Manildra Solar Farm
Securing Project Financing

48.5 MWac Solar Photovoltaic Project
Manildra, NSW
Report Dated: October 20, 2017

First Solar

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1 Project Overview

Manildra Prop Pty Ltd ("Manildra Prop") is developing a 48.5 MWac solar photovoltaic power generating facility ("Project" or "Manildra Solar Farm"). The Project will occupy 120 hectares of land approximately 1 kilometer north-east of Manildra in New South Wales ("NSW"), Australia, and will sell power to Energy Australia ("EA") under the terms of a power purchase agreement ("PPA") executed on March 24, 2017. The Project will utilise more than 466,000 First Solar advanced thin film PV modules, producing enough solar energy to power 14,000 homes and displace the equivalent of more than 91,000 metric tons of carbon dioxide emissions per year.

First Solar (Australia) Pty Ltd ("First Solar"), as representative of the 100% owner of Manildra Prop, developed the project and managed the project financing process. The financing process was conducted in parallel with the Australian Renewable Energy Agency ("ARENA") Large Scale Solar ("LSS") competitive grant funding round, and the Project received grant funds from ARENA to support the construction of the project.

Initial project financing request for proposals ("RFP") were issued to more than ten local and international lenders in May 2016 during the application stage of the ARENA LSS funding round. Responses were received from all lenders, and a number were shortlisted prior to final proposals being submitted (including pricing and term sheets) in August 2016. As a result of this process, Societe Generale was selected as the preferred lender, and a mandate was agreed in October 2016.

The financing process from agreement on terms to financial close took approximately five months, with financial close achieved on March 24, 2017.

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2 Lessons Learned

Throughout the financing process for the Project, First Solar identified and overcame a number of issues and risks to achieve financial close, as well as identifying opportunities which allowed Manildra Prop to obtain more favourable financing terms, which are summarised as lessons learned in this section.

Based on First Solar's experience in achieving financial close for Project, the following lessons learned were identified:

- Planning and Organisation:

  There are numerous works streams that need to be coordinated within the project team in order to achieve financial close, which includes input from financial, legal and technical subject matter experts ("SMEs") and timely negotiation and finalisation of project contracts. As with any project management process, the identification of scope, coordination of resources, scheduling and sequencing of activities and tracking progress according to the initial plan is essential to achieving the end result. First Solar, through coordination of internal SMEs, identified work activities that required internal and external expertise, and created a detailed financing program Gantt chart to track progress of each SME's work stream and activities against the master schedule with the goal to identify critical path items and potential work stream sequencing issues to avoid any delays in the process.

  First Solar held weekly internal update meetings to review progress against the base schedule, and identify key constraints and critical path items to prioritise work activities. This approach provided a clear structure to the financing activities, and allowed for a forward-looking assessment of progress and timeline to achieving financial close.

  One particular area to note with respect to the timing of the financing process was the extent to which most activities were curtailed over the December/January holiday period. This was appropriately allowed for in the overall schedule, but the inability to move things forward during this period should not be underestimated for financings that have extreme time pressures due to contractual or other requirements.

- Competitive RFP Process:

  First Solar conducted a competitive RFP process to identify and secure best-in-market financing terms and pricing for the Project. Creating competitive tension across a number of potential lenders ensured that the proposals received were of high quality. The RFP process also allowed First Solar to set expectations with respect to pricing, financing terms, as well as preferred financing structures. Proponents were required to issue complying RFP responses, which allowed a more efficient and easier comparison to be made across the proposals received. This provided confidence in the decision to proceed with the preferred lender.

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- <u>Lenders Due Diligence Coordination:</u>

  The early identification of required due diligence scope and the lender's preferred due diligence advisors was important to avoid delays in starting and finalising the lender's due diligence. RFP processes were also conducted for each due diligence work stream to ensure advisor costs were minimised and that the appropriate expertise and experience was available to perform the work required.

  With respect to the performance of due diligence studies, First Solar notes it was important to provide complete packages of documentation to the lender's advisors to allow a clear and comprehensive review of project documents, and to avoid repeated reviews and re-submission of due diligence reports. By ensuring the delivery of complete documentation packages, the sponsor can both reduced advisor costs and ensure the due diligence work streams are performed efficiently and accurately.

- <u>Pre-Due Diligence Review of Project Documentation:</u>

  Pre-due diligence consultation with lenders and legal, accounting and technical advisors was undertaken with respect to project documentation and expectations on key contract terms, risk allocation and scope breakdown. The sequencing of this early consultation allowed First Solar to confirm that it's commercial position in early drafts of each contract were in line with lenders' and market expectations prior to the due diligence process getting underway.

  This process reduces the potential for both time and cost overruns by the lender's advisors as project documents that are issued for due diligence are already in bankable form with only minor issues to be discussed.

- <u>Risk Allocation in Project Documents:</u>

  Clear and appropriate allocation of risk to each contracting party under the project documents is important, not only to facilitate the success of the project, but also to reduce the level of conservatism in lender's financing assumptions. The goal of the above mentioned activities, including pre-due diligence consultation, is to ensure that the project documents are bankable and that the lender does not see additional and unmitigated risks which would need to be addressed through separate and specific financing assumptions and/or structures which can result in additional cost and more stringent restrictions on the project during construction and operation.

- <u>Inputs Into the Financial Model:</u>

  The accurate modeling of the Project's economics is an essential part of the financing process, and requires coordination of every work stream to ensure accurate input assumptions are used, accurate modelling of the company and financing structure and that appropriate analysis can be undertaken to stress test the Project economics under various scenarios. The technical inputs, in particular the energy prediction analysis, construction costs, and operation and maintenance ("O&M") cost assumptions are key for

the project economics and important scenarios to be modelled to allow the lender to gain comfort in the contingencies within the project. As such, the early verification of the modeling inputs by the lender's advisors is important to allow the appropriate analysis to be performed.

- Structuring:

  The investment structuring effects numerous other items in the financing process; in particular, the financing documentation, tax and accounting due diligence and financial modelling. Therefore, it is important that this is one of the early work streams to be completed.

  There are three aspects of particular note with respect to the Manildra financing:

  1. The use of a 'stapled' corporate/trust structure was initially contemplated and reflected in the financing documentation, financial model and [ARENA Funding Deed] (among other documents). In January 2017, the Australian Taxation Office (ATO) released TA 2017/1, highlighting the proliferation of stapled structures in the market and raising concerns with certain aspects of such arrangements and indicating that they would be under particular scrutiny by the ATO in the future. Given the uncertainty this created with respect to such structures, First Solar made the decision to change structures, which lowered the potential risk of an adverse tax outcome for the project, but required significant rework of certain documentation costing additional time and expense.
  2. First Solar understands most projects were relying on the treatment of the ARENA grant funding for tax purposes to be subject to the assessable recoupment rules. First Solar applied for a private ruling in this regard but the ATO did not agree that the project was consistent with historical projects that had received the assessable recoupment treatment and, as such, would not grant a positive ruling in this regard. This created a tax risk for the project that had to be backstopped by First Solar for the purposes of the debt financing.

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3 Requirements from Commercial Debt Providers

The following project financing metrics were obtained from the RFP process conducted by First Solar for the Project. The metrics were obtained from more than ten RFP respondents, including both local Australian and international lenders, and provides a snapshot of the financing requirements of commercial debt providers at the time of financing the Project. It should be clarified that the Clean Energy Finance Corporation ("CEFC") is not included in the below figures.

Financing Metrics	Responses from Commercial Debt Providers
Debt to Equity Ratio	75-80% Debt
DSCR	Contracted Period: 1.25-1.30x at P50 energy; 1.00-1.05x at P99 energy Merchant Period: 1.80-2.00x at P50 energy; 1.00-1.60x at P99 energy
Tenor	4-13 years from term conversion
Notional Amortisation	15-19 years
Base Rate	BBSY floating
SWAP Cost	0.11-0.20% (depending on tenor)
Margin	1.60-2.75% (depending on tenor)
Hedging Requirements	Construction: 80-100% Operation: 75-80%
Upfront Fee	1.50-2.00%
Commitment Fee	40-50% of Margin
Covenants	Default DSCR: 1.05-1.10x Distribution Lock-Up DSCR: 1.15-1.20x
DSRA	3-6 months (cash or letter of credit)
O&M Reserve Account	0-3 months (cash or letter of credit)
Drawing Schedule	Equity first; Equity/Debt Pro-rata; Equity last with LC
Amortisation	Sculpted quarterly
Cash Sweep	2 consecutive periods blower than the Lock-Up DSCR

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4 Recommendations to Reduce Financing Costs

Based on its experience in managing the financing process for the Project, First Solar has identified a number of opportunities and methods which can be used to reduce the cost of project financing to sponsors of solar power generation facility developments. These recommendations are as follows:

1. Maintaining competitive tension through a project financing RFP process with multiple lenders allows the sponsor to achieve lowest cost financing and best-in-market terms.

2. Early engagement and education of lenders (even outside of specific financing processes) regarding solar-specific risks and financing issues promotes understanding and acknowledgement from lenders of key risks and mitigation measures, leading to reduced financing costs.

3. Early verification of financial model inputs and project contract terms allows scenario analysis to be performed and lenders financing assumptions to be confirmed early and with minimal conservatism.

4. Clear and appropriate allocation of risk in project documents ensures bankability of the project contracts and reduced level of conservatism in the lender's financing assumptions and terms.

5. Maintaining a detailed project management and activity scheduling and tracking methodology results in a clear path towards financial close and identification of key constraints and critical path issues, which can lead to advisor cost overruns if not managed correctly.

6. Early identification of the lender's advisors' scope and schedule is important to reduce third party costs related to repeated review of project documentation.

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