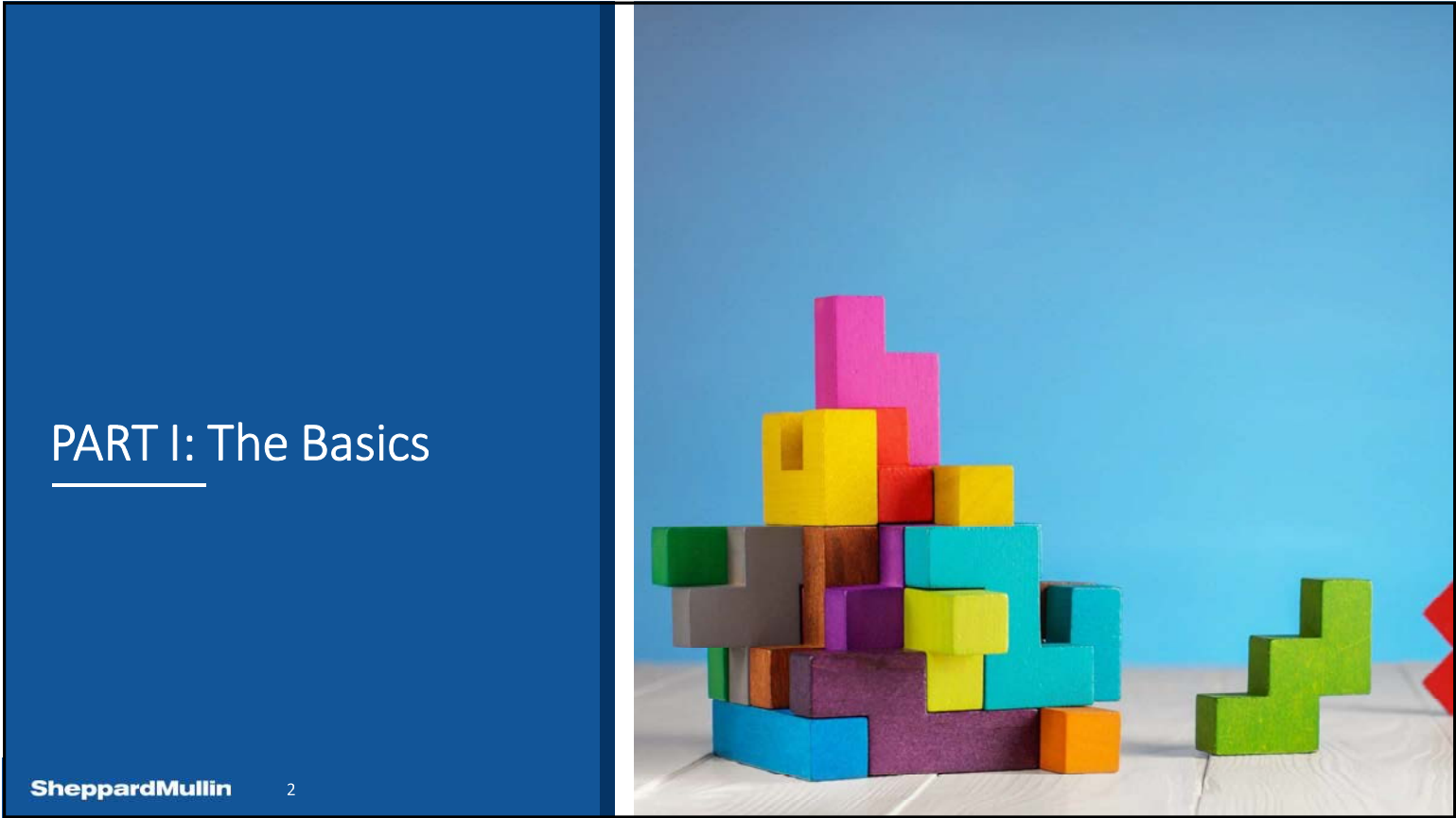




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# Project Finance and Why Sponsors Use it

## Non-recourse (or limited recourse) vs. recourse financing

### Non-Recourse

- Lender's sole recourse is the project itself
- Diligence on the project company is critical for lenders

### Limited Recourse

- Sponsor provides back-stop for certain risks, e.g.,
  - Costs of potential construction delay
  - Permitting or real estate risks
  - Term debt resizing

### Full Recourse

- Sponsor provides guaranty covering the full loan amount or is the borrower under the loan and directly liable for repayment



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## Motivations of Project Participants

- Sponsor
  - High leverage
    - 90% debt, 10% equity during construction
    - Enables recycling of cash
  - Limited risk during construction and operations
- Tax Equity
  - Monetization of tax benefits (tax credits & depreciation)
- Lenders
  - Highly structured transactions designed to mitigate risk
  - Attractive risk adjusted returns

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# Building Blocks – The Project Company



The Project Company enters into various contracts obligating it to pay money, e.g.:

- EPC Contract
- Supply Contracts
- O&M Agreement

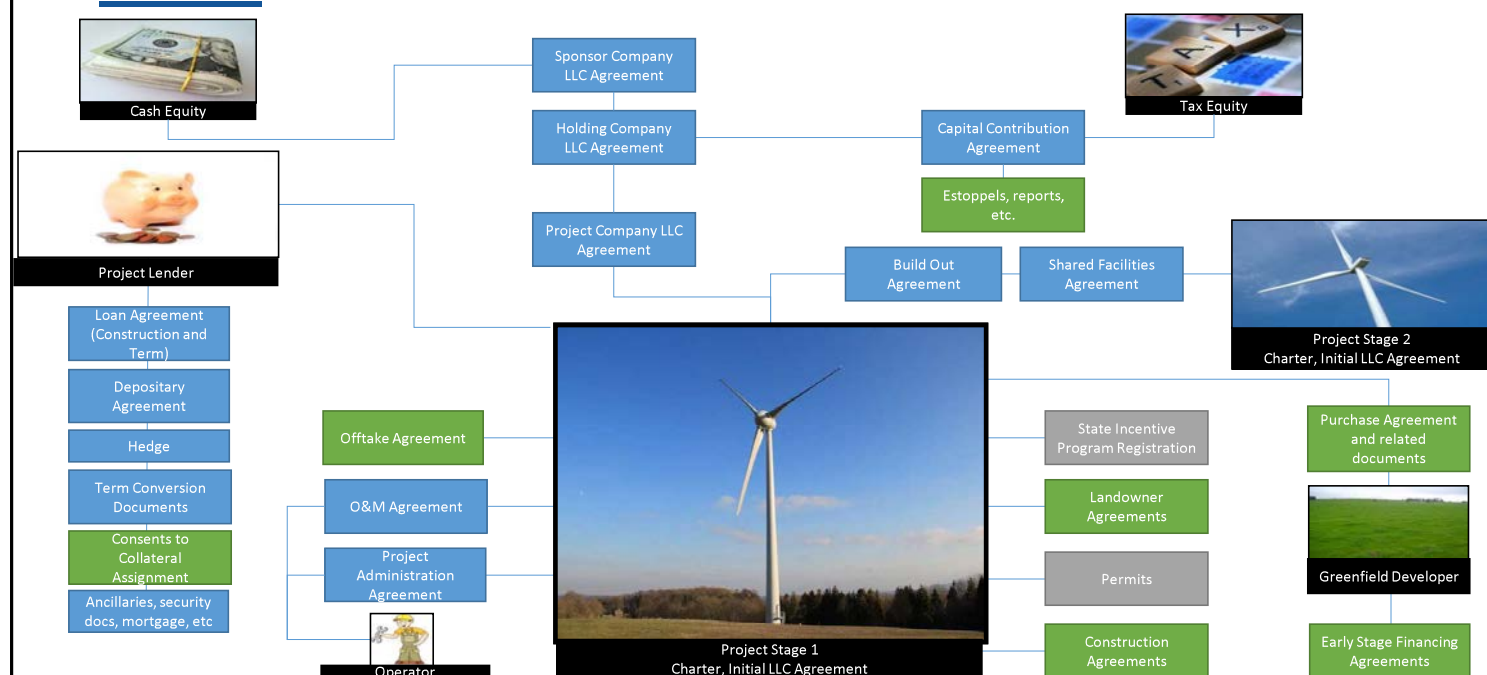
These also create tax items of expense and depreciation/amortization.

The Project Company enters into various contracts pursuant to which it will receive money, e.g.:

- PPA
- Hedges
- REC Contracts

These also create tax items of revenue.

# Relationship of Project to Some Common Stakeholders



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