Offshore wind

Options for non-recourse financing

All photos from Gunnar Britse – windpowerphotos.com
1. Some Info on Dexia
2. Offshore wind: prospects and risks
3. Finding solutions: the Q7 and C-Power deals
4. Notable structural features of Q7 and C-Power
1. **Some Info on Dexia**
2. Offshore wind: prospects and risks
3. Finding solutions: the Q7 and C-Power deals
4. Notable structural features of Q7 and C-Power
• Dexia is in the top third of the Euronext 100 index and is listed on three European stock exchanges (Paris, Brussels, Luxembourg).

• Dexia is the world leader in Public Finance with a total market share of 17% in Europe and of 25% in the United States.

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**Dexia Group**

A top credit standing in the banking sector

<table>
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<tr>
<th>Ratings:</th>
<th>Dexia Group</th>
<th>Dexia Municipal Agency</th>
<th>F.S.A.</th>
<th>AA / Aa2</th>
<th>AAA / Aaa / AAA</th>
<th>AAA / Aaa / AAA</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>EUR 567 billion</td>
<td>USD 365 billion</td>
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<tr>
<td>Balance Sheet</td>
<td>Dexia Group</td>
<td>F.S.A. Insured Portfolio</td>
<td></td>
<td></td>
<td>EUR 2.75 billion</td>
<td>9.8% 23.1%</td>
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<tr>
<td>Net Income</td>
<td>EUR 2.75 billion</td>
<td>9.8% 23.1%</td>
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<td>EUR 24.8 billion</td>
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<td>Tier 1 Ratio</td>
<td>EUR 2.75 billion</td>
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<td>EUR 24.8 billion</td>
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<tr>
<td>Stock market capitalization</td>
<td>EUR 2.75 billion</td>
<td>9.8% 23.1%</td>
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<td>EUR 24.8 billion</td>
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*(all as of 31 December 2006)*
<table>
<thead>
<tr>
<th>Company/Project</th>
<th>Type</th>
<th>Location</th>
<th>Value</th>
<th>Year</th>
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<tr>
<td>EDF EN Portugal</td>
<td>Wind farm portfolio</td>
<td>Portugal</td>
<td>EUR 257 M</td>
<td>2007</td>
</tr>
<tr>
<td>Noble NY wind portfolio</td>
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<td>USD 266 M</td>
<td>Mandated</td>
<td>2007</td>
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<tr>
<td>BBWP Wind farm portfolio</td>
<td>Worldwide</td>
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<td>Mandated</td>
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<tr>
<td>C-Power Offshore wind farm</td>
<td>Belgium</td>
<td>EUR 106 M</td>
<td>Mandated</td>
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<td>La Madagascona</td>
<td>PV solar</td>
<td>Spain</td>
<td>EUR 183 M</td>
<td>2006</td>
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<td>Andasol</td>
<td>Thermal solar</td>
<td>Spain</td>
<td>EUR 274 M</td>
<td>2006</td>
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<td>Q7 Offshore wind farm</td>
<td>The Netherlands</td>
<td>EUR 218 M</td>
<td>Mandated</td>
<td>2006</td>
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<tr>
<td>San Juan Mesa Wind farm</td>
<td>USA</td>
<td>USD 30 M</td>
<td>Mandated</td>
<td>2007</td>
</tr>
<tr>
<td>Buffalo Gap 2 Wind farm</td>
<td>USA</td>
<td>USD 330 M</td>
<td>Mandated</td>
<td>2006</td>
</tr>
<tr>
<td>Fruges II Wind farm</td>
<td>France</td>
<td>EUR 48 M</td>
<td>Mandated</td>
<td>2007</td>
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</table>
Offshore wind

Options for non-recourse financing

Arranging & Underwriting

Knowledge of regulatory framework and players

Experience in 13 different countries

Dexia – Renewable Energy

A strong commitment to the sector

- Dexia has the capability to act as arranger of renewable energy projects of any amount, including pools of projects, with an underwriting of up to EUR 500 M.

- Dexia is able to offer customised services in Renewable Energy, including project finance, cross-border lease, securitization and mezzanine finance.

- Dexia has extensive knowledge of the regulatory environments of most European countries and the US which are essential to structure Renewable Energy projects.

- Dexia is familiar with the major players of the sector (sponsors, constructors, consultants).

- Dexia’s portfolio presently includes over 60 projects in Renewable Energy, spread over 13 countries and 4 continents. Dexia has lead arranged 43 projects during the last five years for an aggregate commitment amount now reaching EUR 2,000 M.
### Dexia Project Finance

**Wind Energy References (2006-2007)**

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<thead>
<tr>
<th>Projects:</th>
<th>Country</th>
<th>Year</th>
<th>Amount</th>
<th>Capacity</th>
<th>Clients / Sponsors</th>
<th>Dexia Role</th>
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<tbody>
<tr>
<td>ARKADIA</td>
<td>Greece</td>
<td>2007</td>
<td>EUR 40 M</td>
<td>42 MW</td>
<td>Babcock &amp; Brown</td>
<td>Mandated Lead Arranger</td>
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<td>LOGAN</td>
<td>USA</td>
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<td>USD 79 M</td>
<td>200 MW</td>
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<td>Sole Lead Arranger</td>
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<td>NOBLE NY WIND PORTFOLIO</td>
<td>USA</td>
<td>2007</td>
<td>USD 266 M</td>
<td>339 MW</td>
<td>Noble</td>
<td>Sole Lead Arranger</td>
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<tr>
<td>SAN JUAN MESA</td>
<td>USA</td>
<td>2007</td>
<td>USD 30 M</td>
<td>120 MW</td>
<td>Citi Renewable Investments</td>
<td>Sole Lead Arranger</td>
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<tr>
<td>EDF-EN PORTUGAL</td>
<td>Portugal</td>
<td>2007</td>
<td>EUR 257 M</td>
<td>206 MW</td>
<td>EDF EN</td>
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<td>DAUNA SERRACAPIOLA</td>
<td>Italy</td>
<td>2007</td>
<td>EUR 75 M</td>
<td>42 MW</td>
<td>Tozzi</td>
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<td>BBWP GLOBAL REFINANCE</td>
<td>various</td>
<td>2007</td>
<td>EUR 1031 M</td>
<td>1443 MW</td>
<td>Babcock &amp; Brown</td>
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<td>C-POWER (OFF-SHORE)</td>
<td>Belgium</td>
<td>2007</td>
<td>EUR 106 M</td>
<td>30 MW</td>
<td>EDF EN, Dredging, et al.</td>
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<td>FRUGES</td>
<td>France</td>
<td>2007</td>
<td>EUR 48 M</td>
<td>32 MW</td>
<td>Babcock &amp; Brown</td>
<td>Sole Lead Arranger</td>
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<td>LA BOGA</td>
<td>Spain</td>
<td>2007</td>
<td>EUR 350 M</td>
<td>280 MW</td>
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<td>PICARDY WIND</td>
<td>France</td>
<td>2007</td>
<td>EUR 58 M</td>
<td>47 MW</td>
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<td>TRINERGY</td>
<td>Italy/Ger.</td>
<td>2007</td>
<td>EUR 1130 M</td>
<td>648 MW</td>
<td>Trinergy Holdings</td>
<td>Sole Lead Arranger</td>
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<tr>
<td>INVERNERGY 2007 TSL</td>
<td>USA</td>
<td>2007</td>
<td>USD 136 M</td>
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<td>Invenergy</td>
<td>Participant</td>
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<td>CERRATO</td>
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<td>2007</td>
<td>EUR 153 M</td>
<td>166 MW</td>
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<td>EUR 125 M</td>
<td>169 MW</td>
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<td>Participant</td>
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<tr>
<td>MARNE ET MOSELLE</td>
<td>France</td>
<td>2006</td>
<td>EUR 29 M</td>
<td>33 MW</td>
<td>Sechhiene Sidec</td>
<td>Mandated Lead Arranger</td>
</tr>
<tr>
<td>BUFFALO GAP 2</td>
<td>USA</td>
<td>2006</td>
<td>USD 330 M</td>
<td>232 MW</td>
<td>AES</td>
<td>Mandated Lead Arranger</td>
</tr>
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<td>SCURRY COUNTY</td>
<td>USA</td>
<td>2006</td>
<td>USD 228 M</td>
<td>130 MW</td>
<td>Invenergy</td>
<td>Mandated Lead Arranger</td>
</tr>
<tr>
<td>Q7 (OFF-SHORE)</td>
<td>Netherlands</td>
<td>2006</td>
<td>EUR 219 M</td>
<td>120 MW</td>
<td>Econcern, EIH, ENECO</td>
<td>Mandated Lead Arranger</td>
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<td>CERRATO (BRIDGE LOAN)</td>
<td>Spain</td>
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<td>EUR 60 M</td>
<td>166 MW</td>
<td>Ceolica (Acciona)</td>
<td>Sole Lead Arranger</td>
</tr>
<tr>
<td>SAN JUAN MESA</td>
<td>USA</td>
<td>2006</td>
<td>USD 21 M</td>
<td>125 MW</td>
<td>Citi Renewable investment</td>
<td>Participant</td>
</tr>
<tr>
<td>STRAZNY VRCH</td>
<td>Czech R.</td>
<td>2006</td>
<td>EUR 11 M</td>
<td>8 MW</td>
<td>VESV, a.s.</td>
<td>Sole Lead Arranger</td>
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<tr>
<td>RICIGLIANO GROTTOLE</td>
<td>Italy</td>
<td>2006</td>
<td>EUR 155 M</td>
<td>100 MW</td>
<td>Fri-El, WinCo</td>
<td>Participant</td>
</tr>
<tr>
<td>INVERNERGY 2006 TSL</td>
<td>USA</td>
<td>2006</td>
<td>USD 160 M</td>
<td>N/A</td>
<td>Invenergy</td>
<td>Sole Lead Arranger</td>
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<tr>
<td>LAKE BONNEY II</td>
<td>Australia</td>
<td>2006</td>
<td>AUD 420 M</td>
<td>239 MW</td>
<td>Babcock &amp; Brown</td>
<td>Sole Lead Arranger</td>
</tr>
</tbody>
</table>

- 13 different countries (and regulatory regimes)
- 43 Lead Arranger Mandates over the past 5 years
- Approx. EUR 2,000 M on our books

Dexia was chosen in 2003, 2004 and 2005 as « Renewable Arranger of the Year » by Infrastructure Journal.
1. Some Info on Dexia
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919MW offshore wind capacity is currently installed in Europe over 25 projects and 436 turbines, essentially in Denmark (46%), the UK (34%) and the Netherlands (14%).

A massive construction boom is expected from 2009, with above 1,000MW to be installed each year, with Germany and the UK in the lead.
Offshore wind

Options for non-recourse financing

Offshore Wind – prospects and risks
An industry close to “full” competitiveness

Relative Costs of Electricity (No Carbon Tax)

Relative Costs of Electricity ($30 Carbon Tax)

(1) Integrated Gasification Combined Cycle
(2) Combined Cycle Gas Turbine

Source: Emerging Energy Research
Some major risks have hampered development

- Offshore wind is still more expensive and the regulatory framework that supports onshore wind is usually not sufficient to support that additional cost.

- In particular, the cost of the long distance connection to the grid, and how it was borne, became a major obstacle.

- Offshore projects are more complex and require more coordination and project management than onshore players usually had.

- The very different risks and parties involved (in particular turbine manufacturers and offshore contractors) has meant an unwillingness to provide wrapped EPC contracts.

- The harsher environment and the requirement for special vessels for both minor and major maintenance creates uncertainty as to the overall long term operating costs.
Offshore Wind – prospects and risks

These risks are now being addressed

- New remunerations structures have been put in place specifically for offshore wind projects (UK, Germany, etc).
- Connection issues are increasingly being resolved by passing on the obligation to the network operator and the cost to the consumers.
- Construction is going ahead on a split contract basis, with developers beefing up strongly their management teams.
- Construction risks are getting better understood as experience builds up and large industrial players familiar with the offshore industry get involved.
- O&M risk (or, more generally, availability risk) is seen as the most sensitive, but ways are found to mitigate it.
Options for non-recourse financing

Offshore Wind – prospects and risks

Regulatory / permitting risk

- Banks will NOT take any permitting risk;

- Projects can only be financed on a fully-developed, fully permitted basis, and with a clear understanding of the applicable regulatory framework;

- Banks will accept regulatory change risk, but need an existing legal framework that makes the projects economically viable to start with.

- Formal confirmation by legal advisors that all permits, licenses, authorisations, etc... (including for the connection to the grid) have been obtained and are in force;

- In particular, confirmation that the price support mechanisms (access to feed-in tariffs, purchase of green certificates, etc...) have been validly obtained by the project.
Construction risk

- Construction involves a combination of well-known technical and technological risks.
- For the wind industry, it is the scale (relative to the size of players), and the added need for contractor and subcontractor coordination and management which creates new challenges.
- Banks will accept construction risk, but need the confirmation that both budgets and schedules are realistic, and that interface risk is well managed.

- Design, engineering, management and planning must be sound – and validated by independent engineers.
- Interfaces must be identified and responsibilities allocated.
- Worst case scenarios must be described, and budgeted for – again, by the independent technical expert.
- The commitments of each party must be explicit and clear.
Offshore Wind – prospects and risks

O&M risk

- The economic viability of the project hinges on its ability to generate enough revenues for a long enough period to cover the high initial investment costs – whether they are financed by debt or equity.

- There is no track record yet of long term operation of turbines at sea, and well known significant “teething problems” on some early projects.

- Long term operational procedures should be defined and priced) conservatively, including definition of requirements for spare parts, vessels and cranes for both scheduled and unscheduled interventions – all to be validated by independent engineers.

- Comprehensive – and long enough - turbine availability warranties should be provided, backed by “serious” financial penalties.

- Banks are looking for measurable risk rather than absence of risk.
1. Some Info on Dexia
2. Offshore wind: prospects and risks
3. **Finding solutions: the Q7 and C-Power deals**
4. Notable structural features of Q7 and C-Power
Options for non-recourse financing

**Finding solutions: the Q7 and C-Power deals**

Two non recourse deals closed in the past year

**Q7 (The Netherlands)**
Closed 25/10/2006
Rabobank, Dexia, EKF
EUR 219 M LT debt
EUR 160 M ST debt

- 120 MW project (60 *Vestas* V-80 turbines)
- EUR 383 M investment
- 2 separate construction contracts (Vestas & Van Oord)
- Revenues from sale of electricity (PPA) plus green certificates @97 EUR/MWh for 10 years under Dutch law
- Long term O&M by Vestas
- Sponsors ENECO (50%) and Econcern/EIH (50%)
- Construction underway, scheduled in early 2008.

**C-Power (Belgium)**
Closed 23/05/2007
Dexia (& Rabo for mezz)
EUR 126 M LT debt
EUR 62 M ST debt

- 30 MW project (6 *Repower* 5MW turbines)
- EUR 152 M investment
- 3 separate construction contracts (Repower, Dredging/Fabricom, ABB cable)
- Revenues from sale of electricity (PPA) plus green certificates @107 EUR/MWh min. for 20 years by law.
- Long term O&M by Repower
- Sponsors EDF EN, Dredging & regional investors
- Construction underway, scheduled in late 2008.
Offshore wind

Options for non-recourse financing

Finding solutions: the Q7 and C-Power deals

Two non recourse deals closed in the past year (2)

**Q7 (The Netherlands)**
- Technical advisor: Mott MacDonald
- Wind consultant: Sgurr Energy
- Lenders’ counsel: Allen & Overy
- Insurance advisor: Miller Insurance
- Tax advisor: Loyens & Loeff
- Model auditor: Operis Group

**C-Power (Belgium)**
- Technical advisor: Mott MacDonald
- Wind consultant: Sgurr Energy
- Lenders’ counsel: Watson Farley & Williams / Loyens
- Insurance advisor: Jardine Lloyd Thomson
- Tax advisor: Ernst & Young
Finding solutions: the Q7 and C-Power deals

Two non recourse deals closed in the past year (3)

**Q7 (The Netherlands)**

*EKF participates as a “normal” lender and guarantees 47 M of the TLF and 20 M of the CF*

**Syndicated** (*BNP Paribas as MLA, BoTM, HSH, NIBC*)
- EUR 189 M Term Loan Facility (9.5y after completion)
- EUR  30 M Contingent Facility

**Not Syndicated**
- EUR 17 M Mezzanine Facility (provided by Rabobank)
- EUR 160 M L/C facilities for the contractors

**C-Power (Belgium)**

**Syndicated** (*under way*)
- EUR 90 M Term Loan Facility (15y after completion)
- EUR  5 M Working Capital Facility
- EUR 11 M Contingent Facility

**Not Syndicated**
- EUR 20 M Mezzanine Facility (provided by Rabobank)
- EUR 21 M L/C facilities for the contractors
- EUR 25 M Grid Subsidy Facility
- EUR 16 M Equity Bridge Facility
<table>
<thead>
<tr>
<th><strong>Finding solutions: the Q7 and C-Power deals</strong></th>
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</thead>
<tbody>
<tr>
<td>Two non recourse deals closed in the past year (4)</td>
<td></td>
</tr>
</tbody>
</table>

**Q7 (The Netherlands)**
- Non recourse debt to finance construction and operation
- Basic ratio: \( \text{DSCR} > 1.35 \text{ under P90} \) wind projections
- Debt maturity 9.5 years after completion
- Partial cash sweep
- Margin ca. 1.25 – 1.95%
- Contingent facility available during construction
- Unconditional L/C facilities provided to contractors

**C-Power (Belgium)**
- Non recourse debt to finance construction and operation
- Basic ratio: \( \text{DSCR} > 1.30 \text{ under P90} \) wind projections
- Debt maturity 15 years after completion
- Margin ca. 1.10 – 1.90%
- Contingent facility available during construction
- Unconditional L/C facilities provided to contractors
- Equity bridge facility provided to sponsors
1. Some Info on Dexia
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Don’t focus too much on headline numbers!

Again, Due Diligence will drive the numbers

... but so will 3-way negotiations

Notable structural features of Q7 and C-Power

Economics – DSCR, etc…

шей DSCR will be used to size debt – *in conjunction with other parameters*:
- Wind estimates (P50 or P90)
- Net availability levels (in effect, MWh at point of sale)
- Price levels used
- O&M cost estimates used in model

=> What matters is the overall package!

- Banks will work on the basis of numbers, both on the production side and on the cost side, which are approved by the independent engineer.

- These numbers depend on the contractual framework – essentially with the turbine manufacturer – and can be adjusted in view of warranties and operating procedures.
Offshore wind

Options for non-recourse financing

Notable structural features of Q7 and C-Power

Economics – DSCR, etc…

Q7 (The Netherlands)

- DSCR = 1.35 using P90 wind number provided by Sgurr
- Price fixed: 10y green certificate + 11y PPA floor
- O&M Cost as per Vestas contract when applicable (5y)
- O&M Cost as estimated by Mott beyond
- Insurance cost as per existing (extensive) policy (11y)

With the bulk of revenues ending after 10 years, debt sizing was on the conservative side, and the financing benefits from a cash sweep to shorten the effective maturity.

C-Power (Belgium)

- DSCR = 1.30
- Price fixed: 20y green certificate + 15y PPA floor
- O&M Cost as per Repower contract when applicable (10y)
- O&M Cost as estimated by Mott beyond
- Insurance cost as estimated by Insurance adviser

With a large revenue stream guaranteed over 20 years, and a longer initial O&M contract, debt sizing was more aggressive, with no cash sweep.
Interface risk

Solutions

Notable structural features of Q7 and C-Power

Construction risk (1)

- Identified through detailed due diligence work
- Consequences of delays or deficiencies by one party on overall project schedule and budget to be assessed.
- Banks require a clear allocation of responsibility.

- **Explicit procedures for hand-over** between contractors for each interface, documented in each separate contract in mirror terms.

  *Banks require to be able to follow commercial negotiations very closely and to influence them.*

- Identification of **downside scenarios** caused by non-performance or delay by one contractor.

  *A major part of contingency analysis (see next page)*
Contingency analysis

- Independent advisor to evaluate potential downside scenarios and assess delays and additional cost to solve.
- Impact on early Debt Service payments to be assessed.
- ‘Worst case’ scenario and corresponding funding (extra cost + delayed income) requirement to be determined by independent engineer and agreed.

_The Lenders want to see a pre-agreed mechanism to fund that amount should it be required._

On both Q7 and C-Power transactions, lenders have agreed to provide contingent facilities which, together with contingent equity (and in the same proportion as base case funding), cover the required contingency.

Q7: EUR 60 M contingency (16%), split 50/50 D/E
C-Power: EUR 16 M contingency (11%), split 70/30 D/E
Options for non-recourse financing

O&M risk – traditional warranties do not work

The traditional warranties:

- Manufacturer pays penalties for low availability, triggered for any performance below set level, with usually low cap.
- Lenders get very little benefit from that

=> This is is not bankable offshore
Offshore wind

Options for non-recourse financing

Notable structural features of Q7 and C-Power

O&M risk – traditional warranties do not work

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Options for non-recourse financing

Banks prefer risks they can measure

- Banks are willing to provide more debt in exchange for more dependable income
- Banks are not interested in project upside / dividends

=> Design warranties accordingly

A possible 3-way arrangement

- Manufacturer provides 90% (yearly) availability level
- Manufacturer agrees to pay penalties (covering debt service only) for availability below 80% only – but with a higher cap.
- Manufacturer gets bonus for availability above 90%
- Lenders agree to use 95% availability to size debt

Variants of this structure were put in place for both the C-Power and the Q7 projects, at the banks’ suggestion
Offshore wind

Options for non-recourse financing

Notable structural features of Q7 and C-Power

O&M risk – how smart warranties can help all

With benefits for all parties:

- Manufacturer gets flexibility and time to solve wide range of technical problems, plus upside on good performance
- Lenders get strong revenue protection
- Sponsors get more debt, more leverage, and better performance

=> This is a win-win-win contractual arrangement
**The manufacturer**

- Gets bonus for good performance
- Gets more flexibility to solve problems – there is an obligation to perform, but no immediate penalty for a wider availability range
- Is punished for very poor performance only – but more harshly
- Get higher revenue in all cases except for very low availability
Offshore wind

Options for non-recourse financing

Notable structural features of Q7 and C-Power

O&M risk – how smart warranties can help all

Lenders:

- Get the certainty of being paid even with much lower availability numbers
The sponsors

- Give up some protection of their dividends (between 80 and 90%) and some of the upside (bonus payments)
- But get additional debt and thus more leverage
- The operator still has technical obligation to reach 90%, and has strong additional incentive to reach a higher level
Offshore wind

Options for non-recourse financing

Notable structural features of Q7 and C-Power

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Offshore wind

Options for non-recourse financing

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