

PROJECT ABSTRACT

VALENTINES WIND POWER PROJECT (UR-L1105)

As of January 2015, 41.5% of Uruguay's installed capacity is based on hydropower generation. As a result, during years of lower rainfall, the *Administración Nacional de Usinas y Trasmisiones* ("UTE"), the state-owned energy utility of Uruguay, is required to compensate lower hydropower generation with more costly fossil-fueled thermal generation, and electricity imports from Argentina and Brazil, that are sold to UTE at the dispatch cost of thermal plants.

In order to reduce UTE's dependence on fossil fuels and hydraulic energy, and given the excellent, constant and endogenous wind resources, the Government of Uruguay ("GoU") has implemented since 2005 a series of measures to complement the Regulatory Framework Law of the Electricity Sector (Law No. 16,832) of 1997, to promote wind generation and attract private investment. In that context, in 2010 and 2011 UTE conducted two bids for the development of 300MW of wind power, which were awarded to private generators. In addition, in 2013 UTE itself also engaged in an ambitious program to develop wind farms in which it will retain total or partial ownership. Under that program, UTE plans to build a total of 412MW¹, that includes the construction of the 70MW Valentines Wind Power Project ("the Project" or "Valentines").

The IDB continues to support the electricity sector in Uruguay, through the financing of the construction, operation and maintenance of the Valentines wind farm with an installed capacity of 70MW² and its associated facilities³, to be located on the border of the departments of Florida and Treinta y Tres. The Project will be developed under the sponsorship of UTE (the "Sponsor") and will sell its full energy production to UTE in its role as off-taker under a long term PPA. The Project will contribute to the diversification of the energy matrix by generating approximately 311.4 gigawatt-hours ("GWh") per year of renewable energy.

For the development of the Project, UTE created Areaflin S.A., a *sociedad anónima* under the laws of Uruguay ("Areaflin" or the "Borrower"). The total Project cost is US\$178.6 million. The financing of the Project will include debt in the form of a US\$71.4 million IDB A Loan, a US\$35.7 million China Co-Financing Fund for Latin America and the Caribbean ("China Fund") Loan and a US\$17.5 million loan from a commercial bank.

The Project plans to raise 80% of the equity through an Initial Public Offering ("IPO") in the Montevideo Stock Exchange, and the remaining 20% of the equity will be contributed by UTE. The Valentines IPO will be the third wind project to access the Uruguayan

¹ Including the following wind farms: Artilleros (65.1 MW), Artigas (67.2 MW), Pampa (140 MW), Colonia Arias (70 MW; also under consideration for IDB financing) and Valentines (70 MW).

² The Project will install 35 Gamesa wind turbines (G114-III A-93meter) of 2 MW each.

³ Valentines will inject energy into an existing transmission line operated by UTE.

capital markets to diversify its capital sources, and it is expected to happen by the beginning of July. The first project to launch an IPO was the Pampa wind power project (140MW), also developed by UTE, which accessed the market on March 18th and 19th 2015 with a great success⁴. The second IPO will be the Colonia Arias wind project, presented for approval concurrently with Valentines.

DEVELOPMENT IMPACT

The Project is expected to have a positive impact by: (i) generating 311.4GWh per year of renewable energy at a levelized cost of energy (“LCOE”) of US\$68.43 per MWh in year 2015, which is expected to be lower than other forms of energy generation available in Uruguay⁵; (ii) reducing the vulnerability of Uruguay’s electricity sector by diversifying its energy matrix; and (iii) reducing emissions by approximately 187,726 tons of CO₂ per year⁶ through the substitution of fossil fuels for renewable energy.

The Project will also access the local equity capital market through an IPO, which is expected to introduce new options for the financing of renewable energy projects in the country through the participation of Uruguayan investors.

To date, the Bank’s participation in wind projects in Uruguay has been instrumental to ensure their bankability and financial sustainability by providing and mobilizing financing at tenors not available in the commercial market. Based on the Bank’s earlier successful projects, such as Palmatir Wind Power and Carape Wind Power, a few commercial banks started to participate in the financing of some selected projects. The longer debt profile required for the non-conventional technologies, however, still limits the volume of commercial financing available, and the Bank’s participation remains important to offer financing for wind projects at the tenors that make the projects feasible at competitive prices.

In this transaction, the Bank will partner with a commercial bank, as B-lender, and while the Bank’s A-loan will have a 20-year door-to-door tenor, the commercial tranche will have a maximum tenor of 16.5 years.

The IDB’s participation will enhance the Project’s environmental and social standards. Specifically, the IDB provided key technical guidance (i) to achieve compliance with the Bank’s and other international standards in the monitoring of birds, bats, noise and shadow flicker during project’s operation, and (ii) to conduct public consultations with the local community.

⁴ In the first day of placement of certificates of participation, the preferred certificates listed were largely oversubscribed.

⁵ Source: Uruguay Kiyu Wind Farm Power Market Analysis, Mercados Energeticos, April 2014; compared with a LCOE for a combined cycled in Uruguay at US\$131.59 per megawatt-hour (“MWh”).

⁶ Source: ESG calculations; Emission factor for Uruguay at 0.59 tCO₂ displaced per MWh.

PROJECT CONTRIBUTION TO IDB OBJECTIVES

The Project is consistent with the objectives of the 9th General Capital Increase (GCI-9); in particular, it provides an important contribution to two lending targets, namely sustainable energy and support for smaller and vulnerable economies.

The Project is fully aligned with IDB's Country Strategy for Uruguay (2010 - 2015) (GN-2626) that seeks to support Uruguay's efforts to add new sources of electricity by taking advantage of endogenous resources such as wind power. Specifically the Project directly contributes to the Country Strategy's Result Matrix strategic objective to "Increase electricity supply" and the fulfillment of the indicative target of 15% additional capacity (equivalent to 404MW) by 2015.