StrategicRISK

RISK FINANCING:

RENEWABLE ENERGY

In partnership with:

Atradius
Managing risk, enabling trade

Sailing close to the wind

European countries are embracing renewable energy and investment is booming. But there is no reason to throw caution to the wind. Surety bonds provide the protection green energy companies need.

The business of renewable power is growing at an unprecedented rate. More than $2trn in investment worldwide will be ploughed into renewable energy technologies by 2030 and 75% (that's 900 GW) of this will be in the solar and wind sectors – both onshore and offshore.

It's easy to see why the business case is so strong. The environmental and corporate social responsibility arguments alone – to drive down global pollution and carbon emissions and reduce the reliance on fossil fuels as the world's population grows into the billions – should be enough to steer businesses in this direction.

The 2015 COP21 Paris agreement and the COP24 climate change talks in 2018 have added political pressure on UN nation states to take "urgent action". It strengthens the global response to the threat of climate change, and for the first time, it brings all nation states together to limit greenhouse emissions to no more than 2 °C and keep temperature increases to 1.5 °C by the end of this century.

WHO IS LEADING THE WAY?

Most countries have embraced this challenge. And commitments to meet these targets are becoming easier as public and private equity investments are increasing and constructing such technologies is becoming more cost-efficient.

In 2018, the wind energy industry invested €65bn in Europe – €16.4bn went into new onshore wind projects (38% of the total new power investment in Europe) and €10.3bn (24% of the total new power investment) was pumped into offshore wind farms.

Furthermore, investment is expected to increase in 2019, driven mainly by onshore wind projects, which have gained public financial support, according to the Brussels-based association Wind Europe.

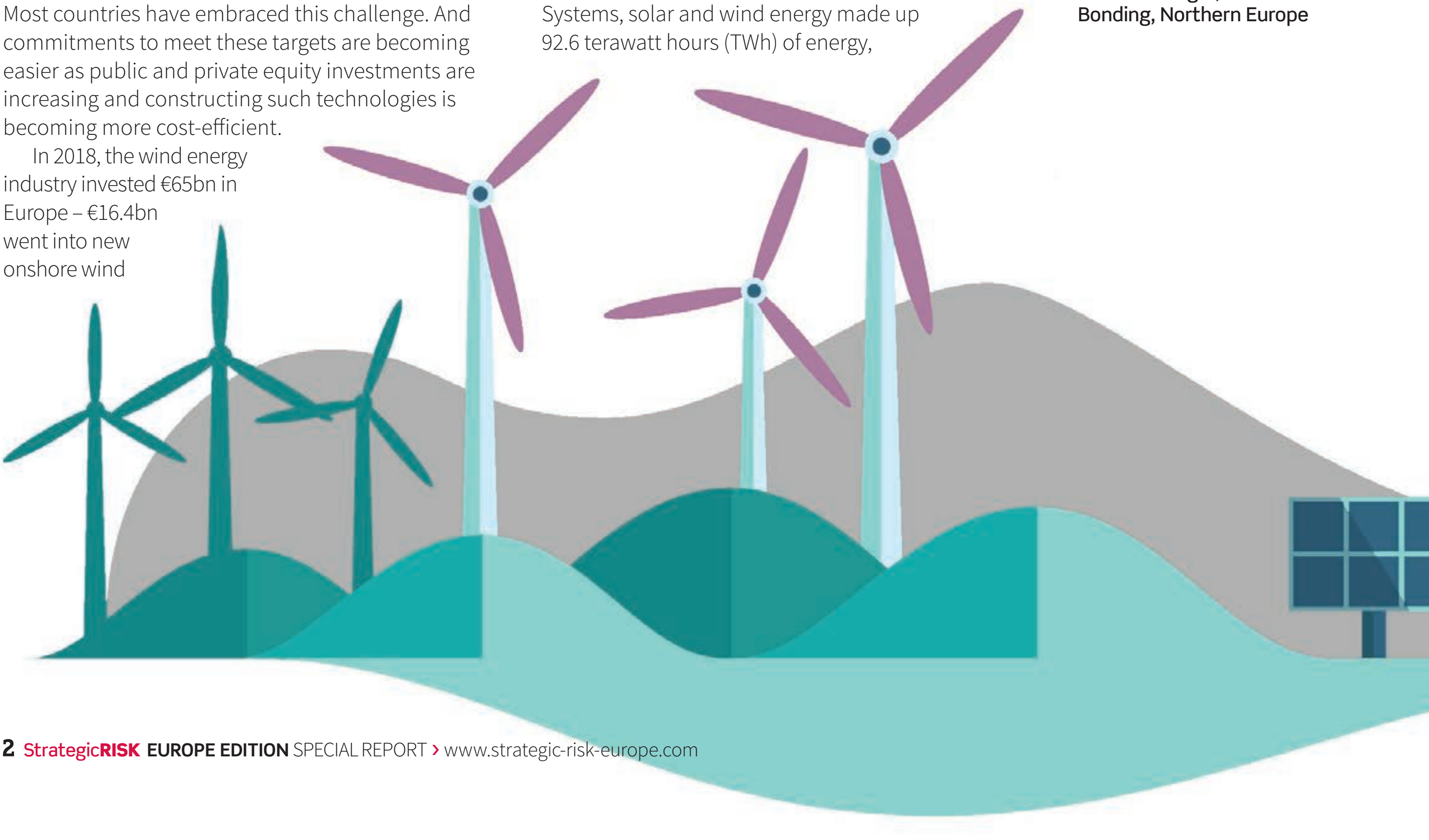
The fruits of this labour can be seen across Europe. The Republic of Ireland, for example, is one of many European countries leading the way in wind energy, with more than 20% of its electricity generated by wind each year. It is targeting 40% by 2020.

In the UK, one-third of the country's power is generated by renewable energy, of which half comes from wind energy, according to the UK-based membership organisation RenewableUK. It says that the country's offshore wind powers the equivalent of 4.5 million homes annually and will generate more than 10% of UK electricity by 2020.

Germany's renewable energy efforts are also worth a mention. Renewables overtook coal as Germany's main source of energy in 2018. According to the Fraunhofer Institute for Solar Energy Systems, solar and wind energy made up 92.6 terawatt hours (TWh) of energy,

Stefan Rundström, Atradius Bonding country manager, Sweden

Christian Gloessner, senior manager, Atradius Bonding, Northern Europe



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compared to 80.1 TWh in the first half of 2018 – more energy than lignite and coal in total.

NOT ALL PLAIN SAILING

But it is not all good news. Renewable energy companies are just as susceptible to financial risks as many other sectors. Danish company Total Wind went bankrupt in 2018 after failing to meet financial obligations and losing about DKK60m, according to local news reports. A proportion of Total Wind's business has since been acquired by Global Wind Service.

In Germany, two companies have gone into administration. Wind turbine manufacturer Senvion applied for self-administration proceedings earlier this year, with more than €1bn of debt. At the time of writing, the company said it had received "several advanced offers for various substantial core parts of its business" and that it is in the "final stages of the M&A process".

Weinreich, once Germany's largest offshore wind farm developer, is another that suffered bankruptcy, back in 2013.

There are protections that can reduce the financial risks of constructing renewable energy projects – they come in the form of surety bonds. Stefan Rundström, Atradius Bonding country manager, Sweden, and Christian Gloessner, senior manager, Atradius Bonding Northern Europe, walk us through the benefits.

What are the three biggest risks connected to renewable energy projects?

Financial loss and insolvency is one of the biggest risks. This can be further compounded by three main things: the complexity of projects; the performance of suppliers; and the robustness of investment models. The fast-evolving regulatory environment can also present as a risk, which can rapidly change the conditions of the market.

What bonds are available for wind energy projects?

During the different phases of a renewable energy project, four bonds needs typically arise. Each bond cover the risks involved in each phase of the project.

- **Bid bonds**
- **Advance payment bonds**
- **Performance bonds**
- **Maintenance bonds**

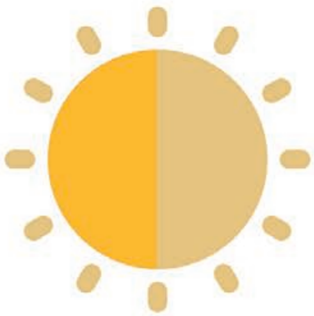
Restoration bonds are also an important consideration. They provide essential funds for any outstanding restoration works upon insolvency. Bonds related to contractual obligations are agreed between the contractual parties, mostly to reduce the financial risk in the projects.

ATRADIUS BONDING: THE STATS

MORE THAN
55K
customers supported

MORE THAN
300
types of bonds issued

MORE THAN
240K
active bonds



How have you helped your renewable energy clients?

We have been working with Sweden-based renewable energy company OX2 for almost 10 years and are heavily involved in many of its projects. For example, Valhalla is OX2's largest project to date and one of the largest onshore wind farms in Europe. When completed in 2020, its 85 wind turbines will produce 1.1 TWh annually, almost 7% of all wind power production in Sweden and enough to power up to 250,000 households.

As part of our partnership, we also work closely with OX2's investors, financing institutions and authorities to ensure we deliver the required guarantees. We pride ourselves on being a trusted guarantor to all parties.

What risks are not covered by bonds?

Bonds and insurance cover different risks. For example, we do not cover entrepreneurial risk, such as the yield of a windmill park or risks related to damages. This is where liability insurance would be helpful. Bonds, on the other hand, cover the financial risks related to the contractual obligations. Another difference is the recourse to customer. In insurance, there is no recourse.

Why should I choose Atradius as my bonding partner?

Our long-held experience in renewable and wind energy is unmatched by many other bond providers. We have demonstrated our ability to meet the needs of our customers who operate on large and complex renewable energy projects and we do so quickly and efficiently.

We have earned the trust of major organisations and boast strong credit ratings by A.M. Best and Moody's, all of which has propelled us to become a leading bond supplier in Europe. In today's volatile economic environment, we give our clients piece of mind.

OX2 said: "Atradius knows our industry and provides us with an excellent service and tailor-made solutions. Their strong financial rating and expertise give us and counterparties piece of mind."

Tailor-made solutions that fit your needs and strategies

Whatever your bonding requirements are, we have the experience and knowledge to provide surety bonds tailored to your needs. Our wide range of bonding products can help to strengthen your contractual relationships or secure compliance with regulatory bodies.

We offer a unique bonding partnership, able to support business needs both locally and internationally.

For further information please visit the Atradius website for your local market.

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