ContourGlobal

Contours of a portfolio PF

An innovative portfolio project financing allows plants to be financed quickly at low cost and allows for project financings to occur in both developed and emerging markets.

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ContourGlobal LP, an independent company that develops, acquires and operates electric power businesses around the globe, has secured a five-year, US$250m commitment from the Overseas Private Investment Corporation (OPIC), an agency of the US, for the construction and term loan financing of a portfolio of ContourGlobal's combined heat and power plants in a highly diverse set of countries in Europe and Africa (including developed markets in Western Europe and emerging markets in Africa, Eastern Europe and in former Soviet republics).

OPIC made the US$250m facility available to ContourGlobal's subsidiary companies, ContourGlobal Solutions Holdings Ltd (CG Holdings) and ContourGlobal Solutions Ltd (CG Solutions and together with CG Holdings, the borrowers), both Cyprus entities. This ground-breaking and creative portfolio project financing from OPIC will permit ContourGlobal to develop, construct and operate new combined heat and power plants across many different jurisdictions quickly and at relatively low cost.

In 2007 and 2008, CG Solutions signed two framework energy services agreements with an affiliate of Coca-Cola Hellenic Bottling Group (CCH), the second-largest bottler of Coca-Cola products globally, to develop, finance, build, own and operate up to 17 environmentally friendly, advanced energy-saving Quad Gen power plants within CCH's bottling plants throughout Europe and Africa.

These Quad Gen plants, which are owned by local subsidiaries of CG Solutions, use primarily natural gas in reciprocating gas engines to generate electric power through an energy efficient process that captures what would otherwise be wasted heat from the engines to create steam and hot water (ie, a co-generation). The hot water is subsequently used in absorption chillers to create chilled water (ie, tri-generation). Finally, ContourGlobal combines this tri-gen technology with a 95% capture rate of the resulting CO_2 emissions from the power plants, a process that it calls Quad Gen, enabling it to provide clients with a nearly zero carbon production footprint (and allowing the resulting CO_2 to be used for commercial and industrial purposes). The construction and term loan facilities provided by OPIC to the borrowers are intended to finance the development, construction, ownership and operation of these Quad Gen plants.

ContourGlobal and OPIC created a flexible financing structure to permit the financing of a geographically diverse portfolio of Quad Gen plants. The credit facility allows for the construction and term loan financing of up to 17 power plants, in various stages of operations and development, across 12 different countries spanning Europe and Africa (including plants operating or under construction in, or planned for, Austria, Bulgaria, Greece, Italy, Nigeria, Northern Ireland, Poland, Romania, Russia, Serbia, Slovakia and Ukraine).

The resulting collateral structure is a novel, unique hybrid of corporate and project finance models that recognises the portfolio nature of the facility and is designed so that the same basic structure can be adapted and utilised in all of the different jurisdictions. Significantly, in addition to developed markets, the strength of the portfolio allows for project financings to occur in emerging markets that, until now, have had only minimal exposure to project finance requirements.

Approach to problems

The inventive approach taken by ContourGlobal and OPIC solved numerous thorny issues that could have derailed the financing of a portfolio of this nature. Some of these challenges, and how they were addressed, are summarised below.

Risk/cost balance

For example, given the number and relatively small size of each Quad Gen plant (approximately US$15m–$20m per plant) and the varied jurisdictions involved, the parties were challenged to balance OPIC's interest in securing a robust and comprehensive collateral structure in respect of each new plant

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financed with the borrowers' concerns regarding speed of disbursements and management of transaction costs.

To address these concerns, the parties developed a collateral structure that circumvented the need for local asset pledges or mortgages over the individual plants, key equipment, real property and local accounts, opting instead for, among other things, pledges of the ownership interests of the borrowers and the local operating companies, upstream guarantees from the local operating companies and control over a set of centralised offshore collection accounts. A brief overview of the ownership and financing structure is set forth below in Chart 1. This solution allows for the security structure to be implemented quickly at new plants for relatively low cost.

Given the wide variety of jurisdictions in which ContourGlobal's Quad Gen plants are located and, consequently, the different types of legal frameworks involved, some variations from the agreed baseline security structure were necessary from time to time to accommodate restrictions and limitations imposed by local law. Romanian law, for example, prohibits a limited liability company organised under the laws of Romania from guaranteeing the obligations of its owners (ie, its parent company or companies). Consequently, the parties agreed not to require an upstream guarantee from the local operating company in Romania.

In addition, the agreed form of the upstream guarantee used in most jurisdictions is a New York law-governed document; however, given that the laws of the Republic of Austria and Ukraine require that upstream guarantees made by Austrian or Ukrainian operating companies be governed by Austrian or Ukrainian law, respectively, the parties agreed to use local law-governed guarantees in those markets. Furthermore, payments under Ukrainian guarantees must be made in Hryvnia, the official currency of Ukraine, instead of dollars, euros or other types of hard currency.

Finally, certain Polish corporate capital requirements and insolvency laws impose a limit on the amount that can be guaranteed by a Polish company. Thus, despite these unique, country-specific prohibitions and limitations on upstream guarantees, ContourGlobal and OPIC were able to agree on a comprehensive package of upstream guarantees provided to OPIC by local operating companies substantial

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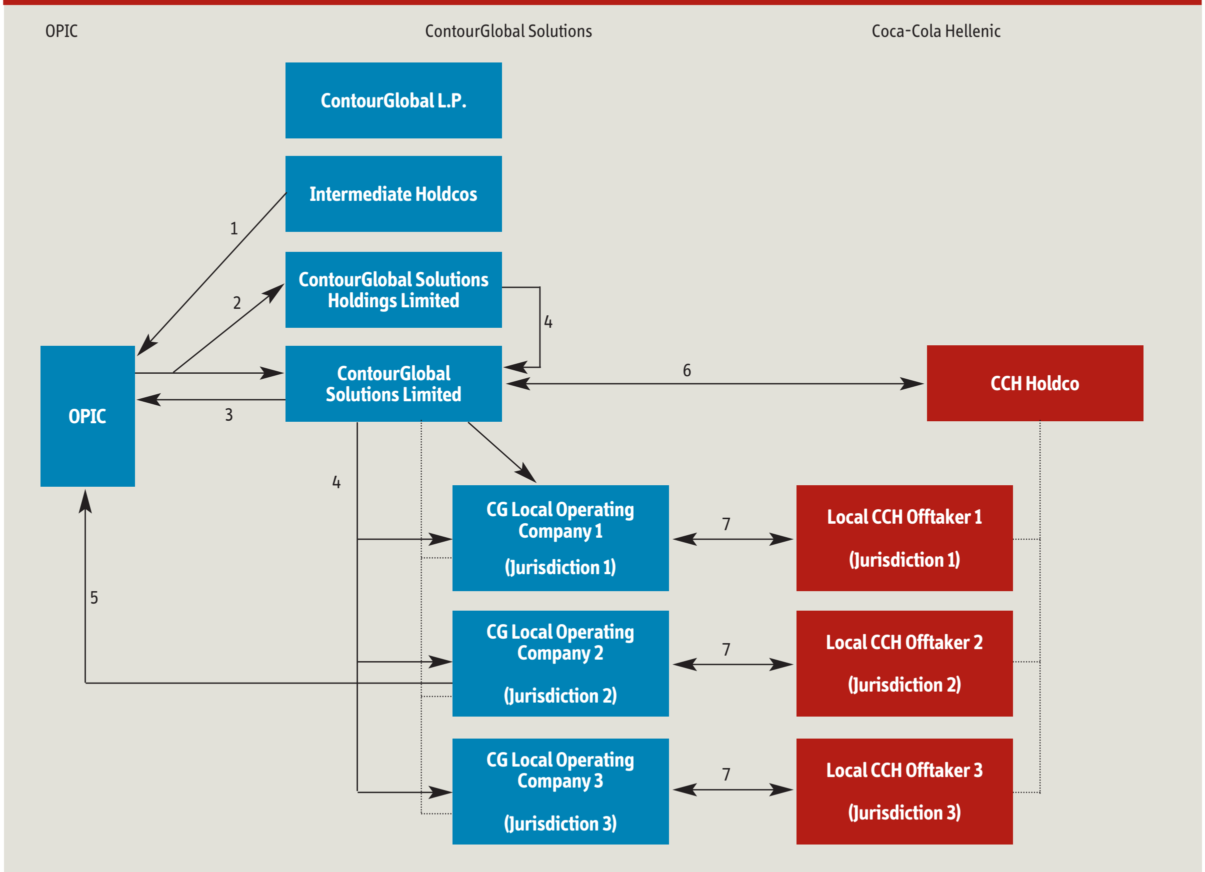
CHART 1 - CONTOURGLOBAL SOLUTIONS – OPIC FINANCING STRUCTURE



Note: 1. Share Pledge 2. US$250M Loan Commitment 3. Share Pledges of Local Operating Companies 4. On-lending of OPIC Loan Proceeds and Investment of ContourGlobal Equity 5. Upstream Guarantees 6. Framework Energy Services Agreements and CCH Guarantee of Local Offtakers 7. Local Energy Services Agreements

This solution allows for **the security** structure to be **implemented**

enough to give OPIC comfort that the strength of the entire portfolio provided it with satisfactory protection.

OPIC's commitment includes a construction-in-progress (CIP) loan facility that allows ContourGlobal to finance plants under construction at relatively low cost. Here, the challenge was to provide for a flexible CIP loan tranche while minimising potential costs and delays that might result from having to conduct a time-consuming and costly construction-phase diligence review on every plant.

To balance these interests, the parties agreed that OPIC will only disburse CIP loans for plants that have achieved one of three significant construction milestones (eg, procurement and delivery of certain key plant equipment to the local plant site), and loan funds are only available to reimburse actual, certified project costs already incurred by CG Solutions or one of the local operating companies and pre-funded with equity funds.

Until a plant satisfies certain completion criteria, ContourGlobal's ability to leverage the plant with OPIC term loan financing is limited to a greater extent than for plants that are in full commercial operation. Perhaps most significantly, the borrowers are subject to a cap of US$30m (out of the total US$250m credit facility) of revolving construction debt with respect to CIP plants at any given time, which limits OPIC's overall exposure to construction risk.

In short, these limits on the construction phase loan facility allow ContourGlobal to access OPIC funds to finance plants under construction relatively quickly and cheaply, while providing OPIC with sufficient comfort that the ContourGlobal portfolio as a whole does not have a disproportionate level of construction risk.

Financing projects in diverse markets

OPIC programmes are available in more than 150 developing countries and emerging markets but are not available to fund projects in certain developed markets. ContourGlobal's portfolio of Quad Gen plants, while located primarily in "OPIC-eligible countries", includes certain plants in countries that are not available for OPIC financing (eg, Italy and Austria).

To balance ContourGlobal's need to include the strength and the revenues of the Quad Gen plants in non-eligible countries in its portfolio with OPIC's mandate to finance projects only in approved developing markets, the parties developed a formula such that ContourGlobal uses OPIC's debt financing only to fund Quad Gen plants in OPIC-eligible countries, but ContourGlobal includes Quad Gen plants funded by equity investments in other countries as part of OPIC's overall collateral package to increase the amount of leverage that may be placed on Quad Gen plants that are eligible for OPIC financing. Several of the plants in the ContourGlobal portfolio are located in OPIC-eligible jurisdictions that, to-date, have not supported project finance transactions to any significant degree. However, with this innovative portfolio financing, OPIC and ContourGlobal have developed a structure that allows for project-financed developments in non-traditional markets.

As mentioned, ContourGlobal's portfolio of Quad Gen plants spans Africa and Europe with plants in European Union and non-European Union countries, including countries that were part of the former Soviet Union. A number of these markets have still-developing bodies of private commercial law and, because the legal frameworks in these jurisdictions are not as well-developed or as familiar to project finance lenders as English or New York law, these countries thus far have had only minimal exposure to project financing transactions.

By utilising a portfolio approach and designing a security structure that de-emphasises collateral governed by local law, ContourGlobal and OPIC were able to facilitate infrastructure development in markets that have been largely unavailable to project finance investors. Only the borrowers' share pledges of their local operating companies are governed by the local law.

Repeatable and adaptable structure

During negotiations of the US$250m credit facility, ContourGlobal and OPIC agreed on certain model agreements and forms, and on check-the-box portfolio requirements. The use of the model agreements and forms and the pre-approved conditions precedent to disbursement of additional Quad Gen plants will make the financing of individual plants in the future relatively easy and quick.

Other than the pledges of shares of the local CG Solutions operating companies, which will be governed by local law, the remainder of the financing and security documents with respect to each local operating company are in pre-agreed forms and are governed by English or New York law.

Although local attorneys in each new jurisdiction where the plants are located will need to review the financing and security documents related to the local operating company that is the subject of the relevant loan disbursement to ensure that such documents do not run foul of country-specific prohibitions or limitations, the reliance on agreed English and New York law-governed forms greatly minimises the amount of time local counsel will need to spend in reviewing the documents (and, consequently, reduces transaction costs). Thus far, three separate Quad-Gen plants have been financed under the OPIC credit facility: Northern Ireland in August (construction-phase) and November 2010 (operational); Romania in September 2010; and Italy in November 2010. Many more plants are expected to be financed. under the OPIC facility in 2011 and beyond.

This pioneering portfolio credit facility was designed to finance the development, construction and operation of ContourGlobal's Quad Gen plants serving CCH bottling facilities in Europe and Africa. However, the structure can serve as a model for other types of portfolio project financings in other industries and in different regions, and provides a mechanism for sponsors to obtain cross-border financing for projects even though they are located in highly diverse markets.

OPIC's commitment includes a construction-in-progress (CIP) loan facility.