Financial Instrument for Energy Performance Contracts

Roman Dojčák, Slovak Investment Holding
Financial instruments 2007-2013

Financial instruments 2014-2020

Alternative investment funds anywhere in the EU

Investment advisory services

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<table>
<thead>
<tr>
<th>Area</th>
<th>Resources (mil. EUR)</th>
<th>Financial instrument</th>
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</table>
| Infrastructure                | 140                  | • Mezzanine finance for D4/R7 PPP, direct - signed  
• Loan to State Railways for diagnostic vehicles, direct - signed  
• Alternative fuels - revision of the OP |
| Energy efficiency             | 213.5                | • PRSL for banks for EE in residential buildings - preparing to sign + 2 PPs  
• Guarantee or Equity instrument for EE in public buildings and SMEs |
| Waste management              | 67                   | • Equity instrument for fund managers - signed |
| SMEs                          | 249                  | • PRSL for banks - signed  
• FLPG for banks - signed  
• Seed capital instrument for fund managers - PP completed  
• Venture capital instrument, direct - signed: GA Drilling, Boataround, GreenWay |
| Healthcare                    | 100                  | • Loan instrument for a hospital, direct - preparing |
| Culture and creative industries | 56                   | • Soft loans - preparing |
| Social economy                | 72                   | • Guarantee instrument for banks - PP underway  
• Loan instrument for banks and Equity instrument for fund managers - preparing  
• Equity investment for social housing poss., direct - preparing |

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EPCs: regulatory and market developments

• Regulatory environment prerequisites - check (sort of)

  ✓ Eurostat & EIB guide on EPCs - May 2018

  ✓ Government Concept for development of EPCs - July 2018

  ✓ Legislative amendments with respect to EPCs - December 2018

  ✓ Eurostat rubberstamp on EPC template contract - March 2019
New EPC environment - what’s not to like

Great interest in EPCs but slow market adjustment to the new regulatory environment

• Contract duration

• EPC payments - fluctuation

• Loss of forfaiting as a main source of financing - due to increased risk for banks

• Promoters: no ESIF grant, find money for EPC audit, procure an ESCO, sign a 15 year contract (maybe)
Financial Instrument for EPCs

Starting point situation

• Bank loans for ESCOs are not the answer (ESCO leverage limits)

• Forfaiting riskier & banks are very hesitant

• Guarantee instrument to support bank forfaiting - interest but eligibility issue

• Banks: administrative burden with FIs may outweigh the benefits
Equity instrument to support EPCs

- SIH procures 2-3 fund managers
- FMIs establish equity funds with co-investment from SIH and their own resources
- FMIs invest equity into SPVs
- ESCO as a co-investor in each FM’s investment, at the level of an SPV
- Bank loans to an SPVs
- SPV subcontracts its ESCO investor to provide EPCs
Equity instrument to support EPCs

Main benefits

• Assets and liabilities on the balance sheet of a SPV, not ESCO

• No necessity for ESCO to sell EPC receivables in order to deliver new projects

• Private co-financing
  ➢ Equity from the FM at the level of the fund
  ➢ Equity from the ESCO at the level of an SPV
  ➢ Loan from banks at the level of an SPV