

Financing Energy Infrastructure Projects in Romania



June, 2017

Agenda



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- 1 Profile
- 2 Selected credentials
- 3 Electricity market in Romania
- 4 Renewable energy market
- 5 Financing the Energy Sector





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Profile

Banca Comerciala Romana



BCR brand

- Established in 1990 by taking over the commercial banking operations of the National Bank of Romania
- Most important financial group in Romania, providing universal banking operations:

Assets: EUR 14.8bn

Customers: 3.1mn

- Market Share: 16.3% by total assets → market leader

 BCR is the most valuable financial brand in Romania, according to level of customer trust and number of clients.

Integration into Erste Group



- Since 2006 BCR is a member of Erste Group
- Erste Group was founded 1819 as the first Austrian savings bank
- Since 1997 Erste Group has grown through acquisitions and organic growth to one of the largest financial services providers in the Eastern part of EU in terms of clients and total assets
- 47,350 employees, 16.2mn clients, 2,635 branches in 7 geographically connected countries

Commitment to Romania

- BCR is Romania's leading retail and corporate bank in terms of total asset, lending and savings
- BCR has been the main supporter of the Prima Casa program (about 20% market share)
- BCR co-financing in EU funded projects: EUR 1.7bn
- 2016 Erste Group Net Profit: EUR 1,265mn / Q1 17: EUR 262mn
- 2016 BCR Group net profit: EUR 233mn / Q1 17: EUR 43mn





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Selected credentials



Energy Sector is key interest for BCR and ERSTE Group, as it plays a very important role in the development, sustainability and security of Romania

Private sector

High Efficiency Cogeneration Projects:

► 42 MWe + 110 MWt



Renewable Energy Projects:

- ▶ 420 Mwe
 - 79.7 Mwe micro-hydro power plants
 - 304 Mwe wind power plants
 - 35.7 Mwe phtotovoltaic power plants
 - 1.5 Mwe biogas power plant



Public sector

Thermal Power Projects:

▶ 990 MWe producing only power



- ► 82,1 MWe and 1,151 MWt producing in cogeneration
- ▶ 90 MWt producing only heat





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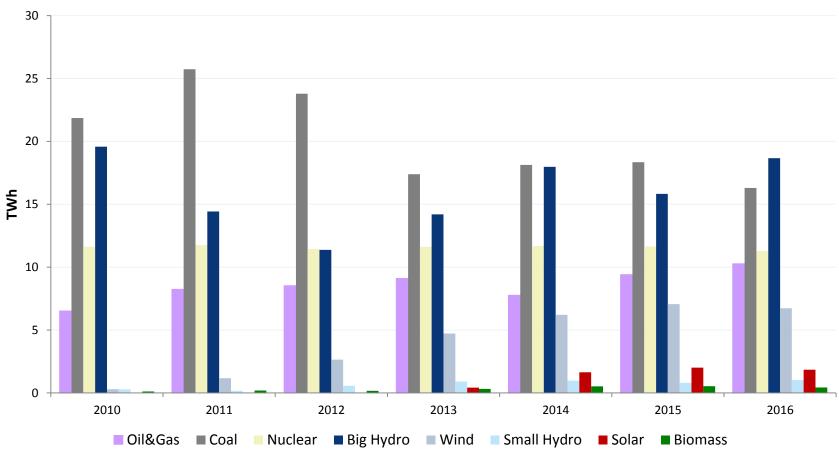
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Electricity market in Romania





Electricity Production by Energy Source

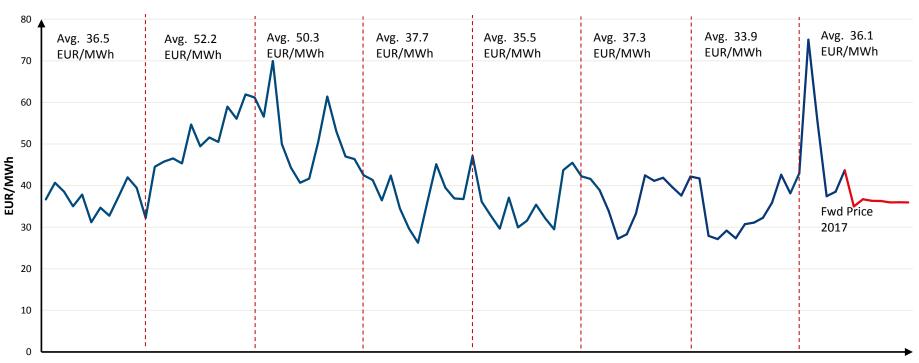


Electricity market in Romania



RE Production impact on the Electricity Spot Price

Day Ahead Market (DAM) Electricity Price Evolution



Jan-10 Jun-10 Nov-10 Apr-11 Sep-11 Feb-12 Jul-12 Dec-12 May-13 Oct-13 Mar-14 Aug-14 Jan-15 Jun-15 Nov-15 Apr-16 Sep-16 Feb-17 Jul-17 Dec-17

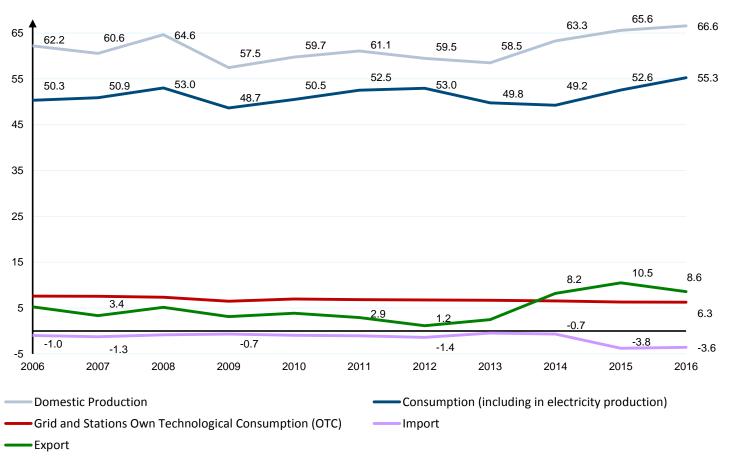
Source: OPCOM

Electricity market in Romania



Electricity Production and Consumption

Electricity Production & Consumption



Trend towards:

Higher Production (New RE Installed Capacities)

Higher Imports (Market Coupling)

Higher Exports (Overproduction)





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Renewable energy market in Romania



Multiple Amendments of Renewable Energy Law

•Law 220 - established the support scheme to stimulate production of electrical energy from RES, however it was not applicable until Nov 2011.

•Directive 2009/28/EC of the European Parliament on the promotion of the use of energy from renewable sources. Romania has binding obligation to achieve 24% of its entire energy consumption from renewable energies (RE) by 2020.

•Law 220 – in full force only for approx. 1.5 year – represented basis for investments. Romania has chosen to achieve its 24% obligation towards the EU by supporting investments in RE electricity production assets.

•Government Emergency Ordinance 57 introducing retroactive changes to the incentive scheme – postponement of GCs. GEO approved through Law 23 in February 2014.

•Government Decision 994 reducing the number of GCs for new projects starting Jan. 2014 in order to avoid overcompensation.

•As a result of Law 23, annual GCs quotas are to be issued by the regulator in order to keep the impact of GCs in the consumer bill at 35 RON/MWh. New Renewable Energy (RE) quota issued at 11.1% for 2014 vs. 14% in 2013. This created an oversupply (inflation) of GCs of 20% in 2014.

•Government Decision 495 excepting large energy consumers from paying GCs for 40-85% of consumed energy depending on the energy intensity in their cost structure. No impact in the oversupply of GCs. However, the impact in the consumer bill increases from 35 RON to 36.5 RON in 2015 (42 RON forecasted for 2016) due to GCs redistribution from large consumers to the rest of consumers.

•Secondary legislation (ANRE Order 78) bringing additional constrains (ex: base load quantities for RE plants) - achievable electricity price decreases for RE plants.

•Government Emergency Ordinance 24/2017 meant to improve the liquidity of GCs market and absorbing all issued GCs until 2031 by creating an annual static obligation for the market to absorb app. 14.9 mio GCs each year (increasing RE quota to 14% in 2017 and the impact in the consumer bill to app. 49.6 RON/MWh, while the floor price of EUR 29.4 shall remain fix and not be further inflated.

2008

2009

2011

Nov

2013

Jun

2013 Dec

2014

Apr

2014

Jun

2014

Aug

2017

Apr

Renewable electricity market in Romania

Renewable Energy market



Generous
incentive
scheme
granted by
the Romanian
State for RES
Projects that
boosted
investments

Indicative
Overall RE
National
Target for
2020 has
been
fulfilled
from 2015

5,145MW installed of RE Projects as of 31 Dec 2015 As a result the law has been amended: from predictable annual E-RES quotas until 2020 to annually ANRE set quotas

The quotas set by ANRE are lower with the aim to limit investments and limit the impact of GCs in the electricity bills of final consumers

15% from GCs issued in 2016 remained unsold at the end of reporting period

Solvency Problems for Existing RE-Projects Law
amendment
to increase
GCs annual
absorption
and improve
industry
profitability
and
decrease
volatility



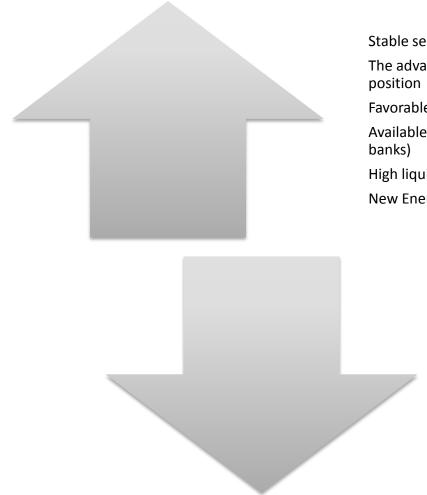


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Financing the Energy Sector



Available funds but lack of predictability



Stable sector to invest in, linked to national security

The advantage of Romania in terms of energy resources and geographical position

Favorable position of Romania in the macro economic context

Available funds to finance Energy Infrastructure Projects (EU funds, equity, banks)

High liquidity on the market

New Energy Strategy of Romania has been released in November 2016

Volatile regulatory framework

Unreliable incentive schemes

Poor coordination between public authorities, especially in the thermal sector

Overcapacity and obsolete production assets and networks

Energy Strategy still not approved by the Government after more than 6 months after the final version has been released

Financing the Energy Sector



Standard Project Finance Lending Principles

Conditions **Details** Strong Sponsor Investors capabilities to sustain the project, extensive track record, excellent financial standing. Non-recourse/Limited During construction period/covering the regulatory risk (in case of incentive schemes). Recourse Not less than 30%, but subject to debt sizing criteria (min. DSCR level). Min. Equity Level Only proven technologies supplied by reputable suppliers with proper maintenance program in place. Technology Permitting All the permits and authorizations for the "ready to build phase" in place. Lump Sum and Turnkey EPC Contract with Standard liquidated damages securing delays, performance Reputable EPC and O&M ratios, availability etc. Off-take Agreements Long term off-take agreements with reputable parties accepted by the lender will be required. Clean legal& technic. DD from Review of technical specifications, performance parameters, yield forecast, permitting, real estate, Reputable Party corporate, legal framework and project contracts. Insurers specialized in RES projects. Insurance must cover business interruption, mechanical breakdown, Suitable Insurance operational risks and third party liabilities. In some cases market reports, environmental studies and commercial DD are also required. Other

Team and Contacts





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