers it important that risks are shared amongst all stakeholders such as project sponsors, financing banks, international financial institutions, host governments, contractors, project operators, suppliers and off-takers.

An adequate degree of risk sharing, which can vary from project to project, is a prerequisite for granting cover. This not only means that the balance between debt and equity must be acceptable, but also that the project risks must be satisfactorily allocated to the parties best suited to bear these risks. An important feature of our risk sharing policy is that the financing banks are expected to take a significant part of the commercial risk themselves.

Summary of OECD Consensus rules

Consensus Rules	Standard Terms and Conditions for Export Credits	Terms and Conditions for Project Finance[2]	Sector Understanding for Renewable Projects	Sector Understanding Energy for Ships
Minimum down payment	15% of export contract value	15% of export contract value	15% of export contract value export	20% of contract value
Principle Repayment	Equal semi-annual repayments[3]	Non-linear repayments acceptable	Annuities or equal semi-annual repayments	Equal semi-annual repayments[3]
Max. Tenor	10 years after delivery (8.5 years for high income countries)	14 years after delivery	18 years after delivery	12 years after delivery
Max. average loan life	Six years (five years for high income OECD countries)	Seven and a quarter years	60% of financing tenor	n.a.
Max. Grace Period	First instalment 6 months after delivery	First instalment 24 months after delivery	First instalment 6 months after delivery	First instalment 6-12 months after delivery

[2] For projects in high income OECD countries, the maximum export credit support is limited to 50% of the total syndication for the project
[3] Non-linear profiles may be considered in case of a mismatch between project cash flows and debt service.



In practice, our covered percentage varies between 70 and 95 % depending on the degree of project risk we are exposed to and the extent to which we have to rely on third parties (incl. the insured bank) for our risk analysis. For instance: A power project with a completion guarantee from the sponsors and a solid power purchase agreement may attract a higher covered percentage than the financing of an offshore vessel competing on the spot market and without any recourse to project sponsors.

A project financing sometimes consists of multiple tranches, with commercial tranches existing alongside ECA supported tranches. In those circumstances we can increase the covered percentage to 100% provided that that the commercial uncovered tranche(s) are sufficiently large to address our risk sharing requirement. The commercial tranche and the Atradius tranche must have comparable profiles and rank pari passu.

What kind of security & covenants are expected?

The security and covenants that Atradius requires may differ from project to project. Typical securities and covenants to be obtained by the insured financing bank are:

- mortgage on the projects assets;
- assignment of building and/or vendor contracts;
- assignment of proceeds of refund and/or performance bonds;
- assignment of off-take agreements and revenues;
- debt service and opex reserve accounts;
- completion guarantee from the project sponsor and
- minimum project equity and cash flow ratios
- dividend policy
- a lock-in agreement with one or more strategic investors

Not only the credit insurance policy but also the security package will have to be tailored to the risk profile of the transaction. This is always done in close co-operation with the banks, exporters, sponsors and other credit insurers concerned. As a main risk taker Atradius expects to be at the table at an early stage.

The 'intercreditor agreement', which defines the relationship between the various lenders, is an important document in this respect. One of Atradius' main principles is that we participate at least on a pari passu basis in the security arrangements.

What is the relationship between Atradius DSB and the Exporter?

We expect to receive an application form not only from the bank but also from the exporter. Even if the exporter prefers not to take out cover for risks run during the pre-completion phase, Atradius still requires a pro forma application form to be submitted. This application form serves as a formal basis for our involvement in the deal.

In addition, the exporter will be asked to issue a recourse statement to Atradius. This statement serves two purposes. First, Atradius may want to take recourse if it is established that the non-payment under the loan is the direct result of the exporter not meeting its contractual obligations (the burden of proof for this lies with Atradius). Second, when a contract is terminated before completion, and a loss has arisen under the insured bank loan, Atradius may want to reclaim any payments received by the exporter in excess of costs incurred.

Many export financings are already being disbursed during the construction phase of a project. As a result, the credit risk already commences before project completion. In such cases Atradius may require a formal relationship to be established with the exporter in addition to the earlier mentioned recourse statement. The reason for establishing such relationship is to be in a good position to manage the risk, should a default situation arise during the construction phase.

5. How does Atradius assess your application?

Initial Contact

In order to prevent unnecessary delays or term sheet re-negotiations, we strongly recommend that Atradius is involved at an early stage. By doing this, key conditions can be highlighted and discussed between all parties. Providing us with provisional project information is highly appreciated. As a guideline, a checklist for initial contact is shown on the back flap of this brochure.

Already at this early stage Atradius can issue a non-binding 'Letter of Interest' for a project. We often see that a Letter of Interest from an ECA is a requirement for a contractor to participate in international tender procedures. Letters of Interest can also be presented to potential investors to let them know that Atradius is interested in a particular project.

After having received the application forms from the bank and the exporter(s), Atradius will start the due diligence process. If the financing banks are not yet known, we can accept a preliminary application form filled out by (the financial advisor of) the sponsors. Application forms can be downloaded from our website.

Underwriting

In our underwriting process we follow a three step approach:

1. Business case analysis
   We test whether the assumptions regarding revenues, expenses, tax obligations etc. for the project are realistic and we establish how much debt the project can service.
2. Sensitivity analysis
   In this stage we identify the main risks associated with the project and we try to measure their potential impact on the financial model.
3. Analysis of security package
   In the final stage we analyse what the possibilities are to minimise losses in the unfortunate event that the project goes wrong. We assess the value of the securities (project assets, contracts, accounts etc.) against the outstanding project debt.

In our due diligence process we use information provided by the applicant as well as information gathered by ourselves or from consultants. A checklist of items to be provided can be found in the back of this brochure.

When assessing projects, Atradius will, as much as possible, use expertise available in house. For specific items, independent experts might be employed. For example, a market consultant or a technical consultant might be asked to provide input. In order to limit costs, Atradius is, in principle, prepared to 'share' consultants with the financing banks provided that the independence of such consultants is secured.

Our due diligence process results in a formal written proposal which will be presented to an internal (Atradius DSB) credit committee and subsequently to an external (Dutch State) credit committee.

Insurance Documents

After approval of the respective credit committees a so-called Promise of Cover (PoC) can be issued. A PoC gives assurance about the terms and conditions under which Atradius can grant cover for the transaction. The PoC is valid for six months and may be extended for further six month periods. Atradius will issue the policy as soon as the loan agreement takes effect and all the conditions for issuing the policy have been met.

Checklist for Initial Contact

- Description of the project (including market strategy)
- Intended Dutch export contracts (including an indication of the size of the contracts)
- Proposed financing plan, setting out the sources, uses and required financing terms
- Description of the sponsors and equity providers, including extent of host government involvement (if applicable)
- Envisaged and proposed financiers, including export credit agencies and commercial banks
- Available securities (i.e. assets, off-take contracts)

Documents for further Due Diligence

- Application form(s)
- Preliminary Information Memorandum
- The business plan
- Consultants reports (technical, market, legal, insurance etc.)
- Financial model
- A comprehensive term sheet containing the proposed security and covenant package
- Project contracts such as charter agreements, supply or off-take contracts, operations and maintenance contracts etc.
- Environmental and Social Impact Assessment

6. What are the costs?

Apart from the insurance premium no other fees are applicable. It should be noted however that out of pocket expenses incurred by Atradius in relation to a project must be compensated or paid directly by the project sponsor or insured bank. This includes, among others, travel expenses, legal costs and consultancy fees.

The amount of premium depends on the country risk of the country where the project is situated and on the specific features of the project itself. If the project does not have a credit rating by one of the international rating agencies we establish our own rating. This rating together with the relevant country risk classification forms the basis for the premium calculation. This calculation is performed along the lines of the OECD premium model which determines the minimum premium rates for officially supported export credits. It should be noted however that for projects in high income OECD countries the premium will be determined in conformity with prevailing market conditions.

Our premium is expressed as percentage of the loan amount. it has to be paid upfront but can be included in the loan amount. Atradius would be pleased to provide an indication of the premium based on the preliminary project information. Please contact our project financing specialists or calculate your own indicative premium quote with the premium calculator on our website.

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