



And Now What?

Financing Energy Transactions in the Current Environment

Alejandro J. Valencia

Project & Energy Finance – Société Générale

La Jolla - May 12, 2009



Disclaimer

Société Générale Group, SG Americas Securities, LLC and their affiliates. All rights reserved. Société Générale Corporate & Investment Banking (“SGCIB”) is a marketing name for corporate and investment banking businesses of Société Générale and its subsidiaries worldwide. Capital markets and investment banking activities are offered through U.S. registered broker-dealer SG Americas Securities, LLC, a member of the NYSE, NASD and SIPC. Lending, derivatives and other commercial banking activities are performed by Société Générale and its banking affiliates.

This presentation is for information purposes only and does not constitute an offer, or the solicitation of an offer, to buy or sell any securities or to provide any investment banking or other services. Nothing contained herein should be construed as a direct or indirect offer of favorable research or a specific rating or a specific price target in exchange for investment banking business. Nothing contained herein shall be deemed a commitment or undertaking of any kind on the part of Société Générale or SG Americas Securities to underwrite, place or purchase any securities, to provide any debt or equity financing or to participate in any transaction, or a recommendation to buy or sell any securities. Prior to participating in any such transaction, you should consult, to the extent necessary, your own independent, competent, legal, tax, accounting and other professional advisors.

In preparing this document, SGCIB has used information available from public sources. Although the material contained herein is believed to be accurate in all material respects, no express or implied representation or warranty as to the accuracy or completeness of such information is made by SGCIB, nor any other party. Nothing contained herein is, or shall be, relied upon as a promise or representation as to the future. The thoughts and conclusions enclosed herein are only indicative and do not represent any commitment from SGCIB.

■ ■ How we got to this point....

- A global financial crisis, coming up to its second anniversary
- An unprecedented drop in global commodity prices, following an unprecedented commodity bull run
- Fundamental changes in the way banks are regulated

■ ■ How we got to this point....

- A global financial crisis, coming up to its second anniversary

- An unprecedented drop in global commodity prices

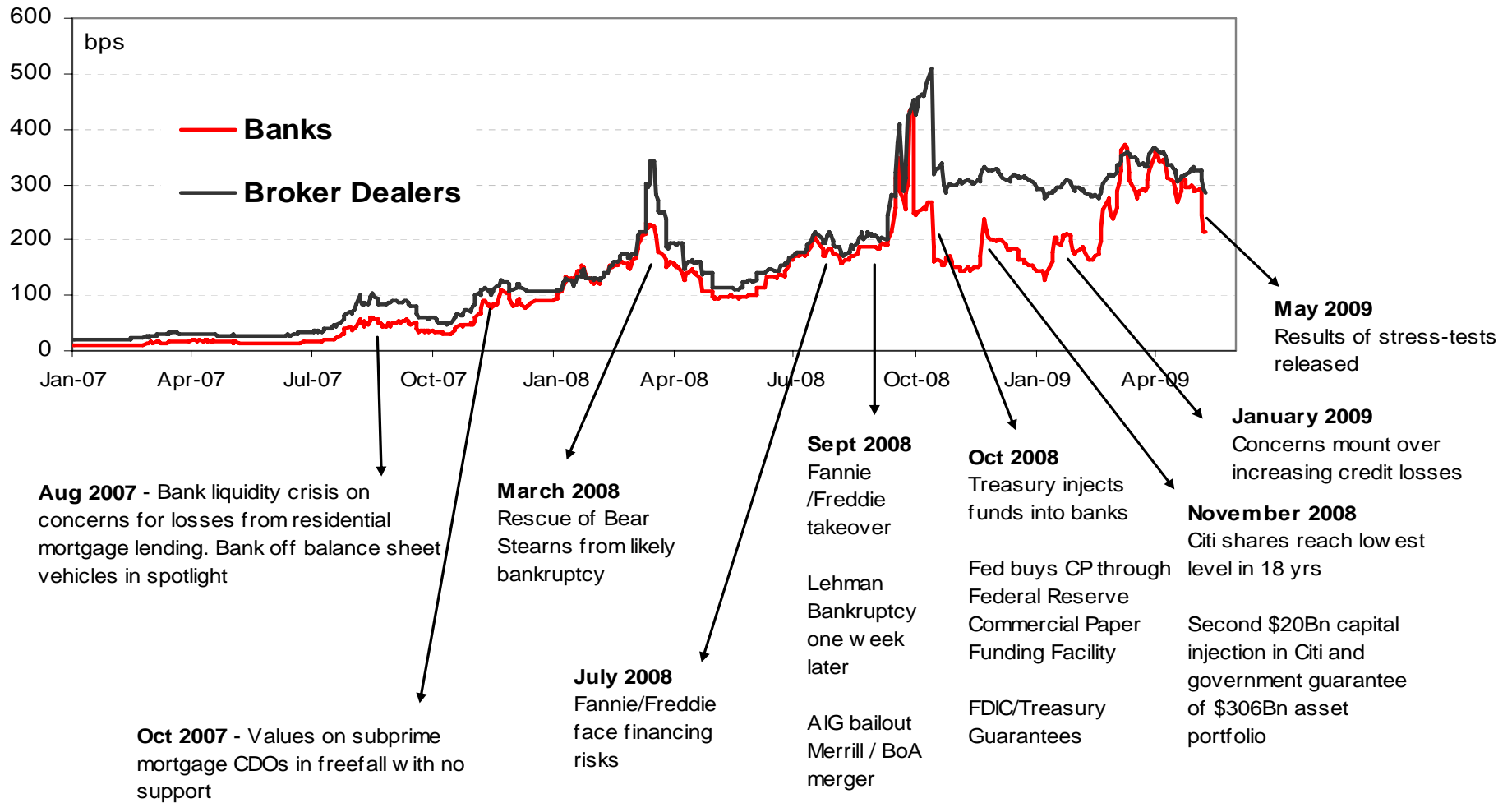
- Fundamental changes in the way banks are regulated

■ ■ ■ How we got to this point....

- A global financial crisis, coming up to its second anniversary, and characterized by unprecedented levels of
 - ▶ Loss of liquidity
 - ▶ Massive deleveraging
 - ▶ Departure of banking competition
 - Transformational events
 - Strategic redirections
 - ▶ Sovereign intervention in financial institutions and resulting effects on financial sector governance
 - ▶ **Uncertainty and crisis of confidence**

Broad events in the credit and financial markets

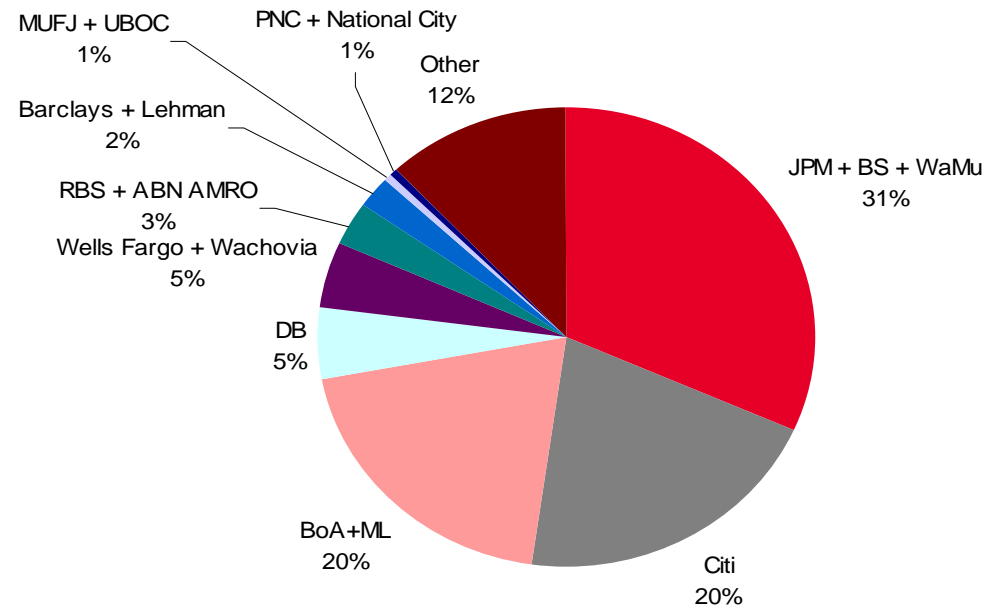
Average CDS Spreads



Fewer players – reduced liquidity

■ **Fewer players:** the forced mergers and bankruptcies of 2008 have reduced the number of players

- ▶ JP Morgan / Bear Stearns / Washington Mutual
- ▶ Barclays / Lehman
- ▶ Bank of America / Merrill Lynch
- ▶ Santander / Alliance & Leicester
- ▶ Lloyds / HBOS
- ▶ BNP Paribas / Fortis Belgium and Li
- ▶ Commerzbank / Dresdner Bank
- ▶ RBS / ABN AMRO
- ▶ PNC / National City
- ▶ TD Bank Financial / Commerce Bank
- ▶ Wells Fargo / Wachovia



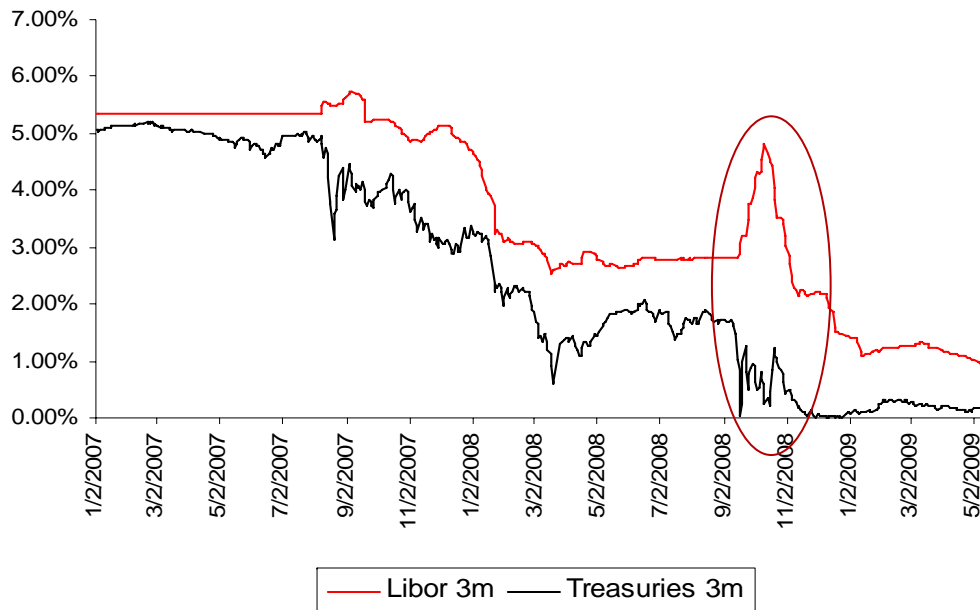
A smaller lender base - reduced market liquidity

Liquidity contraction and market conditions

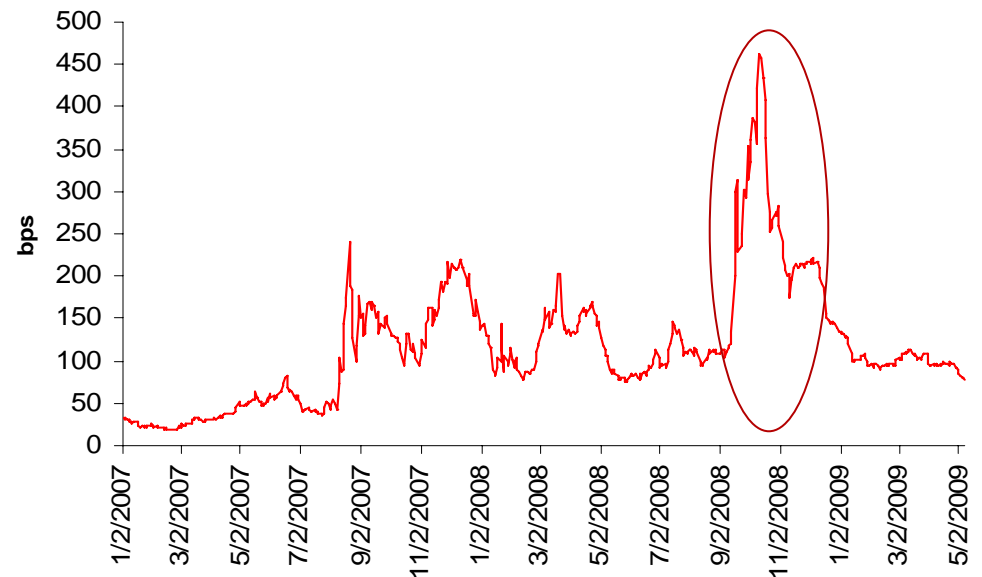
TED Spread widens

- TED Spread measures spread difference between the 3 month LIBOR rate and the 3 month T-Bill yield - TED Spread historically has been an indicator of perceived market credit risk
- LIBOR normally tracks closely with the short term interest rates set by the US Federal Reserve
- As banks have failed, other banks have become less willing to lend at low rates and thus new historically wide TED Spread levels have been reached in '08

Libor 3m vs. US Treasuries 3m
January 2007 to date



TED Spread - January 2007 to date



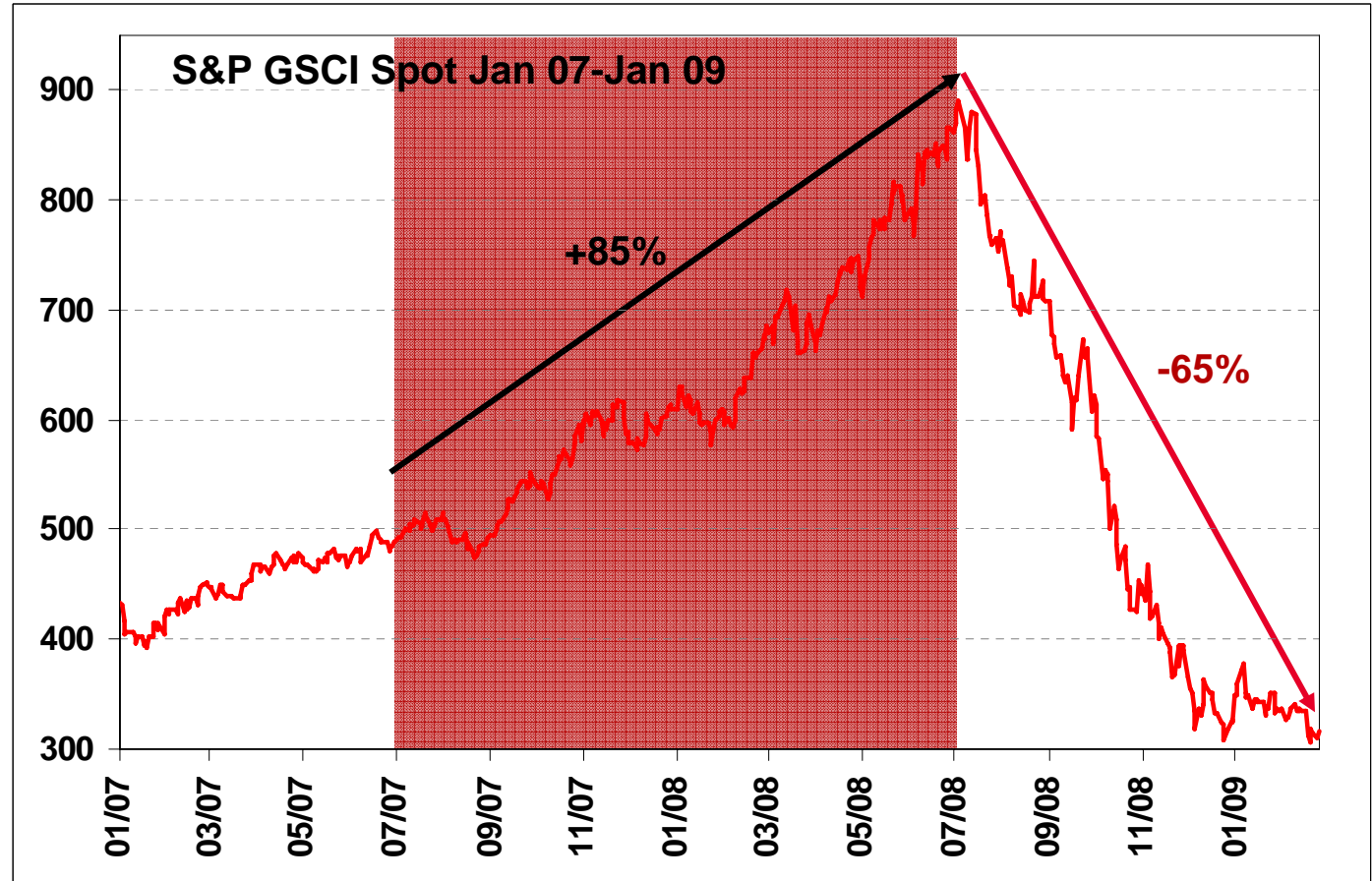
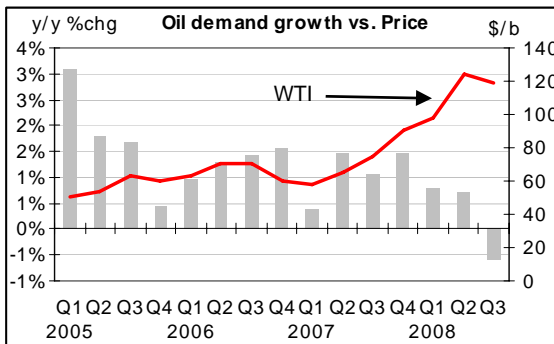
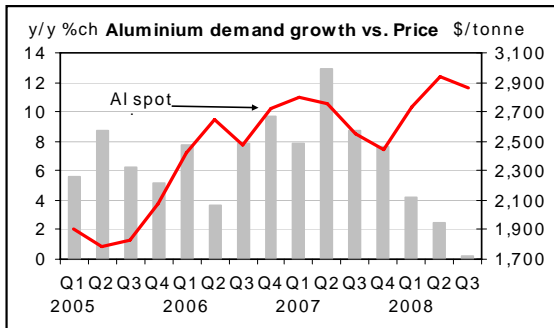
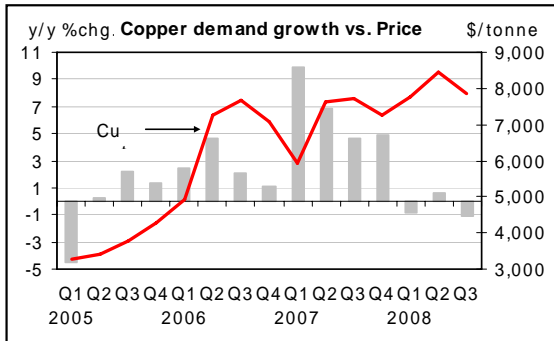
■ ■ How we got to this point....

- A global financial crisis, coming up to its second anniversary
- An unprecedented drop in global commodity prices
- Fundamental changes in the way banks are regulated

■ ■ How we got to this point....

- An unprecedented drop in global commodity prices, following an unprecedented commodity bull run
 - ▶ In six months we saw the loss of several years of average commodity price increases
 - ▶ The drop demonstrated the relative euphoria of certain markets, seen in recent years
 - ▶ This loss of value exacerbated the contraction of liquidity contraction and competitive thinning out

■ ■ During the subprime crisis, demand collapsed while commodity prices rallied !

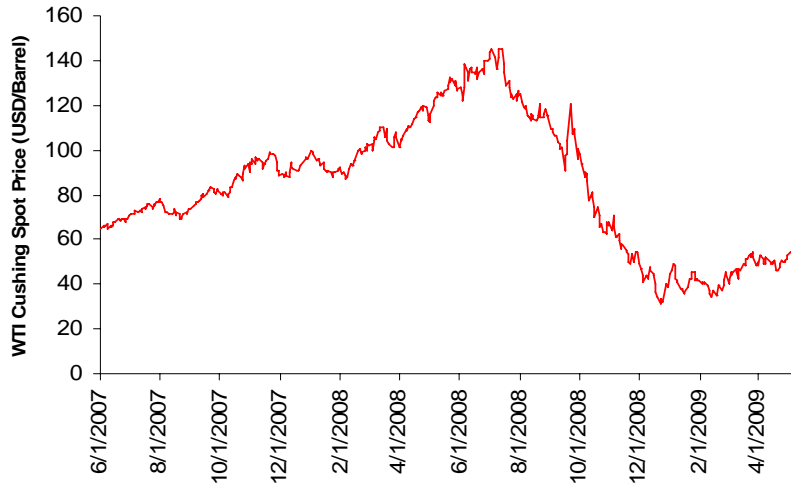


Source: SG Commodities Research



Commodity prices start dropping after summer-08

Oil Prices - June 2007 to date



Natural Gas Prices- June 2007 to date



Corn Prices - June 2007 to date

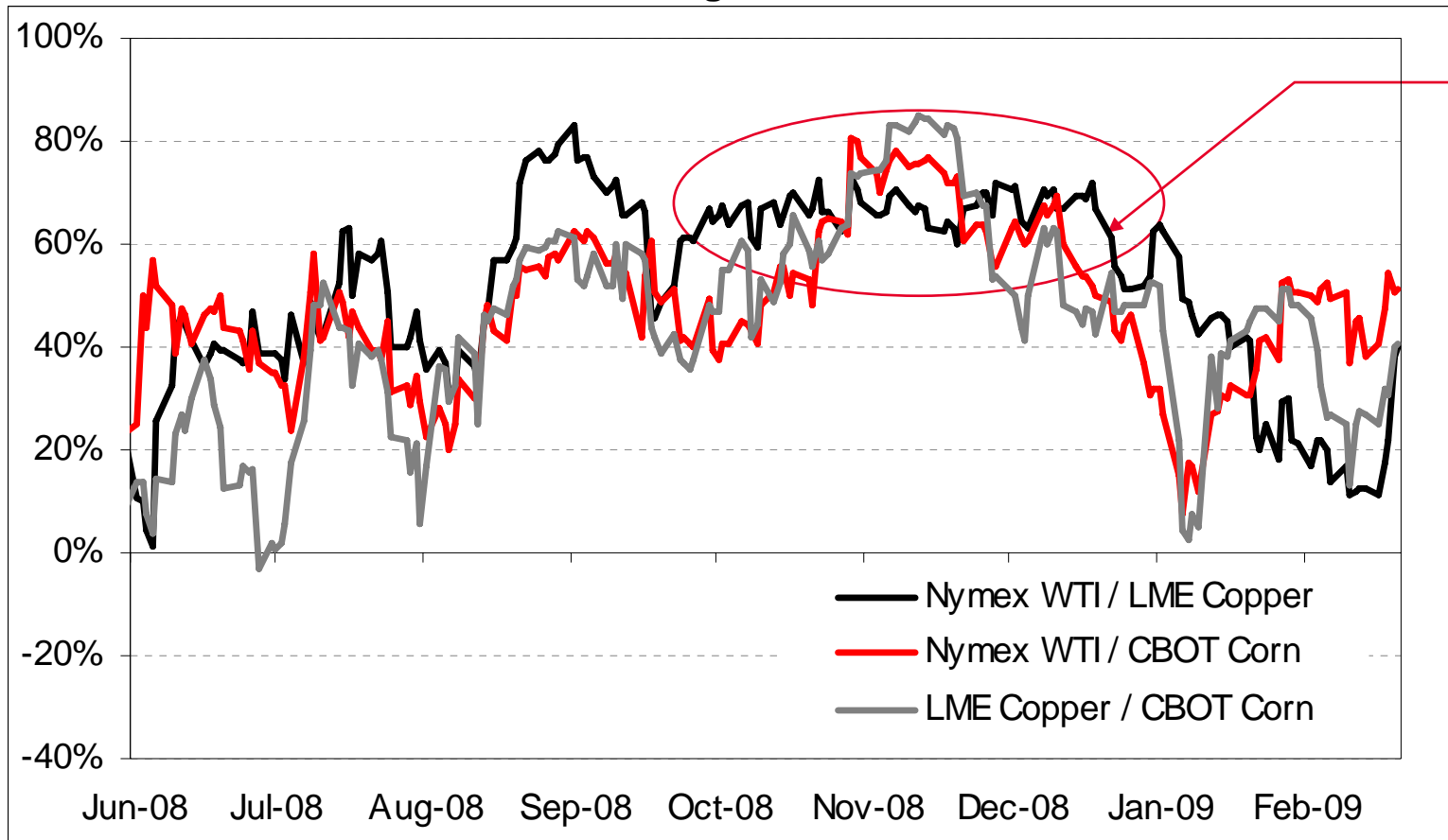


Aluminum Prices - June 2007 to date



Recent commodity performances start to diverge

One-Month Rolling Correlations



Commodities correlations suggest investors were not selective during the de-leveraging process

Source: SG Commodities Research

■ ■ How we got to this point....

- A global financial crisis, coming up to its second anniversary

- An unprecedented drop in global commodity prices

- Fundamental changes in the way banks are regulated

■ ■ ■ How we got to this point....

- Fundamental changes in the way banks are regulated
 - ▶ For major money center banks, particularly true in Europe, the implementation of the new Basle 2 capital regulations
 - Provides sensible risk-base capital allocation
 - It is however highly pro-cyclical.....
 - ▶ Sovereign capital injections will stabilize bank capital but will invariably affect governance
 - We have seen it in relation to executive compensation
 - Should expect to see it in how capital is deployed
 - ▶ Expanded bank regulations are likely

■ ■ Where does this leave us?

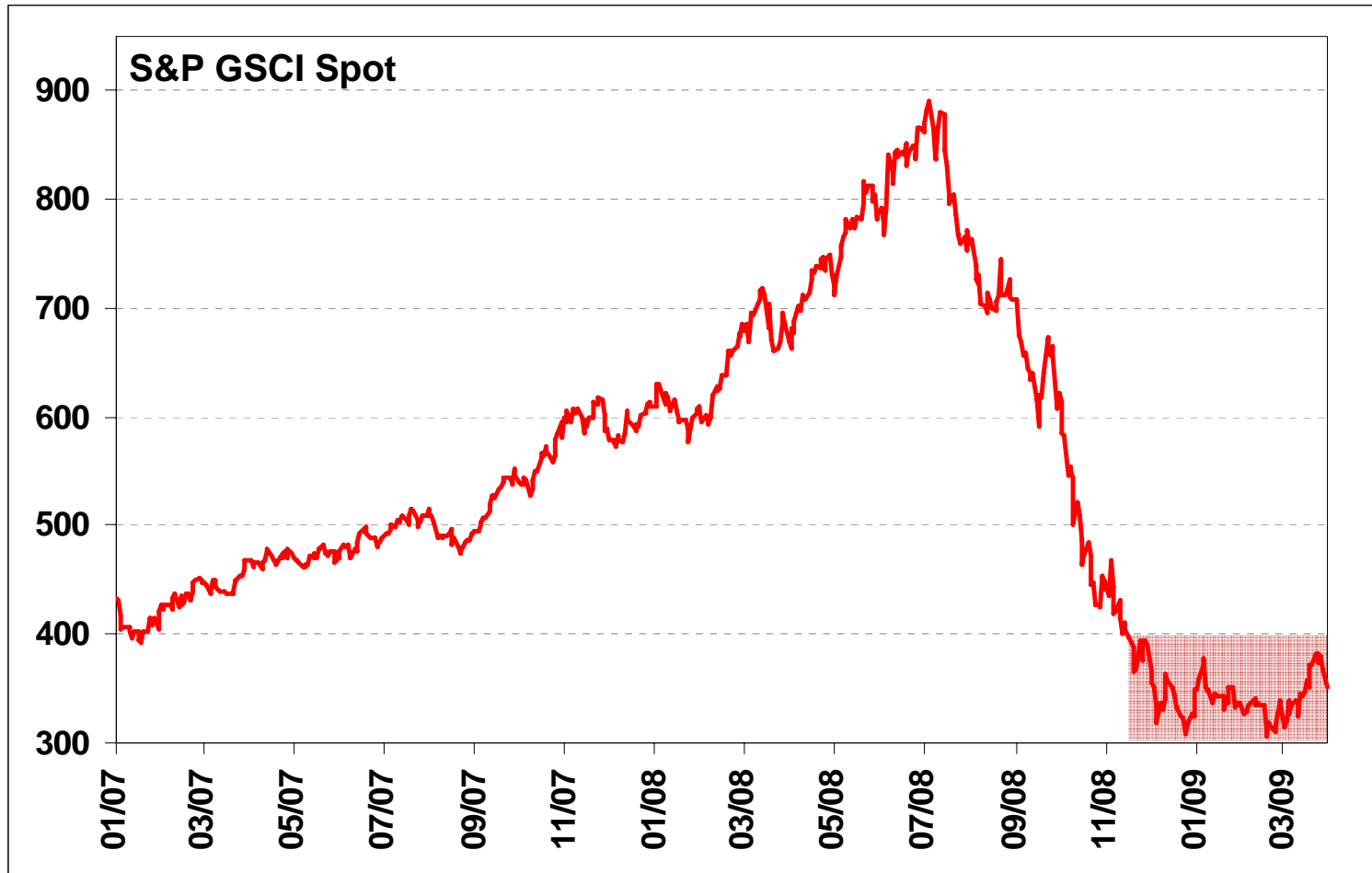
■ Commodity Prices

■ Access to financing

■ What has changed? What can borrowers expect?

Commodity prices

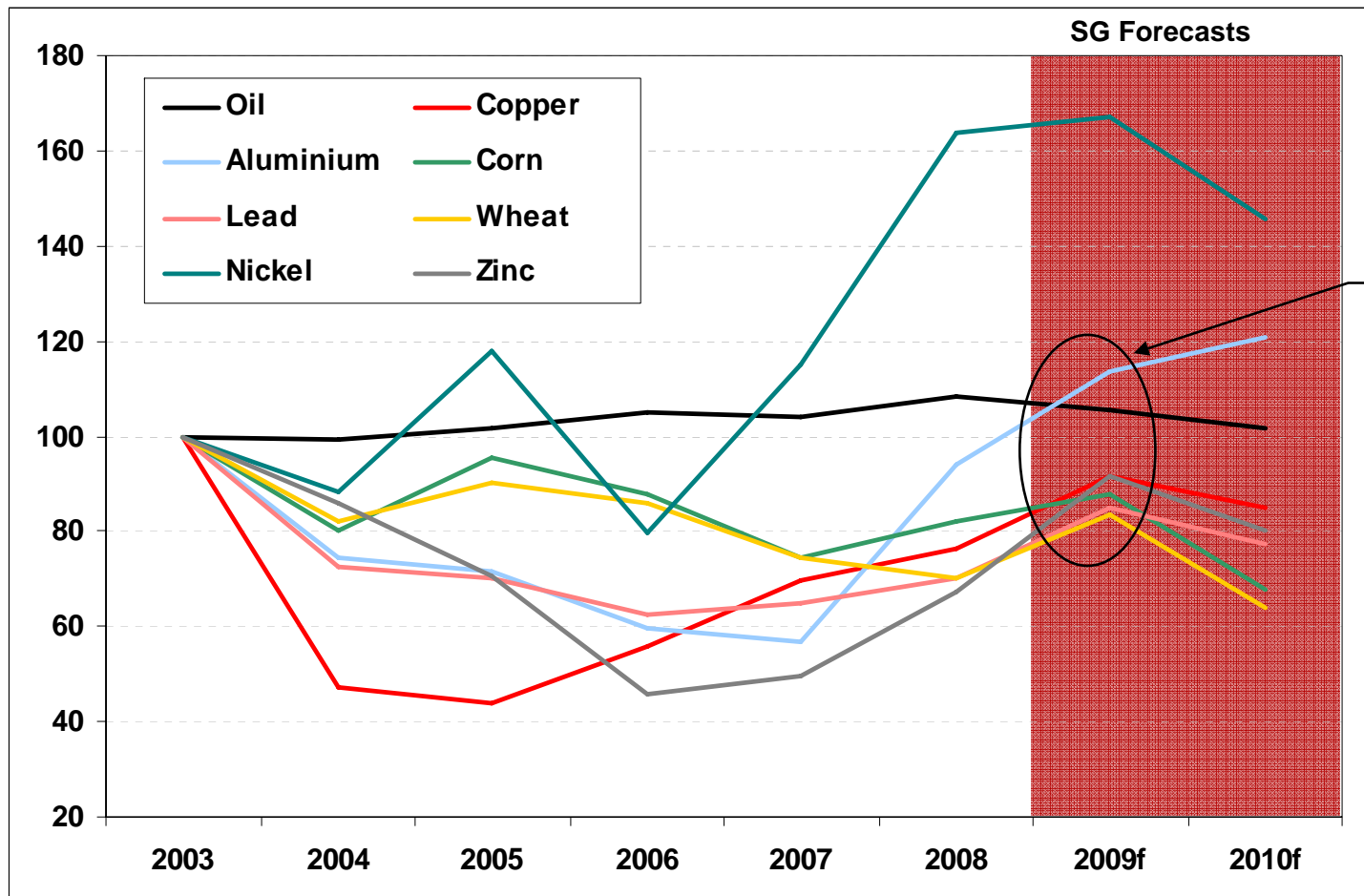
In Q1 09, commodities appear to have found a floor although the economic news flow has remained disastrous



Source: SG Commodities Research

Producers will struggle rebalancing the market in 2009 but should eventually get the return in 2010

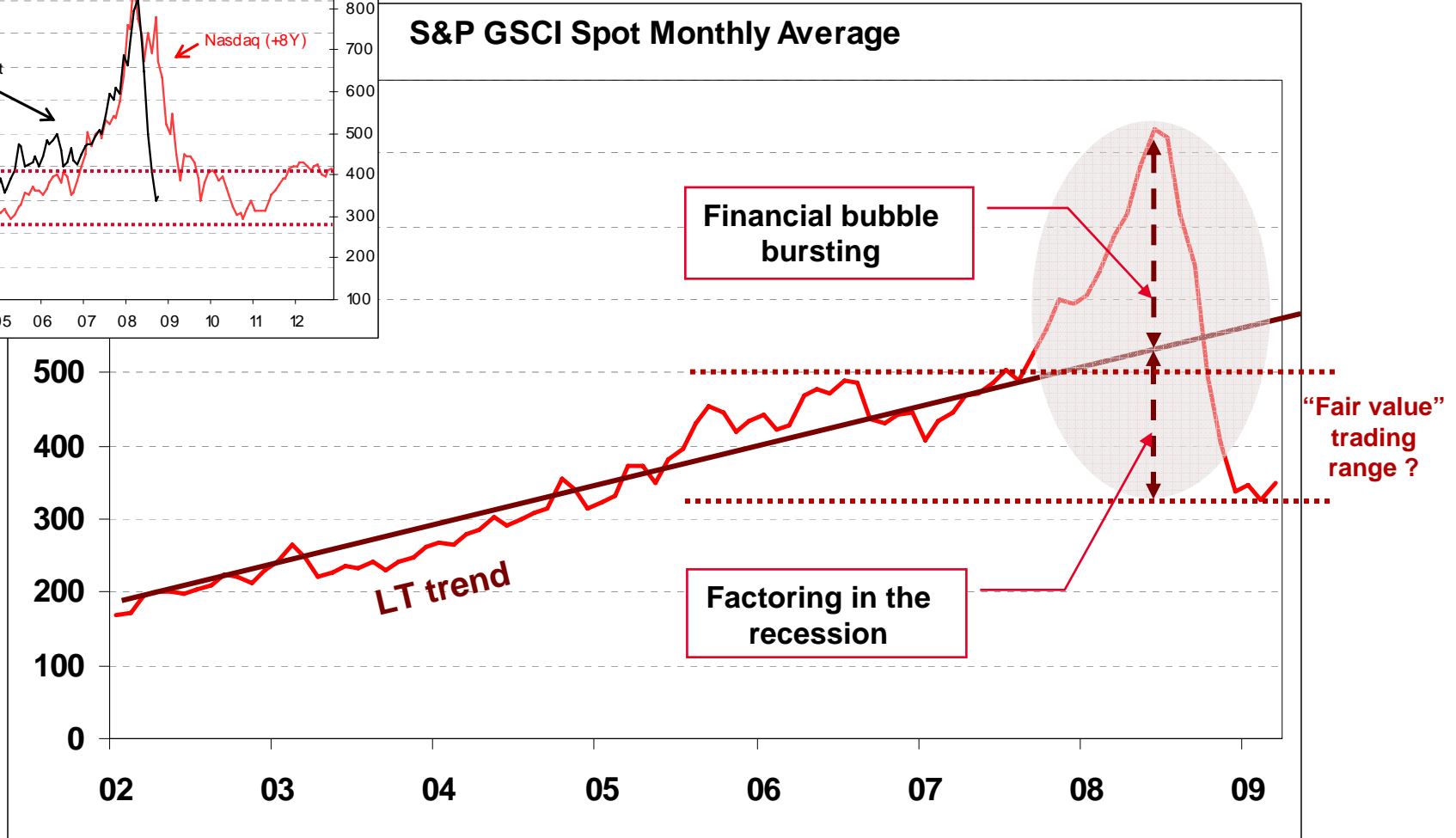
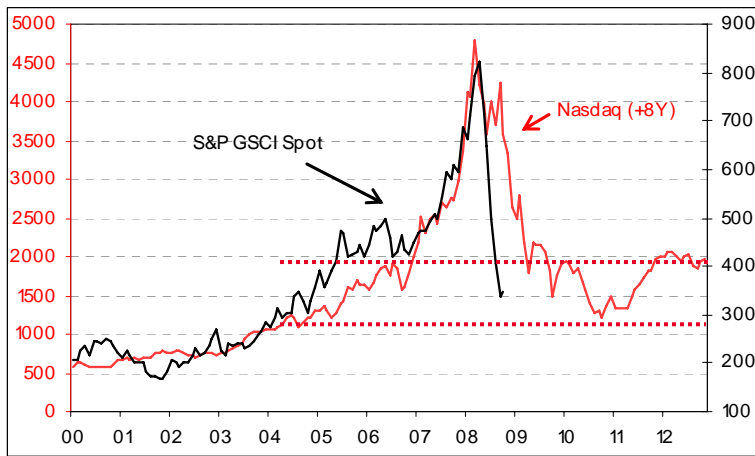
Stock in days forward consumption – 100 rebased in 2003



Thanks to OPEC, the oil market should be rebalanced much faster than markets where the rebalancing comes only from a cost curve adjustment

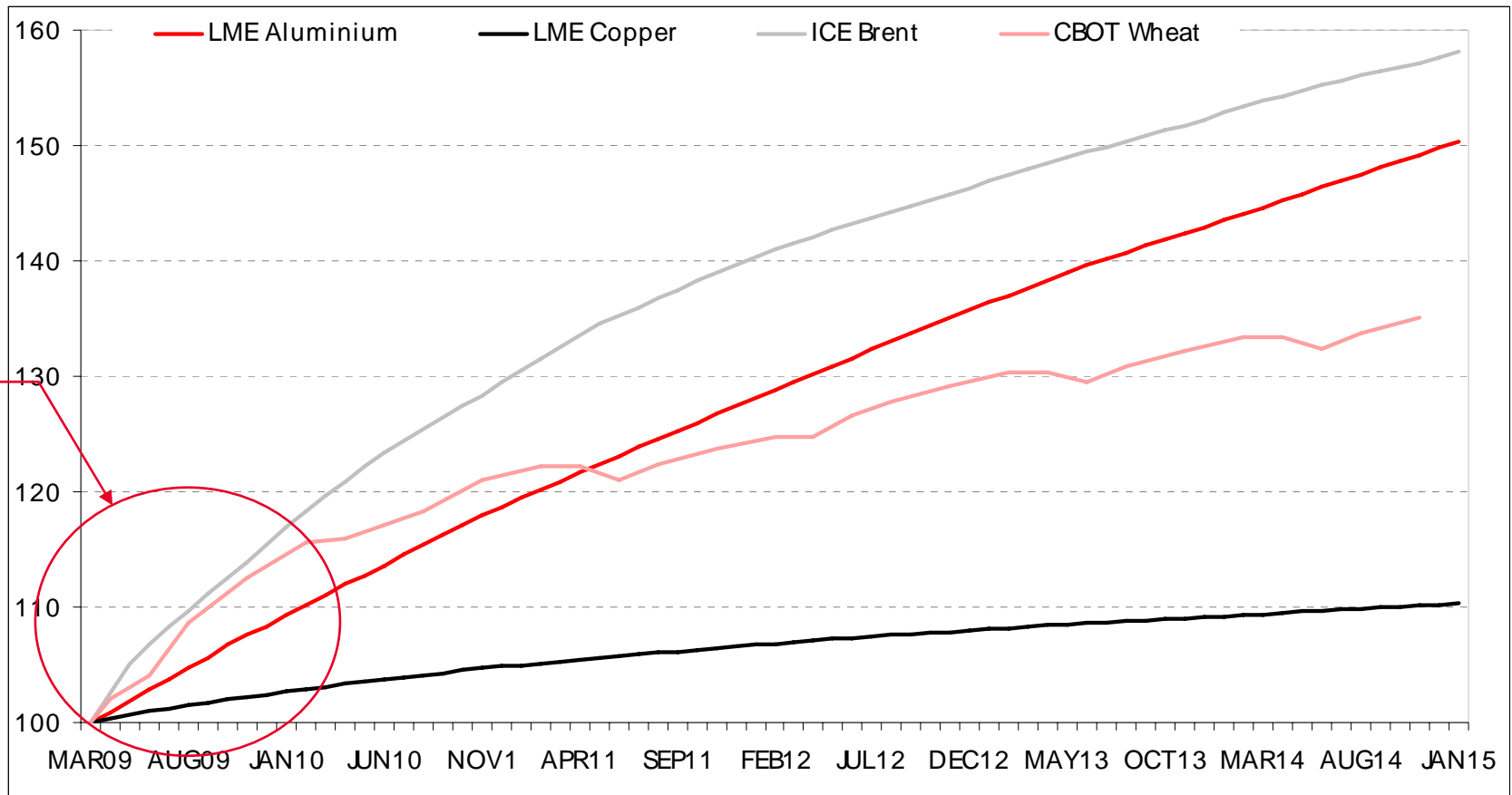
Source: SG Commodities Research

Recent trading conditions resemble very much to “post-bubble” conditions



■ ■ Despite the steep contango, SG research expects future prices to outperform current forwards

Commodity Forward Curves as of 25/02/09 – 100 Rebased on the 1st Nearby



Short-end time-spreads just reflect the actual and expected stock-build

Source: SG Commodities Research

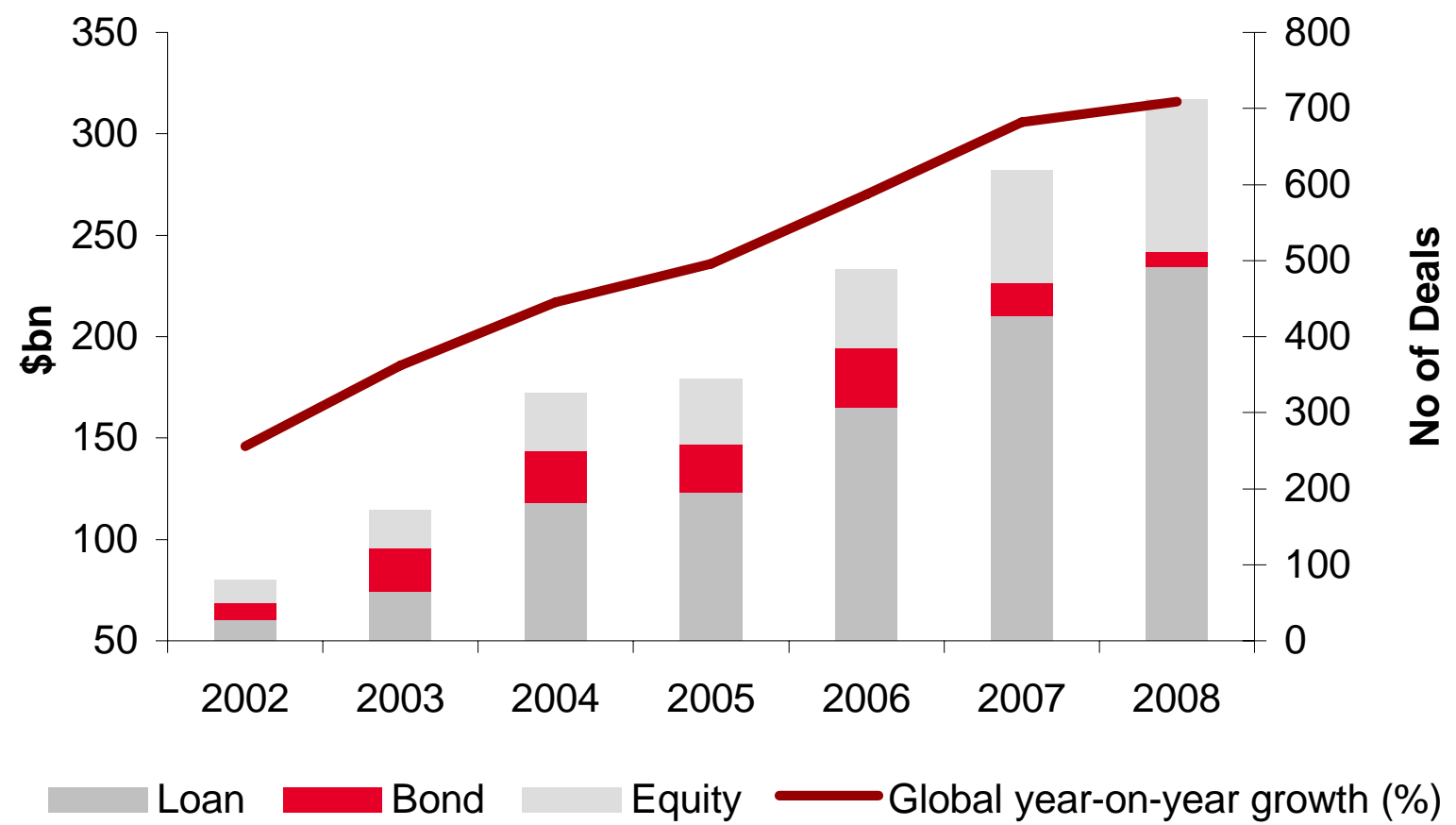
■ ■ Where does this leave us?

■ Commodity Prices

■ Access to financing

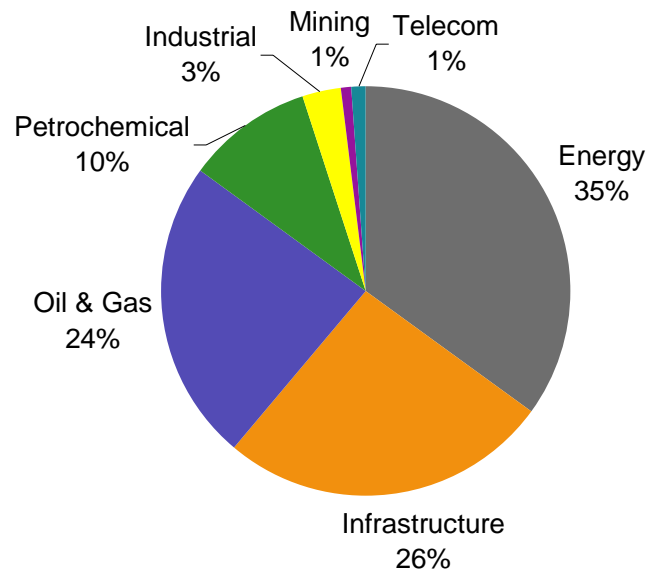
■ What has changed? What can borrowers expect?

Global Project Finance in 2008 – Snapshot View

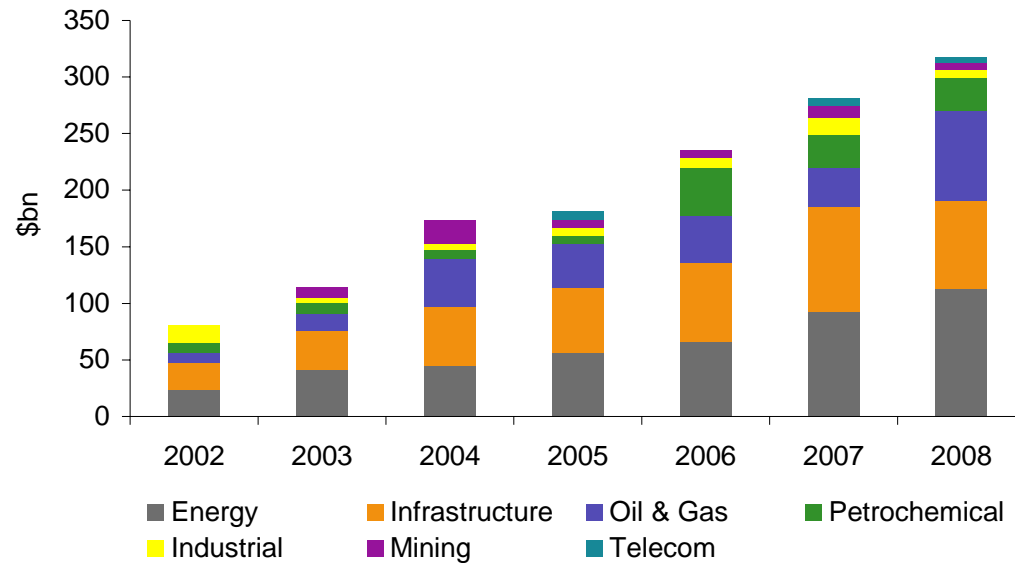


Project Finance in 2008 – Global Volume Analysis

Global Sector Share 2008

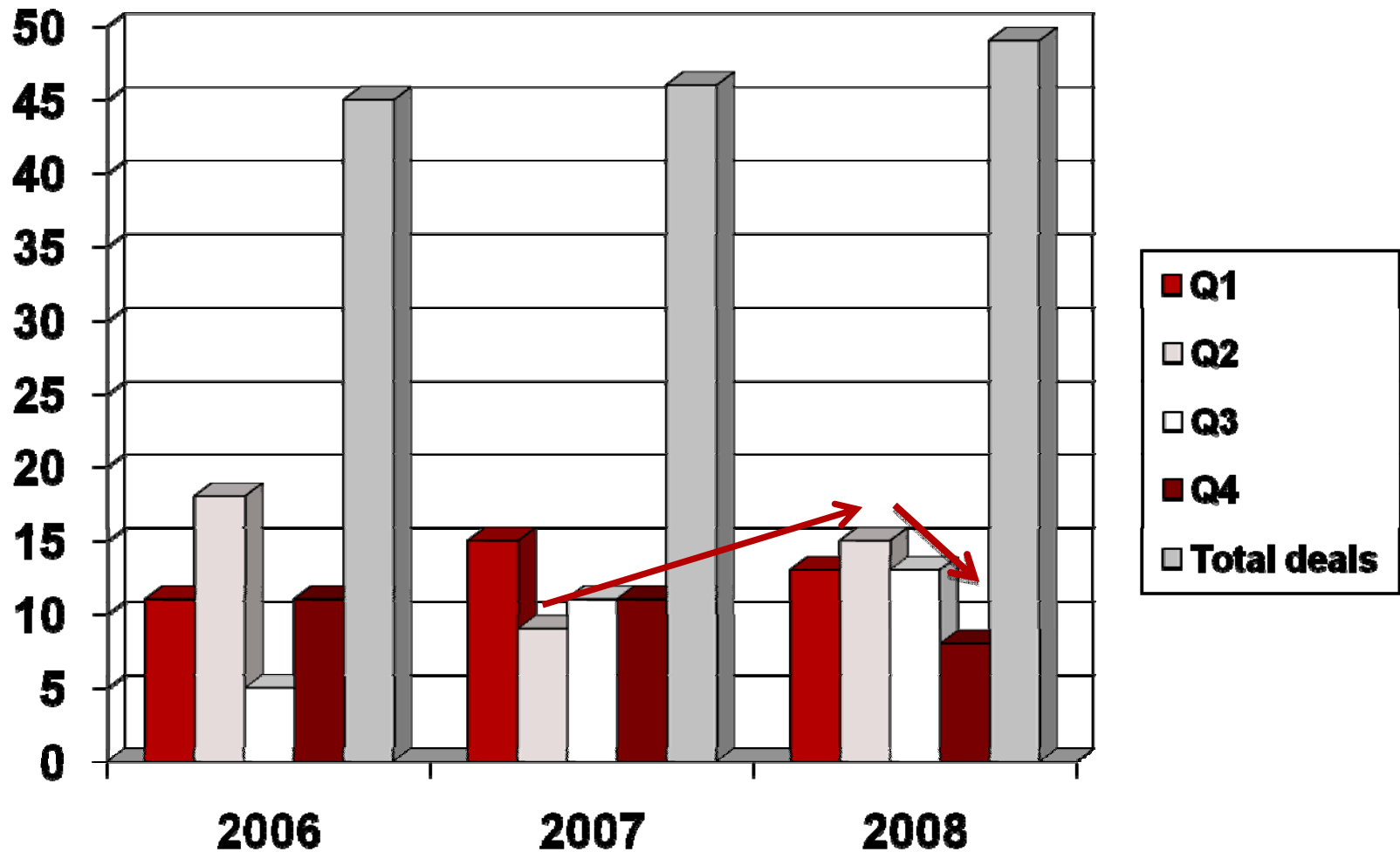


Global Sector Volumes



Source: Dealogic

■ Latin American Energy Financings –
Project and Corporate Finance (# of deals)



■ ■ Where does this leave us?

■ Commodity Prices

■ Access to financing

■ What can borrowers expect in 2009?



Implications for the Project Finance Market

- Strong capital constraints - liquidity continues to be scarce
- Underwriting appetite is now non-existent
- Club deals have replaced syndicated loans
- Credit committees remain cautious, rigorous and selective, resulting in a “back to basics” approach with more conservative facility structures and appropriate pricing
 - ▶ Loan tenors have been reduced
 - ▶ Required equity investment by borrowers has increased
 - ▶ Financial covenants are becoming more restrictive
 - ▶ Credit spreads in the sector have widened
 - ▶ Libor has not been reflective of actual bank funding costs
 - Market disruption language required in credit agreements
 - ▶ Credit market disruptions have increased the costs of new financing
 - Cost of funding for banks has been going up
 - Fees required by arrangers have increased

■ ■ What can borrowers expect?

- Structures and pricing will reflect limited liquidity and risk aversion
 - ▶ Mini perms
 - ▶ Tighter structures; deals structured with higher ratios and lower gearing
 - There are clear signs that investors require longer “tails” between final maturity and expiry of offtake/supply agreements
 - Robust credit fundamentals and stringent downside testing are required
 - Realigned risk return, albeit in a favourable interest rate environment
- Club versus Underwriting
 - ▶ Club deals are and will remain the norm until there is clear evidence that retail liquidity is returning to the loans market
 - ▶ Even club deals can be challenging because of constrained liquidity
 - ▶ Even generous flex provisions will not provide sufficient comfort to get banks into offering underwriting

■ ■ What can borrowers expect?

- Good deals continue to get done
 - ▶ Long term bull view on energy
 - ▶ Capital investments continue largely unaffected.... as the industry expects a drop in costs
 - ▶ Very few abandoned or cancelled projects
 - ▶ Across industry sub segments, including select renewables
- Fundamental risk analysis is back

Rankings & Awards in Natural Resources



Sources:

- (1) Euromoney July 2008
- (2) Trade Finance June 2008, 2007 and 2006
- (3) Euromoney, September 2007
- (4) Asia Risk May 2008 and 2007
- (5) The Asset Magazine 2008
- (6) Project Finance International December 2008
- (7) Euroweek Syndicated Loan Awards, February 2009
- (8) emeafinance 2008 Project Finance Awards, April-May 2009

Commodities Finance	2008	2007	2006
▪ Best Global Commodities House (1)	#1		
▪ Best Overall Commodity Finance Bank (2)	#2	#1	#1
▪ Best Metals Commodity Finance Bank (2)	#1		
▪ Best Energy Commodity Finance Bank (2)	#2		
▪ Best Softs Commodity Finance Bank (2)	#3		
▪ Best International Trade Bank in Russia (2)	#3		

Project Finance (4)	2008	2007	2006
▪ Best Project Finance House in (1)			
▶ Western Europe	#1		
▶ Central & Eastern Europe (3)	#1	#1	
▶ Africa	#1		
▶ Bank of the Year-Americas (6)	#1		
▶ Best Arranger of PF Loans (7)	#1		
▶ Best Africa Project Finance House(8)	#1		

Other Related	2009	2008	2007
▪ Overall dealer (4)	#3	#3	#5
▶ Oil overall dealer	#1	#3	#3
▶ Metals overall dealer	#1	#3	#5
▪ Best Export Finance Arranger (2)		#1	#1

Your partner in...

 Euro Capital Markets

 Derivatives

 Structured Finance