

Appendix A4: Financial Due Diligence

1. Financial Standing

This section sets out the guidance for assessing the general financial strength and standing of the project sponsor in order to give the Commission confidence of the project sponsor's ability to meet the project funding requirements and hence deliver the project successfully.

The project sponsor will be assessed through a review of their responses to application form C, together with an analysis of the supporting documentation (including, *inter alia*, the project sponsor's annual reports, financial statements, credit ratings, and letters of support from lenders).

All members of the project sponsor taking on risk, including those providing funding, are required to complete this section of the form as the outcome of the review will be dependent on the collective financial standing of all members of the sponsor bearing risk.

The assessment requires the EIB to consider the information supplied by the relevant member of the project sponsor on its financial position and carry out a high level financial analysis on this information in order to get a sense of the entity's financial strength generally and, in particular, its ability to undertake the project as proposed over the relevant term (5 years for RES or 10 years for CCS). The responses given will be used to reach an overall conclusion on the strength and robustness of each member of the project sponsor, and hence of the project sponsor as a whole.

As the financial standing review will require the consideration of quantitative factors (such as financial ratios and credit ratings) and qualitative factors (such as press search results), the overall financial standing conclusion will be of a qualitative form. The EIB will seek to ensure that the evidence provided in response gives sufficient assurances that the project sponsor possesses the required financial strength and standing to deliver the project.

Issues for the Commission to consider: *(This should contain a summary of the main issues, if any, which arise from the EIB's due diligence review and which should be included in the evaluation report)*

Assessor judgement *(This should summarise the overall assessment of the project following completion of the due diligence – see below for example).*

Based on the assessment below, the EIB should develop a sense of the financial strength and standing of the project sponsor and therefore their ability to deliver the project as planned.

The EIB must provide a summary of the above analysis and a summary of issues for the Commission to consider. These must be reported to the Commission in the evaluation report for the project concerned.

Greater assurance will be associated with those project sponsors who demonstrate a good level of financial standing and strength relative to their proposed project.

Assessor:

Date:

App. Form ref.	Due Diligence Prompt
C.1.1	This is for identification purposes.
C.1.2	This question provides information on the entity's structure. Are any of the members of the project sponsor part of a larger group of companies?
C.1.3	This question allows the EIB to see, at a glance, if there are any obvious issues with the entity's performance. When reviewing the summary of key corporate reporting figures provided here, the EIB should look for any trends of concern such as decreasing turnover, persistent losses, high level gearing, and possibly others too.
C.1.4	<p>This question asks for the entity's financial statements for the last 3 years. Using the data here, the EIB will calculate the following ratios in order to understand the entity's financial strength.</p> <ul style="list-style-type: none"> • Gearing (long term liabilities / shareholders' equity); • Profitability (profit before interest and tax / turnover * 100); • Turnover; and • Cash resources (current assets / current liabilities). <p>The gearing will be calculated from the latest set of accounts provided. If the calculated gearing ratio is above 1.5, this may indicate a potentially higher level of risk. In addition, the trend in gearing calculated from the 3 years of financial results available will be reviewed to identify if the level of debt is increasing. If debt is increasing, then a review will be made to ascertain whether the increasing debt is likely to be based on developing/expanding the business or is being used to support a poorly performing business.</p> <p>The profitability will be calculated from the latest set of accounts. If the calculated profitability ratio is below 7.5, this may indicate a potentially higher level of risk. In addition, the trend in profitability will be considered over the 3 years of financial results available to inform whether there is a steady business with a reasonably consistent level of profit. In particular, consideration will be given to any</p>

App. Form ref.	Due Diligence Prompt
	<p>factors which may overstate profits (e.g. disposals) and which may be used to support a poorly performing business.</p> <p>The turnover gives an indication of the size of the business and should be in line with the scale of the project proposed.</p> <p>The cash resources of a company will provide an indication of the cushion available in the company to meet fluctuations in the business. The current ratio (current assets / current liabilities) will be used in this assessment. The absence of cash resources will not by itself be a negative indicator as overdraft facilities may be available to cover fluctuations in business. However, where there is cash it may imply that the company has easily available cash to invest in the project.</p>
C.1.4d	<p>Has the entity provided information on its credit rating?</p> <ol style="list-style-type: none"> i. Does the rating depict a level of financial strength which is in proportion to the level of risk/funding contribution of the entity? ii. Is the rating provided by a reputable source? iii. If not, has a satisfactory explanation been provided as to why not?
C.1.4e	<p>Consider the information provided in relation to any post-balance sheet events. Has the entity provided details of any such event that might materially affect the entity's financial position?</p>
C.1.4f	<p>Consider the information provided in relation to any contingent liabilities. Have any such liabilities been reported that could impact on the ability of the entity to meet its funding obligations?</p>
C.1.5	<p>Has the entity stated that the risk undertaken will be supported by a guarantee, indemnity or undertaking from a parent company or ultimate holding company?</p> <ul style="list-style-type: none"> • If so, the analysis outlined in questions C.1.6 – C.1.8 must be conducted on the entity's guarantor to ensure its robustness.
C.1.5b	<p>If no guarantee is provided, the entity is to explain how it plans to manage its share of risk. For example, has the entity mentioned any contingency funding or does it have sufficient financial reserves In addition, has the entity stated its willingness to obtain a guarantee of support? If so, the review team could consider asking for the provision of a guarantee of support.</p>

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C.1.5d	Has the entity provided evidence of support from its guarantor? For example, we would expect to see a letter from the Board of the guarantor indicating both their willingness to provide support and the level of support they are willing to provide.
C.1.6	The entity has to provide full details regarding the identity of the guarantor. Have full details been provided?
C.1.7	See entry C1.3 above for guidance.
C.1.8	See entry C1.4 above for guidance. Note: The financial statements and annual reports for the parent company of an entity will also be examined where a guarantee, indemnity or undertaking from the parent is to be provided (a 'Parent Company Guarantee'). In the event that a Parent Company Guarantee is offered but insufficient financial information is given in relation to its provider, a clarification will be issued to obtain sufficient financial information of the parent company.
N/A	Should the EIB require additional assurances on an entity's financial standing, a press search could be performed for the past 12 months to check the completeness of the information disclosed. The search should focus on relevant key words including: acquisitions, disposals, debt, gearing, profit warnings, solvency, credit ratings and investor sentiment. Where the searches reveal facts or events which have not been disclosed and which may have a material bearing on the assessment, clearance may be sought to seek clarification questions with the entity in question.

2. Financing

This section sets out guidance for assessing the project sponsor's response to application form C including Annex C.1 (financial model specification). The project sponsor will be assessed through a review of their responses to the application form together with an analysis of their financial model and any supporting documentation.

This guidance is split into two parts corresponding to application form C, namely:

Part 1 – C.2.2 Financing Plan

Part 2 – C.2.3 Evidence of Finance

Part 1 aims to assess the submitted financing plan and financial model in order to ensure that all capital/upfront costs/one off costs and ongoing operational costs are covered by the identified sources of funds and are consistent with the information provided elsewhere in the application form (including costs and operation start date).

Part 2 assesses the evidence of funders' willingness to provide the required finance and the evidence of support for the project from the Board of the project sponsor.

The responses given in both Parts 1 and 2 will be used to assist the Commission in reaching an overall conclusion on the credibility of the project sponsor's financing and hence, the deliverability of the project. This overall conclusion will take the form of a qualitative judgement by the EIB on the reasonableness and deliverability of the project sponsor's financing plan.

Issues for the Commission to consider: *(This should contain a summary of the main issues, if any, which arise from the EIB's due diligence review and which should be included in the evaluation report)*

Assessor judgement: *(This should summarise the overall assessment of the project following completion of the due diligence)*

Assessor :

Date :

App. Form Ref.	Due Diligence Prompt
C.2.1	This question asks for the total duration of the project, by phase, in order to provide context for the assessment of capital / upfront costs /one off costs and operational costs financing.
Part 1: C.2.2 Financing Plan	
C.2.2-1	<p>Does the financing plan contain a statement on capital and operational costs as outlined in C.2.2-1?</p> <ul style="list-style-type: none"> • Do these costs reconcile to the data provided in application form C and the submitted financial model?
C.2 financial model	<p>Review of financial model:</p> <ul style="list-style-type: none"> • Does the financial model function effectively and are the methodologies and calculations accurate and in accordance with the stated assumptions? • Is the timing of the project (e.g. construction, commissioning) as outlined in application form B consistently reflected in the financial model? • Are the inputs to the financial model consistent with cost, revenue, funding and all other data and other assumptions provided in the application? • Does the financial model show that the project is financially robust and likely to receive the anticipated sponsor and other (Member State or bank) funding approvals? • Do the numbers in the financial model demonstrate that the application is consistent with the calculation of relevant costs set out in application form C?

App. Form Ref.	Due Diligence Prompt
C.2.2-2	<p>Does the Plan clearly specify the sources of the whole of the envisaged funding requirement, including contingency, analysed as outlined in paragraph (2) under question C.2.2?</p> <ul style="list-style-type: none"> • Does this funding requirement equal the stated capital/upfront cost/one off costs and the operational costs? • Does the plan clearly describe the nature of the funding proposed? The EIB must satisfy itself that it fully understand the sources of all funding. <ul style="list-style-type: none"> - Will the project sponsor receive any funding under EEPR? If so, has this been deducted from the financing under the NER300 fund? - Has the project sponsor assumed it will receive any funding from Member States? Is this confirmed in submission form C?
C.2.2-3	<p>Is the funding based on reasonable assumptions, i.e., is it likely to be delivered on the terms indicated and does it pose any undue risk to project viability? Is this reflected consistently in the financial model?</p> <ul style="list-style-type: none"> • Is there fallback funding in any case where the assumed Member State funding could be at risk? • Is the project sponsor's stated Hurdle Rate reasonable for this type of organisation? • If the IRR shown for the project is less than the stated Hurdle Rate, is the strategic explanation for the sponsor's investment reasonable? • Are the terms and conditions provided by third parties in line with the market? • Is there clarity around the provision of any project sponsor guarantees? • Is the project and financing structure reasonable? • Do any of the proposed terms themselves appear to pose a risk to the continued viability of the project? • Where the funding constitutes a material additional financing requirement in the context of the project sponsor's overall financing levels (C.2.2-3i), is the EIB satisfied as to the project sponsor's ability and capacity to raise the required finance?

App. Form Ref.	Due Diligence Prompt
C.2.2-4	Has the project sponsor demonstrated, as requested in C2.2-4, that the proposed financing plan matches the key project development and delivery plan timeline as set out in application form B?

Part 2: C.2.3 Evidence of Finance	
C.2.3	<p>Project sponsors are expected to provide in C.2.2 evidence to support the financing they claim they are able to raise. The EIB must consider if the evidence provided is credible and convincing and decide whether it is sufficient to give the Commission assurance of the project sponsor's ability to finance its capital and operational costs over the service period (10 years for CCS projects and 5 years for RES projects). The strength of this assurance is critical where the project risks and returns are sub-commercial (as they are likely to be in many cases). The EIB should consider the following:</p> <ul style="list-style-type: none"> • Have project sponsors provided, for each stated source of funding, evidence of the funder's willingness to provide finance? • What is the nature of this evidence? How detailed is it and does it reference all of the submission information and the project cash flow model? Is it credible? • Is the amount to be provided by project sponsors (including where additional finance has to be raised by them in order to make the contribution) in line with their financial strength and capacity? • To what extent do funders provide their support? What kind of conditionality is attached to their support and do any caveats stipulated pose a risk to the deliverability of the finance? • Will funders provide financing such that an operational start date for the project of 30 June 2018 can be achieved on the basis of the adoption of the respective Award Decision by 30 June 2014? • Has the project sponsor provided a letter of support from the Board confirming the financing plan and projected cash flows and stating their confidence in achieving an operational start date of 30 June 2018 on the basis of the adoption of the respective Award Decision by 30 June 2014? • What level of Board support is given (e.g. subsidiary or Main Board?) What conditions do the Board place on their support and do these pose a risk to deliverability?
C.2.3 - 2	<p>This question seeks to establish whether or not the project has ever received EEPR funding in the past. If so, this must be deducted from the financing under NER300. The EIB should cross check the project sponsor's response with the Commission.</p>