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2024

13th Edition

Contributing Editor:

John Dewar
Milbank LLP

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59 Tanner Street
London SE1 3PL
United Kingdom
+44 207 367 0720
customer.service@glgroup.co.uk
www.iclg.com

Publisher
Jon Martin

Production Editor
Jane Simmons

Head of Production
Suzie Levy

Chief Media Officer
Fraser Allan

CEO
Jason Byles

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1 Overview

1.1 What are the main trends/significant developments in the project finance market in your jurisdiction?

UK GDP is estimated to have grown by 0.2% in January 2024. Inflation has also fallen sharply from a 41-year peak in October 2022 (where inflation reached 11.1%), and CPI stands at 4% at the time of writing. Despite the overall upward trend of the economy in 2024, indicating that recession may be drawing to a close, the UK continues to battle the long-lasting legacy of damaging economic conditions from prior years. Russia's invasion of Ukraine, coupled with the UK's historical reliance on imported gas to generate electricity, exposed the UK to the full force of the surge in gas prices. From January 2022 to January 2023, domestic gas prices increased by 129% and domestic electricity prices by 67%. Energy prices continued to rise throughout 2023, albeit at a less accelerated pace, with the standard electricity bill increased by 9% and the average gas bill increasing by 17%. Domestic factors, including a tight labour market and firms passing on higher costs to consumers also persists in the current economic landscape, which has also contributed to a drawn out cost-of-living crisis. While it is forecasted that the inflation rate will continue to fall in 2024 with the continued stabilisation of energy prices, it is expected to fall more gradually than it did in 2023. Of course, such forecasts are subject to broader global conditions – for example, the Bank of England rate-setter Catherine Mann stated that supply chain disruption from hostilities in the Red Sea could feed into companies' pricing decisions, therefore exacerbating Britain's inflation problem.

Nevertheless, one reason for the improvement in the UK's economy in 2023 is the Government's initiatives to tackle high inflation. The UK Government introduced an Energy Profits Levy, which is an additional 25% tax on ring fence profits of oil and gas companies, due to the high profits by fossil fuel traders. This is in addition to the Ring Fence Corporation Tax, which is charged at 30%, and the Supplementary Charge which is charged at 10%. This windfall tax is aimed at helping ease household bills, though there are concerns that this might be extended to energy generators and renewable projects, potentially discouraging inward investment in renewable power generation. Despite these economic troubles, several Government-backed public infrastructure projects have progressed or been completed. Notably, in May 2022, the central section of the £19 billion Crossrail project, which ran £4 billion over budget, opened, albeit three-and-a-half years late. Known as the Elizabeth line, the railway links Reading to the west with Essex in the east, via

central London, and over 100 million journeys have been made in the first nine months of opening. Since November 2022, the eastern and western sections of the line have been connected to the central section tunnels. From May 2023, services have run to the final peak timetable, providing a vital link between East and West London.

Moreover, the UK's HS2 high-speed railway project connecting London to northern UK cities, estimated to cost up to £106 billion, finally began construction work in September 2020. In December 2020, the UK Government provided a last-minute £825 million loan to London's transportation authority to enable it to continue construction on the Crossrail project in London, which had been experiencing construction delays due to COVID-19. In November 2021, the UK Government published the Integrated Rail Plan for the North and Midlands, a £96 billion plan that outlines how major rail projects, including HS2, Northern Powerhouse Rail and Midlands Rail Hub, will be delivered sooner than previously planned to better connect towns and cities across the North and Midlands. However, some projects that were still in the consultancy/early stages, such as the Crossrail 2 project, were not spared, and work on such projects has been stalled for the foreseeable future. Moreover, in October 2023, the decision was made to cancel the northern leg of HS2. As a result, trains will now travel on high speed lines only between London Euston and Birmingham, and will then slow down as they continue to Manchester and beyond on conventional rail. The Government promised that the £36 billion saved from cancelling the project would be redeployed to fund a collection of smaller transport schemes, including roads, railways and buses.

Indeed, the construction of pre-operational projects was severely delayed by the UK's first Government-imposed lockdown, which began on 23 March 2020 and continued through to July of that year. During that period, construction across the UK largely came to a standstill, as such work did not qualify as "essential services" that were allowed to continue during the lockdown (construction work was, however, permitted to continue during subsequent lockdowns, provided that certain health and safety guidelines were met). Construction work was later impacted by restrictions on cross-border trade and disruptions to supply chains that occurred as a result of lockdowns practised in other countries. Illustrating the lasting severity of COVID-19's impact on projects in the UK, the completion of the 3.2GW Hinkley Point C nuclear power station in southwest England, which is being developed by EDF and was initially delayed by six months to June 2026 due to COVID-19 restrictions, has been delayed by a further year, with the revised operating date now being at least 2029, taking the costs to £34 billion.

As a result of the ongoing economic uncertainty surrounding the maintenance of operational projects and feasibility of construction of pre-operational projects, Government authorities, sponsors, lenders and contractors to projects have been keen to enforce their *force majeure* rights under the relevant agreements while ensuring that their rights are preserved and denying other parties' claims of *force majeure*. Meanwhile, parties involved in negotiations for pre-construction projects have been focused on ensuring that their rights across the chain of construction, finance and concession agreements remain watertight when it comes to potential *force majeure* claims.

In 2020, the UK's exit from the European Union was confirmed by Parliament, following the formation of a decisive Conservative majority in the December 2019 general election. On 31 December 2020, the transition period in which the UK and European Union could negotiate a deal to define their future relationship ended as governed by the EU-UK Withdrawal Agreement. The close of the transition period marked the start of a new chapter for the UK outside of the European Union. The period of uncertainty that characterised Brexit, however, has not ended. This uncertainty has affected the amount of activity in the country's project finance market.

Nevertheless, the Conservative Government has announced a boost in energy and infrastructure investment, with new projects (such as five new hydrogen schemes located near Aberdeen, Mersey, and near Grimsby) and the revival of old ones, such as the renewed engagement with the HS2 project.

There has also been external investment into the UK energy and infrastructure market, most recently with the announcement by Japan's Itochu Corp (through its European subsidiary) of its investment in Winch Energy, a UK off-grid renewables developer.

The UK market breaks (broadly speaking) into two quite distinct halves – a UK-oriented market where local (as in UK-sited) deals are structured and financed, and a much larger and more geographically diverse finance market where (for one reason or another) international finance is structured, negotiated and documented in the UK (in practice, London), but the underlying project is located elsewhere. The two markets are both relatively large in terms of capital and debt requirements and flows, but the international English-law finance market far outstrips the domestic UK market in both volume and size of deals.

As the UK emerges from the economic decline from the impact of COVID-19 and a challenging economic period, towards a period of economic recovery, there is considerable demand and a renewed vigour for upgrading existing infrastructure or investing in new, greenfield projects as a means to rebuild the UK economy.

The Infrastructure and Projects Authority ("IPA") publishes an annual report on the Government Major Projects Portfolio ("GMPP"), which tracks the status of projects currently in the GMPP and analyses their progress. The 2023 report showed that there were 244 projects in the Portfolio, with a life cost of £805 billion and £758 billion in monetised benefits. There were 45 Infrastructure and Construction projects on the Portfolio, up from 34 in the 2020 report, with a total life cost of £223 billion and £348 billion in monetised benefits. The GMPP as a whole has grown from 235 to 244 projects since the 2022 report, 29 projects leaving with a green or amber delivery confidence assessment. The Portfolio comprises four categories: Infrastructure and Construction; Transformation and Service Delivery; Military Capability; and Information and Communication Technology ("ICT").

Moreover, the 2021 National Infrastructure and Construction Procurement Pipeline set out that between £21 billion and £31 billion of contracts across economic and social infrastructure are planned to be brought to the market throughout the 2021/22 financial year, and a projected £650 billion over the next decade.

Through these investments and projects, the Government aims to increase living standards, drive economic growth and transform infrastructure and public services. For the first time, the IPA has set out an estimate of the workforce required to deliver the plans in the pipeline. This estimate sits at an annual average of 425,000 workers across infrastructure and construction projects up to 2024/25.

Already, public and private infrastructure investment has gradually increased over the past three decades (since 2010, 4,500 infrastructure projects have been delivered). The two largest sectors, energy (which boasts investment of £51.7 billion from 2018/19 to 2020/21) and transport (£54.9 billion from 2018/19 to 2020/21), account for over half of the infrastructure pipeline's total value.

In the UK, the divide between conventional project finance and the bond and leveraged finance markets continues to narrow. The market saw a continuation of diversification of both sources and types of project-related debt. As with the project bonds market, the trend comes in part from the US, where a growing (from 2016 to date) prevalence of greater infrastructure and energy sponsor focus on Term Loan B structures – used as refinancing tools, or sitting alongside conventional financings and/or less conventional financings (for example, inventory and receivables financings) – is spreading to the European market. Here, commentators are predicting that such a Term Loan B market will see increased use of forward purchase agreements, cash sweeps and power hedges in transactions.

Multilateral and bilateral institutions have continued to participate in the market, and existing institutions (re-branded with additional products to help fill debt financing gaps) have continued to invest in the UK's energy and infrastructure sectors (especially in light of the UK's exit from the European Union, which has, seemingly, buoyed Governmental commitment to investing in UK infrastructure, and the availability of funds for UK bilateral and multilateral institutions investing abroad – this is particularly the case in the Government's treatment of UKEF's Direct Lending Facility, see below).

By way of example:

- the UK Green Investment Group, with a mandate to finance "green" projects, saw its 40MW battery storage project, located in Maldon, Essex, reach financial close in December 2021; and
- UK Export Finance's ("UKEF") Direct Lending Facility was granted a £2 billion direct lending capacity expansion in two £1 billion amounts in 2021 and 2021/22.

UKEF has also shown a significant shift in approach and appetite for international project finance risk. In 2019, UKEF supported its largest ever transaction, providing a £5 billion package to support BAE Systems' and MBDA UK's contract with the Government of Qatar. By using the General Export Facility from UKEF, UK engineering firm Offshore Design Engineering Ltd secured a major contract for an offshore wind farm in Poland. The loan has enabled the firm to maximise working capital efficiencies, grow its export pipeline and supply a large wind farm in Poland, which is set to provide clean electricity for up to one million Polish households. UKEF was the world's top export credit agency for sustainable financing in 2021, with over £3.6 billion awarded to clean energy, healthcare and critical infrastructure projects. UKEF has three additional funding-related facilities: the Direct Lending Scheme; the Export Refinancing Facility; and the Local Currency Finance Scheme.

Under the Direct Lending Scheme, UKEF provides export credit loans up to £5 billion (as explained above, this figure only recently increased in 2022) in aggregate to overseas buyers to finance the purchase of capital goods and/or services, from exporters carrying on business in the UK. The results for

2019/20 saw UKEF deploy £771 million in Direct Lending to support UK exports, while increasing total direct lending capacity to £8 billion, with £2 billion allocated for clean growth projects. Eligibility for this additional direct lending capacity is based on the use of proceeds criteria and core indicators of the ICMA Green Bond Principles. UKEF also continues to support UK-based project financings; most recently, in January 2022, UKEF provided a Government guarantee to support a new £625 million loan to Jaguar Land Rover to support its investment in electric vehicle plans.

Loans can be made in sterling, US dollars, euros or Japanese yen. The Export Refinancing Facility is available to banks funding non-sterling buyer credit loans, typically with values above £50 million that are intended to be refinanced through the debt capital markets or other commercial loans. The Export Refinancing Facility aims to boost trade by ensuring that long-term funding is available to overseas buyers of British exports supported by UKEF. UKEF has also introduced a Local Currency Finance Scheme. Under this scheme, UKEF can guarantee a credit loan given to an overseas borrower in a local currency (it can be made in over 60 currencies), provided the loan is used to purchase capital goods/services from an exporter operating in the UK. Local Currency Financing is particularly useful for reducing foreign currency risk and variable debt costs where a project does not generate revenues in a foreign currency.

As already touched upon, the 2016 Referendum result and the UK's exit from the EU have also precipitated a change in UKEF's work. In addition to increased funds for investment, the way UKEF partners with other institutions has been widened and made more flexible. Whereas previously UKEF would establish a panel of invited lending partners to assist its investments, UKEF now has the freedom to partner with any bank or institution to deliver its direct lending support, provided certain criteria are met.

On 7 December 2020, further strings to UKEF's bow were delivered with the launch of a new "General Export Facility", with the stated aim of allowing a wider range of exporters to access UKEF support. It allows exporters to "apply for finance from the UK's five largest banks backed by a UKEF guarantee to free up working capital that can be used for everyday costs linked to exports and to scale up their business operations" (UK Government press release: *Radical shake up to government export finance support for small businesses*).

The energy markets

The UK's energy sector continues to undergo significant change. The 2009 Renewable Energy Directive set a target for the UK to achieve 15% of its energy consumption from renewable sources by 2020. In 2020, 13.3% of final energy consumption was from renewable sources, a 2.5 percentage point increase on 2019, which represents the highest increase on record. Additionally, in 2020, the renewable proportion in industry was in line with that for other final users for the first time. To bolster the UK's efforts in achieving this, the Energy Act 2013 implemented key aspects of Electricity Market Reform ("EMR") – a policy initiative pioneered by the UK Government to mobilise £110 billion (approximately US\$175 billion) of capital investment required by 2020 to ensure a reliable and diverse supply of low-carbon electricity. Such reforms were vital, as the UK had seen significant power plant closures in recent years – the Act was aimed at ensuring both investment in infrastructure, alongside decarbonisation as more power plants are decommissioned in the UK.

The subsequent Energy Act 2016 furthers the 2013 Act's work. It focuses on the oil and gas sector and works to implement recommendations into UK offshore oil and gas recovery and

its regulation. The Act formally established the Oil and Gas Authority ("OGA") as an independent regulator and enabled a more comprehensive charging of the offshore oil and gas industry for licences for environmental and decommissioning activity. This allows the Government to continue to recover costs of its environmental and decommissioning activity in line with the "polluter pays" principle.

The recent introduction of the Energy Act 2023 develops upon this legislative history and solidifies the Government's commitment to meeting 2050 net-zero targets. Amongst many other things, the Act seeks to bolster Carbon Capture, Utilisation and Storage ("CCUS") systems through its introduction of a new licensing regulatory framework for the industry. In setting out the future of the regulatory landscape for energy, the Government has said that it aims to provide legal certainty to investors in order to incentivise both domestic and foreign direct investment. For example, it is suggested that the Act will help unlock £100 billion in private investment in energy infrastructure, which, if true, could help support the construction of new and sustainable energy infrastructure projects. In broader terms, the UK project finance market in the oil and gas sector has not been immune to the effects of global trends. From mid-2021, the UK energy market has been affected by a record increase in global gas prices (due to a steep increase in global gas demand, together with low wind speeds, electricity interconnector outages and the war in Ukraine). Indeed, from January 2022 to January 2023, domestic gas prices increased by 129% and domestic electricity prices by 67%, brought about by cuts in the Russian supply of gas following Russia's invasion of Ukraine in February 2022. Between 1 April to 30 June 2024, the energy price cap is set at £1,690 per year for a typical household, which is £238 lower than the cap set between 1 January to 31 March 2024, reflecting a fall in wholesale energy prices.

The UK's current electricity mix has also changed substantially and rapidly over the past few years. Most notable is an increase in renewable-generated electricity (a trend in line with global patterns). In June 2019, the UK electricity system operated for 18 days without using coal, the longest period since the 1800s. In 2020, the UK went 5,000 hours without coal-fired electricity, and also broke a new wind power record, with just over a third of the country's energy being generated from wind. Such achievements were, to a substantial extent, reliant on the especially windy conditions the UK experienced in those years. The comparatively still weather experienced in 2021 highlighted the UK's reliance on intermittent renewable power, and contributed to record-high electricity prices (exceeding £400 per megawatt-hour). Wind provides the highest percentage (52%) of renewable energy. Biomass fuel (32%) and solar panels (12%) also make a significant contribution to renewable energy generation. In the past 10 years, electricity generated from wind has increased from 1.3% of the total to 24% (in 2020), while coal has dropped from 30.4% to 1.6%.

According to research from Imperial College London, a record amount of energy from renewable sources was generated in the UK in 2022. 40% of the UK's electricity was from solar, wind, biomass and hydropower, up 5% from 2021, though the production of energy from fossil fuels also increased in that time. This same report demonstrated how the UK had become a net exporter of electric power for the first time in more than 10 years.

The UK Government's energy and climate change goals are to deliver secure energy and a sustainable low-carbon future. In 2019, the UK became the first major economy to target net-zero greenhouse gas emissions by 2050, a commitment that was restated at the COP26 conference in November 2021. Such targets are informed by the UK's need to develop approximately 59GW new net capacity by 2025, with as much as 33GW coming

from renewables and the remaining 26GW coming from conventional thermal power. In an effort to promote private investment in the development of large-scale infrastructure projects (and in particular, the development of low-carbon technology) in the UK, the UK Government has instituted a series of programmes that are specifically designed to stabilise the economics of financing for such projects.

The UK Government has embraced the “green industrial revolution” with much enthusiasm in its November 2020 white paper, *The Ten Point Plan for a Green Industrial Revolution* (the “Ten Point Plan”), with a pledge of £12 billion in Government investment (and potentially three times as much from the private sector) committed to offshore wind, carbon capture, green hydrogen and electric vehicles, being the key sectors aimed at achieving the UK’s 2050 “net-zero” emissions target. With additional funding for carbon capture and new green hydrogen production facilities, the Government’s Plan represents a significant signal to renewable energy and infrastructure developers, investors and financiers over the coming years. With additional Government support, these sectors have drawn considerable interest from local and international players hoping to take advantage of the new “green industrial revolution” and the opportunities that come with it.

The UK Government has also continued investment in new nuclear, and displayed a firm commitment to the role it should play in the UK’s future energy mix. In 2020, nuclear generation accounted for 16% of total electricity generated. This is based on nuclear power being low-carbon, affordable, dependable, safe and capable of increasing the diversity of energy supply. The UK Government’s support echoes similar pro-nuclear political decisions in other jurisdictions, notably the UAE and Turkey. The events at Fukushima, Japan (March 2011) did not result in a reversal of this policy, unlike the nuclear phase-out announced by Germany and the cancellation of a new-build nuclear programme in Italy.

Although the UK Government emphasises that it will be for energy companies to fund, develop and build new nuclear power stations in the UK, including meeting the full costs of decommissioning and their full share of waste management and disposal costs, the Office for Nuclear Development (within the Department for Business, Energy & Industrial Strategy) is taking active steps to establish and cement the right framework and conditions in the UK for investment in new nuclear power stations, with the aim of having new nuclear projects generating electricity this year.

Nevertheless, the UK Government’s strong support for nuclear power was cemented by the Ten Point Plan, where it was announced that the UK would be pursuing large-scale nuclear power generation as well as committing to further investment in small module reactors and advanced module reactors. Specifically, it announced its commitment of up to £385 million in an Advanced Nuclear Fund, which includes funding of up to £215 million (which could potentially be matched by £300 million of private-sector matched funding) into small modular nuclear reactors to develop a domestic smaller-scale power plant technology design that could potentially be built in factories and then assembled on site.

The Government also committed up to £170 million to support research and development on advanced nuclear reactors in order to foster the development of new technologies. For this, the UK Government plans to invest an additional £40 million in developing the regulatory framework and supporting UK supply chains. The UK Government continues to signal that it has the potential to become a world leader in developing the next generation of nuclear technologies. As of 2023, the UK market was dominated by the following developments in the nuclear sector:

- Hinkley Point C is under construction and planned to come online in 2027 (EDF and CGN (as NNB Generation Company (“NNBG”)) are currently constructing two EPRs (a type of reactor) at Hinkley Point C (3.2GW)).
- EDF and CGN also intend to construct two further EPRs at Sizewell (3.2GW). The Secretary of State for Business, Energy and Industrial Strategy granted development consent to the Sizewell C project application in July 2022.
- The Government will also invest up to £300 million in UK production of the fuel required to power high-tech new nuclear reactors, known as HALEU, currently only commercially produced in Russia.
- Measures such as smarter regulation will help quadruple UK nuclear power by 2050 up to 24GW – the biggest expansion for 70 years

The Nuclear Energy (Financing) Act, passed in 2022, created a framework for a Regulated Asset Base (“RAB”) model to be used. The expectation is that this model will allow private investors to finance new nuclear projects, thus reducing reliance on overseas investors. Any new nuclear power stations that are financed through the RAB will be funded by charging electricity suppliers, who are expected to pass on this cost to their customers. As most of the nuclear reactors in the UK are due to reach the end of their operating lives before 2030, the aim of this Bill is to allow for eligible nuclear generation companies to be granted a right to a regulated revenue stream, during the construction, commission and operation of a new nuclear project.

In light of Russia’s invasion of Ukraine, the UK Government announced a “major acceleration of homegrown power” to “boost long-term energy independence, security and prosperity”. This envisions an expansion of the UK nuclear energy sector, with a plan of up to 24GWe of capacity by 2050 to meet around a quarter of the UK’s electricity demand. In 2023, the Great British Nuclear (“GBN”) body was launched, which was tasked with driving the expansion of new nuclear power plants in the UK and meeting the 2050 target for nuclear to provide up to a quarter of the UK’s electricity. The grant funding package offered by GBN totals up to £157 million to support the nuclear power industry.

Wind projects

Wind projects in the United Kingdom are expected to make up for the shortfall in low-carbon energy production resulting from the stalled nuclear projects. Recent notable wind projects include the Dogger Bank Offshore Wind Farm Projects and Hornsea III Offshore Wind Farm. Offshore wind is anticipated to generate over a third of the UK’s electricity needs, attracting US\$48 billion in investment, and employing 27,000 people. The British Government has put a fund of £557 million aside for subsidies for renewable energy, of which a sizeable amount is expected to be granted to offshore wind farms. The UK has 15 reactors generating 16% of the country’s electricity supply, but almost half of this capacity is to be retired by 2025.

The UK’s pipeline of offshore wind projects, as of February 2023, reached 99.8GW, up 14GW from the previous year. 13.7GW of projects are fully operational, with 13.6GW either under construction or extremely likely to commence construction in the near future. Whilst the UK Government is aiming for the nation to host 50GW of offshore wind by 2030, to meet this target, the UK’s offshore wind capacity will need to increase by 265%. Furthermore, while the UK has the second-biggest operational offshore wind capacity and second-largest offshore wind pipeline (only China has more) UK share is now at a record 8.5% (the first time below 10%), with rapidly growing markets in Brazil, South Korea, Australia and the US. The Energy Act 2023 seeks to bolster offshore wind projects by delivering the

Offshore Wind Environmental Improvement Package initiative, which aims to significantly reduce the offshore wind consenting process. This process has long been seen as a barrier to the much-needed acceleration of new offshore wind development, and the Act therefore represents a step towards attaining the Government's goal.

In December 2022, the UK Government announced it would ease restrictions on building onshore wind projects in England in a bid to reignite activity and help meet its offshore wind goal, as well as its commitment of a net-zero power sector by 2035. To do this, the UK onshore wind capacity must rise from 15GW in 2023 to 35GW by 2035; however, development has mainly been confined to Scotland since rules in England were toughened by David Cameron's Conservative Government in 2015. Concerns have also been raised about the speed at which applications will be processed, as Scotland and Wales already struggle to process applications, and the UK as a whole lacks local staff who can process these applications.

The Government also uses Contracts for Difference ("CfD") as a mechanism to ensure that renewable energy projects are built (this mechanism is explored in further detail below). In the context of offshore wind, the industry has boomed since the CfD auctions began in 2015. Further, the price of developing offshore wind has plummeted while the output has increased. The first round of CfD saw 1GW of offshore wind contracts agreed, while the fourth round, in 2022, saw 7GW. However, the fifth round of CfD auctions in 2023 saw no new offshore wind development contracts signed, which is especially problematic in light of the Government's aforementioned net-zero and offshore wind commitments. This sector has been particularly impacted by inflation and supply chain issues given its reliance on energy intensive materials such as concrete and steel. While the sector had warned the Government of this issue, it nonetheless set a £44/MWh price cap for offshore wind bids in this round of CfD, which was too low for developers to make a profit and therefore prevented any bidding on such projects.

Transformation of the UK electricity market

Renewables' share of electricity generation was 44.5% in Quarter 3 2023, which is an increase of 8.2% from 2022. Part of this increased contribution of renewables to electricity generation is due to the UK's long-standing legislative commitments. The Energy Act 2013 was aimed at bringing about a "once-in-a-generation transformation" of the UK electricity market, and has had significant implications for the economics of investing in low-carbon generating technologies. EMR is the UK Government's key policy mechanism for ensuring security of energy supply through the development of low-carbon technology. The key policy measure to incentivise new low-carbon electricity generation is the provision of the CfD instrument, where a low-carbon electricity generator and the Low Carbon Contracts Company ("LCCC" – a Government-owned limited company) enter into a contract that ultimately protects consumers from high costs and gives greater certainty of revenues to electricity generators.

The provision of CfDs is intended to stabilise revenues for investors in low-carbon electricity generation projects such as nuclear (and renewables) by helping developers secure the large upfront capital costs for low-carbon infrastructure. However, the long planning horizon for nuclear new-build projects and massive capital requirements pose substantial financial risks to nuclear power sponsors and investors. In the US, it was determined that US Government guarantees were necessary in order for new-build nuclear projects to be commercially viable. In October 2016, the UK Government confirmed that it had provided a Government guarantee to EDF (France) to

assist in bringing forward their investment in Hinkley Point C, the Somerset nuclear power plant. It provided a guarantee for up to £2 billion that would be available from 2018 to 2020, if necessary conditions were met.

The CfD is a quasi-power purchase agreement: generators with a CfD will sell their electricity into the market in the normal way, and remain active participants in the wholesale electricity market. The CfD then pays the difference between an estimate of the market price for electricity and an estimate of the long-term price needed to bring forward investment in a given technology (the strike price). This means that when a generator sells its power, if the market price is lower than needed to reward investment, the CfD pays a "top-up". However, if the market price is higher than needed to reward investment, the contract obliges the generator to pay back the difference. In this way, CfDs stabilise returns for generators at a fixed level, over the duration of the contract. This mitigates the generator's long-term exposure to electricity price volatility, substantially reducing the commercial risks faced by these projects. The Energy Act 2013 includes a provision whereby the LCCC will act as the counterparty to eligible generators under the CfD. This mechanism was in direct response to concerns about the "credit" behind the CfD economics. Although a CfD is a private law contract between a low-carbon electricity generator and the LCCC, the cost of CfDs will ultimately be met by consumers via a levy on electricity suppliers.

The Department for Business, Energy & Industrial Strategy opened a fourth CfD allocation round in December 2021, which included a budget of £265 million (of which £200 million will be available for new offshore wind projects). In response to COVID-19, a number of changes to the CfD scheme have been announced. In May 2020, the Department for Business, Energy & Industrial Strategy published a consultation that proposed to defer Electricity Suppliers' Obligation payments, which would have been due for collection in July 2020. This was in response to the decreased energy demands across the country as a result of lockdown restrictions that were placing a strain on electricity suppliers. This proposal came into effect in July 2020 through the Contracts for Difference (Electricity Supplier Obligations) (Amendments) (Coronavirus) Regulations 2020. In the Ten Point Plan, the UK Government announced that it would aim to support up to twice the capacity of renewable generation in the next CfD auction, supporting up to 12GW of renewable power projects. Notably, the most recent CfD auction was open to established technologies, welcoming solar and onshore wind back into the mix (which had previously been excluded in the last two rounds of auctions), including remote island wind schemes off the coast of Scotland.

These results and plans are consistent with the UK's "Clean Growth Strategy" announced in October 2017 and based on the Climate Change Act 2008. This strategy confirms a commitment to cut greenhouse gas emissions, achieve clean growth, but also ensures that businesses and consumers have affordable energy. Practical measures under the Strategy include providing £20 million to support a new clean technology early-stage investment fund.

Amongst other EMR policies was the establishment of a Carbon Price Floor ("CPF") introduced on 1 April 2013, with the aim of encouraging additional investment in low-carbon power generation by providing greater support and certainty to the carbon price. Supplies of fossil fuels used in most forms of electricity generation became subject to either the climate change levy ("CCL") or fuel duty from that date. Such supplies are charged at the relevant carbon price support rate, depending on the type of fossil fuel used, which will be determined by the average carbon content of each fossil fuel.

The carbon price support rates reflect the difference between the future market price of carbon and the floor price determined by the UK Government; it is currently set at £18 per tonne of CO₂. There have been repeated calls for longer-term clarity on carbon pricing and the CPF. In the 2017 Autumn Budget, the Government stated it was “confident” that the Total Carbon Price is set at the right level, and that it would continue to target a similar Total Carbon Price until unabated coal is no longer used. The European Commission considered, but ultimately rejected, a similar system to reform the EU Emissions Trading System.

Following Brexit, the UK Government issued The Greenhouse Gas Emissions Trading Order 2020, to replace the UK’s participation in the EU Emissions Trading System as of January 2021. This was designed to support the CPF and also protect the competitiveness of UK businesses. The UK scheme’s cap is 5% below the UK’s notional share of the EU system cap and is expected to decline by 4/2 Mt per year initially. The scheme was reviewed in 2023 and was described as being an integral part of the transition to net zero, and is due for further review in 2028.

Energy storage

Electricity storage is treated as a form of electricity generation and, as such, the applicable legal framework for electricity storage is currently the same as that applicable to electricity generation.

In the 12 months to December 2023, the total UK project pipeline for energy storage projects which are operational, under construction, consented or being planned had increased by almost two-thirds. These storage projects consist mainly of lithium-ion battery, lead-acid battery, open-loop pumped hydro storage, closed-loop pumped hydro storage and modular compressed storage.

Recent developments include:

- £6.7 million Government funding awarded to projects across the UK to support the development of innovative energy storage technologies;
- work beginning at the UK’s biggest battery storage project at Clay Tye; and
- BlackRock committing to invest up to £200 million in UK battery storage projects.

Energy storage is an integral part of the UK Government’s plan to achieve net-zero emissions targets, whether as standalone projects or co-location with new or retrofitted generation projects. The Infrastructure Planning (Electricity Storage Facilities) Order 2020 relaxed planning rules so that battery storage projects (except pumped hydro) above 50MW in England, and 350MW in Wales can go ahead without needing approval through the national planning regime. This was achieved by carving them out from the Nationally Significant Infrastructure Projects regime in England and Wales.

Regulatory framework

The Office of Nuclear Development has focused on taking actions that are aimed at reducing regulatory and planning risks for investors. A planning regime has been proposed to aid the installation of nuclear reactors, including – following public consultation – identifying sites for new nuclear power stations to be built by the end of 2025. The UK Government legislated in the Energy Act 2008 to ensure that operators of new nuclear power stations will have secure financing arrangements in place to meet the full costs of decommissioning and their full share of waste management and disposal. The Energy Act 2013 also introduced measures to create a new independent statutory body, the Office for Nuclear Regulation (“ONR”), to regulate the nuclear power industry.

The ONR and the Environment Agency are together undertaking a process of Generic Design Assessment (“GDA”) of new nuclear designs, which allows the safety, security and environmental implications of new nuclear reactor designs to be assessed before an application is made for a licence and permissions are granted to a particular design of reactor on a particular site. In late December 2017, the Hitachi-GE UK Advanced Boiling Water Reactor (“UK ABWR”) was granted approval, and confirmed as suitable for construction in the UK. The completion of this step is a significant one in the overall process to construct a new type of reactor in the UK.

UK Infrastructure Bank

The UK Infrastructure Bank was launched in June 2021, and although it is owned by HM Treasury, it will operate as a separate institutional unit with operational independence. Its purpose is to invest in infrastructure that helps tackle climate change, and to boost local and regional economic growth in the UK. The Bank will prioritise investments where there is a lack of private-sector financing or where private-sector financing does not reflect the full social benefits that are associated with an investment project.

The Bank has a broad mandate, but will prioritise the following sectors: clean energy; transport; digital; water; and waste. The Bank has a financial capacity of £22 billion and offers a variety of products ranging from senior debt to direct equity investments and guarantees. From summer 2021, the Bank has started offering loans to local authorities at a rate of gilts + 60 bps for high value and strategic projects of at least £5 million. The Bank published its first strategic plan in June 2022, which set out its strategy and investment priorities. It also recently backed a green hydrogen expansion with a £30 million investment for the UK-based green hydrogen pioneer, GeoPura, its first green investment.

Shale gas

Shale gas fracking has long been an area of great interest and potential within the UK – the British Geological Survey (“BGS”) estimates that there could be up to 1,300 billion cubic feet of shale gas in the north of England (primarily in the Bowland shale beneath Manchester, Liverpool and Blackpool) – equivalent to approximately 50 years of UK gas consumption. Further reserves are likely to exist in central and southern England. In December 2013, the UK Government’s Department of Energy and Climate Change (now the Department for Business, Energy & Industrial Strategy) reported that up to half of the UK’s land area might be suitable for fracking, including as yet unexplored deposits throughout much of eastern and southern England. US energy costs (partly as a result of significant investment by oil and gas buyers in US shale gas development) are currently one-third of those of Western Europe – a major issue for European exporters.

When UK shale oil was still in the early stages of exploration in the UK, the industry won an important early victory in 2016 when the Government overturned local council objections to a fracking scheme in Lancashire. Scientists from the BGS have estimated that the total volume of gas in the Bowland-Hodder shale in northern England is approximately 1,300 trillion cubic feet.

In April 2015 and following the introduction of the Energy Act 2016, certain functions passed from the Department of Energy and Climate Change (now the Department for Business, Energy & Industrial Strategy) to the OGA, a newly created executive agency. Following this change, the process of obtaining consent to drill a well is the same irrespective of whether the well drills for conventional or unconventional gas: operators bid for exclusive rights to an area in competitive licence rounds. The operator then needs landowner and planning permission, which may require an environmental impact assessment.

On 16 July 2015, the UK Government laid draft regulations that defined the protected areas in which hydraulic fracturing will be prohibited. The draft regulations ensure that the process of hydraulic fracturing can only take place below 1,200 metres in specified groundwater areas outside National Parks, Areas of Outstanding Natural Beauty and World Heritage Sites.

However, fracking remained a controversial issue in the UK. In March 2018, the application by Ineos to explore for shale gas in South Yorkshire was rejected by local councillors, raising the cumulative total of planning rejections against fracking companies to seven in 2018 alone (mainly focused around the Midlands and the north of England). Interestingly, some of the rejections came from Conservative councils, despite the Conservative Government's Manifesto promise of developing a shale gas industry in the UK (the Labour Party, on the other hand, is anti-fracking).

The United Kingdom Onshore Oil & Gas industry group forecasts that fracking has the capacity to eliminate Britain's need to import gas by the early 2030s.

In what was seen by some commentators as an unexpected U-turn, in November 2019 the Government halted fracking in England with immediate effect. Ministers also announced to shale gas companies that they would no longer support future fracking projects. The reason given for the moratorium was that the OGA published a report into recent seismic activity at Preston New Road (the UK's only active fracking site in Lancashire), in which it was clear that the Government would be unable to rule out future unacceptable impacts on the local community. The two shale gas wells at Preston New Road were ordered to be sealed by the industry regulator in February 2022 and have since been abandoned.

The ban on fracking was lifted under the short tenure of Liz Truss as Prime Minister. This decision was made alongside the publication of a scientific review by the British Geological Survey, which concluded that there was still a limited understanding about the precise effects of fracking. The lifting of the ban was short-lived and the ban was restored by Rishi Sunak's Government in October 2022.

Digital infrastructure

The increased reliance on broadband connectivity during the COVID-19 crisis, prompted by stay-at-home orders, has contributed to the growing popularity of digital infrastructure. This popularity is echoed in market activity as both established and newly formed "alt-net" companies have invested in fibre-optic cabling projects. Notably, public-sector policy incentives that promoted zero-emission vehicles provided investor opportunities in infrastructure for electric vehicle charging. This also highlights the important role of digital infrastructure in the net-zero agenda, not only offering alternatives for travel, but also enabling smart grids and industrial automation. In April 2021, the UK Government launched Project Gigabit: a £5 billion Government infrastructure project that aims to build broadband infrastructure to provide reliable and fast internet connection to more than 1 million hard-to-reach homes and businesses. The project continues to move forward as, since its launch, over 3,500 public-sector building hubs have been connected. However, some of the contracts may not start to build until 2025.

1.2 What are the most significant project financings that have taken place in your jurisdiction in recent years?

Notable recent project finance deals include the Hinkley Point C Project in Somerset, the Moray East Offshore Wind Farm project, the Beatrice Offshore Wind Farm project, the Triton

Knoll Offshore Wind Farm project, the Dogger Bank Wind Farm project, the Thames Tideway Tunnel project, the Galloper Offshore Wind Farm, the £6.5 billion Thameslink Project, the Stonehenge tunnel, and the Intercity Express Programme Phase 1 public-private partnership ("PPP") refinancing.

The UK Government seeks to encourage low-carbon energy generation – particularly via the construction of offshore wind farms – through Contracts for Difference, for which up to £557 million of Government funding is available. One such wind farm is the Walney Extension, a 659MW offshore wind farm owned by Ørsted, PKA and PFA adjacent to the 367MW Walney project off the coast of Cumbria. The Walney Extension became operational in 2018 and received Government funding through a Contract for Difference awarded in 2014. It is hoped that such Government support will enable the private sector to produce up to 2GW of new offshore wind capacity each year as of 2020.

Phase 3 of the Dogger Bank Wind Farm, a project off the northeast coast of England, won a CfD in the 2019 auction and reached financial close at the end of 2021; construction has already begun on the first two phases of the wind farm. Once all three phases are complete, it will be the largest offshore wind farm in the world, with a generation capacity of 3.6GW. National Grid ESO awarded a 10-year power contract to Dogger Bank C, the first offshore wind transmission asset to be awarded a contract through a reactive power tender by National Grid. There have also been discussions about developing a Phase 4 (Dogger Bank D), which could add an additional 1.32GW in capacity.

As part of National Grid's £750 million investment in London's electricity networks, London Power Tunnels is building a new network of cable tunnels in and around the capital. Phase 1 of the project sought to replace dated energy circuits and make maintenance more efficient and less disruptive to road users, and was completed in February 2018. Construction of Phase 2 began in March 2020 and is projected to be complete by 2027, and will entail adding over 30km of tunnels between Wimbledon and Crayford.

The Thames Tideway Tunnel is a major infrastructure project aiming to upgrade London's sewerage system in order to meet the future needs of the city. Construction began in 2017, and tunnelling is currently underway, with all works expected to be completed by 2025. The Tunnel construction will employ over 4,000 people directly, with several thousand more jobs in the supply chain and wider economy. It will also bring other regeneration benefits, such as lifting constraints on future housing and other developments.

The Stonehenge tunnel is a £1.7 billion project that aims to reduce traffic on the main road near Stonehenge and Bath, and includes a two-mile tunnel near the monument. Despite some controversy surrounding this project and its potential impact on the archaeological site, MORE consortium was awarded the Main Works Contract in 2022. Some of the social and environmental benefits of this project are expected to be the reduction of noise and air pollution and the restoration of tranquillity to the World Heritage Site.

Of additional importance is the green light for HS2 that the Government granted in February 2020. The first phase of the project is due to open between 2029 and 2033, and the second phase between 2035 and 2041.

2 Security

2.1 Is it possible to give asset security by means of a general security agreement or is an agreement required in relation to each type of asset? Briefly, what is the procedure?

In domestic UK project financings, the intention of the parties

(and the usual requirement of all types of lenders) is to create security over all, or substantially all, of a project company's assets. Project finance borrowing vehicles are normally special purpose vehicles ("SPVs") with no pre-existing businesses, rights or liabilities beyond those associated with the project.

Security is normally granted by way of a general security agreement, such as a debenture, which covers all the SPVs' rights and assets (both pre-existing and after-acquired) or (less commonly) by way of separate security agreements for each type of asset.

More often than not, lenders will look to achieve "going concern" security on a UK-based project or asset. This is aimed at putting them in a position of default, stepping in if necessary and operating (or selling) the relevant asset as a going concern. Basic legal security is normally insufficient to achieve this type of outcome; conventional legal security is often supplemented by bespoke contractual arrangements providing lenders with specific notice, "cure" and "step-in" rights.

Where (as is very often the case) the viability of a project as a going concern is dependent upon the continuing availability to an operator or owner of permits and licences, special attention will need to be paid to the consequences of default in the wider sense – by way of example, breach of licence conditions or change of control can result in permits and licences being breached and/or becoming terminable. Certain types of licences and permits are, in effect, personal to the initial licence-holder; contractual rights can be expressed to be non-assignable in the absence of consents. A careful analysis of the regulatory and practical conditions applicable to the application for, and maintenance of, permits, licences and key contracts is necessary and will differ on a case-by-case basis.

The main types of securities under English law are mortgages (equitable and legal), charges (fixed and floating), assignments (broadly equivalent to charges), pledges and liens. Mortgages, charges and assignments are the most frequently used forms of security. Assignments may be legal or equitable; the process for enforcement of the two types of security differs. A debenture will include a range of mortgages, charges and assignments depending on the nature of the security assets.

English law differentiates between legal and equitable interests in assets (including security interests) and, in particular, as regards land and shares.

It is possible, in theory, to create security orally (unless it relates to land) but, in practice, security is always documented. There is no prescribed procedure or form of document required to create security (but see question 2.2 below regarding registration).

A legal assignment of an asset must comply with section 136 of the Law of Property Act 1925. If the secured lender wishes to implement a legal assignment of rights by way of security, then section 136 sets out the procedure. A legal assignment must be in writing and signed by the assignor, be absolute (meaning that the assignee has the entire right to the benefit in the action) and not be set out to be by way of charge only, and any third parties against whom the assignor could enforce the assigned rights need to be notified in writing. If the assignment has been perfected, the assignee has the right to sue the third party in its own name.

It is often not possible in project financing to comply with section 136; the vast majority of assignments of receivables, accounts and contracts used for the purposes of project financing are equitable assignments. If the requirements under section 136 are not met, the assignee has an equitable assignment, which does not grant the right to sue the third party in its own name. Assignments of future contracts can only be by way of equitable assignment.

Other securities, such as a charge and a mortgage, require evidence in writing, which can be effected by means of a debenture. Debentures can create legal mortgages and fixed

and floating charges over all the borrower's assets, if agreed, and as set out in the debenture. The debenture is executed as a deed.

2.2 Can security be taken over real property (land), plant, machinery and equipment (e.g. pipeline, whether underground or overground)? Briefly, what is the procedure?

Security is usually taken over real estate by way of a legal mortgage over (ideally) a freehold title, or by the creation (or assignment) of a leasehold interest. Security over movables is normally effected by way of a fixed charge over plant, machinery and equipment. Plant and machinery that is fixed to land is normally deemed part of that land; pipes and cables can in certain circumstances also constitute fixtures. The depreciation position differs between "fixtures" (which effectively become part of the land or property to which they are affixed) and movables or "chattels", so fully analysing the legal standing of an asset is important. Complications arise over the creation of security over assets located on the foreshore or in international waters.

The following are the main types of security that require registration:

- company charges;
- mortgages and charges over interests in land;
- security over certain IP rights; and
- security over ships and aircraft.

Registration is important for the chargee to secure its priority rights and ranking in case of the chargor's insolvency.

The procedure is the same as set out above, namely by agreeing the terms and conditions and setting these out in a debenture. In order to perfect a legal mortgage and a fixed charge following the execution of the debenture, the security must be registered.

Under the Companies Act 2006, a company must register details of any security it grants (subject to some exceptions) at Companies House within 21 days of the date of creation of the security. Failure to register will result in the security becoming void against an insolvency officer, appointed in respect of the chargor and against any creditor. Separate registrations regarding security over land and real estate interests will be required at the Land Registry or at the Land Charges Department. Note that security over intellectual property may also be subject to separate registration procedures (for example, at the Trade Marks Registry).

2.3 Can security be taken over receivables where the chargor is free to collect the receivables in the absence of a default and the debtors are not notified of the security? Briefly, what is the procedure?

Security over receivables is normally taken by way of assignment. Fixed charges over receivables or bank accounts require the secured lender to control both the receivables and the account into which they are paid when collected; this is almost always impossible as a practical matter in the context of a typical project. Security over receivables can also be taken by way of a floating charge, but the practical value of a floating charge (which "fixes" on the assets it covers only on the occurrence of a crystallisation event) to a lender in terms of asset security may be limited. If the benefit of the receivables is assigned to the lender, then, in order to achieve a legal assignment under section 136 of the Law of Property Act 1925, notice in writing of the assignment must be served on the account debtors – often impracticable where there is a wide range of debtors.

As it may be impractical to serve notice or to impose a high degree of control on this asset class, an equitable assignment or

floating charge is often used as an alternative form of security. This form of security enables the chargee to take security without unduly restricting or affecting the chargor's ability to carry on its business, by dealing pre-default with its receivables as if no security had been created. The formalities for this form of security are fewer but floating charges rank behind fixed charges in terms of priority, and the proceeds of floating charge enforcement are subject to certain other prior ranking claims.

2.4 Can security be taken over cash deposited in bank accounts? Briefly, what is the procedure?

Project financings will invariably establish a strict regime in relation to the project's cash flows – this will require revenues to be paid into dedicated accounts held by pre-agreed account banks and will set out clear rules on the priority of application of available cash (the “Cash Flow Waterfall”). A typical project account or account bank agreement will establish strict rules as to permitted withdrawals from those accounts.

Withdrawals will cease to be permitted upon the occurrence of an actual or potential Event of Default. Any withdrawal that is not permitted under the relevant accounts or account bank agreement will trigger default; default will permit the lenders to enforce security. In the context of receivables and bank accounts, this will include transferring to the lenders full control over receivables and accounts.

As it may be impractical to serve notice or to impose a high degree of control on this asset class, an equitable assignment or floating charge is often used as an alternative form of security. This form of security enables the chargee to take security without unduly restricting or affecting the chargor's ability to carry on its business by dealing pre-default with its receivables as if no security had been created. The formalities for this form of security are fewer but floating charges rank behind fixed charges in terms of priority, and the proceeds of floating charge enforcement are subject to certain other prior ranking claims.

2.5 Can security be taken over shares in companies incorporated in your jurisdiction? Are the shares in certificated form? Briefly, what is the procedure?

Security over shares in companies incorporated in England and Wales can either be taken by way of legal mortgage, or by way of charge over the shares (an equitable mortgage or charge). The governing law of the mortgage should always be English law. The convention in English law financings for security over shares in the context of projects is for security to be effected by way of equitable charge; lenders will always (subject to very limited exceptions) resist becoming shareholders of record in an SPV or project vehicle for a wide range of reasons, including incurring shareholder liabilities and reputational risk. Equitable share charges are normally protected by means of a power of attorney in favour of an agent or trustee for the lenders, enabling the lenders to take a legal transfer of shares if default occurs, where absolutely necessary.

In the ordinary course of events, secured lenders will normally be happy for the sponsors/relevant chargors to retain legal title to shares until an Event of Default and/or enforcement event occurs.

A legal mortgage of shares involves the transfer of the relevant shares in the company to the lender from the outset, subject to an agreement for their re-transfer once the secured debt is repaid. The lender will be registered in the company's register of members as a fully entitled shareholder of the company, and not just as a mortgagee. As a result, the transfer will operate so as to

give the lender all the rights of a shareholder. While the lender is registered as a shareholder, it will receive all dividends and any other money or assets paid in relation to the shares, and will be entitled to vote as a shareholder.

With an equitable mortgage or charge of shares, the chargor remains as a registered shareholder and retains legal title to the shares, transferring only its beneficial interest to the lender. The chargor will normally be required to lodge its share certificates and stock transfer forms with the lender, on the basis that the stock transfer forms can be completed by the lender (in favour of itself or a nominee) if an Event of Default or enforcement event occurs. Voting rights and the right to receive dividends will normally remain with the chargor until an Event of Default occurs.

The CREST system allows CREST members to grant legal and equitable mortgages over their shares held in CREST.

2.6 What are the notarisation, registration, stamp duty and other fees (whether related to property value or otherwise) in relation to security over different types of assets (in particular, shares, real estate, receivables and chattels)?

A nominal fee is payable to Companies House on registration of security by a company. The fee does not vary according to the class of asset or type of security. Separate registration is required for each security document. The fee is currently £23 for registering a security document using the paper filing process, and £15 for using the electronic filing process.

Additional fees are also payable for registration to the Land Registry or Land Charges Department as regards security over land. These fees are registration fees and will not usually be significant in the context of the overall transaction. No stamp duty is payable on the registration of security.

2.7 Do the filing, notification or registration requirements in relation to security over different types of assets involve a significant amount of time or expense?

Registration with Companies House requires the completion of a specified form and must be undertaken within 21 days of the creation of the security, or it will be void on insolvency and against other creditors.

Companies House is not responsible for inaccuracies in the registered particulars (acceptance of the particulars does not guarantee their accuracy). Inaccuracies in the registered particulars can have serious consequences as regards priority and effective registration. Responsibility for ensuring the accuracy of the registered particulars lies with the presenter (in practice, the chargee or its advisors). The 21-day period includes bank holidays and weekends and does not stop running if the Companies House registrar identifies a defect and returns the registration form for correction. As a result, in the context of complicated security documents, it is essential to draft and agree the registration particulars in advance of financial close. If necessary, these particulars can be pre-agreed with Companies House to reduce the risk of rejection and the loss of time (and priority).

Charges over certain assets, such as land, intellectual property rights, ships and aircraft, need to be registered at other specialist registries related to the asset in question, as well as at Companies House.

On 6 April 2013, a new regime for the registration of security came into force via the Companies Act (Amendment of Part 25) Regulations 2013 No. 600. This regime is intended to streamline existing procedures and to reduce uncertainty over registration.

Principal features of the new registration regime include:

- **Scope of charges covered:** All charges created by a company are registrable except for a narrow range of excluded items. The company and any person “with an interest in the charge” are entitled to register the charge.
- **“Voluntary” registration:** Failure to register security is no longer a criminal offence. However, commercial sanctions for non-registration (whereby non-registered security becomes void against a liquidator, administrator or creditor and any secured debt becomes immediately repayable) continue to apply. Security should still be registered within the 21-day window.
- **Filing, e-filing and statements of particulars:** Persons wishing to register security have the option of registering via an electronic filing system. Under this system, a statement of particulars must be filed online together with a certified copy of the charging document. The entire charging document is available to view online, although certain personal information (such as bank account details) can be redacted. There is no longer any need to send an original charging document to Companies House.

2.8 Are any regulatory or similar consents required with respect to the creation of security over real property (land), plant, machinery and equipment (e.g. pipeline, whether underground or overground), etc.?

Subject to limited exceptions in relation to certain types of UK Government-owned, strategic and regulated assets, no regulatory or similar consents are required in relation to most land and real estate rights or in relation to most types of privately held assets. Specific legal regimes apply, however, to different types of regulated assets – for example, certain types of governmental assets (in particular, those associated with defence), nuclear generation, nuclear fuel production and reprocessing plants and related sites, and certain assets vested in specific types of privatised businesses (for example, water and transmission businesses).

In addition, licences granted by Ofgem (the gas and electricity regulator in England and Wales), regulatory authorities in relation to exploration for and development of hydrocarbon assets or the Financial Conduct Authority, may affect the granting of any mortgage, charge or other form of security over an asset. The consent of Ofwat (the regulator of the water and sewage industry in England and Wales) may also be required under the instruments of appointment by the Secretary of State for the Environment for water and sewerage, undertaken under the Water Act 1989.

3 Security Trustee

3.1 Regardless of whether your jurisdiction recognises the concept of a “trust”, will it recognise the role of a security trustee or agent and allow the security trustee or agent (rather than each lender acting separately) to enforce the security and to apply the proceeds from the security to the claims of all the lenders?

England and Wales fully recognise the concept of trusts. Trusts are normally used to create beneficial interests in assets that may differ from the strict legal ownership of those assets. Trust deeds are often used alongside debentures in England and Wales to create and regulate the holding of security over assets.

The creation of a trust by a borrower will normally involve the conveyance by the borrower to a trustee (usually a trust corporation – either an eligible financial institution or a specialist trust company such as any Law Debenture or Banker’s Trust)

who may hold the security for the benefit of itself, the other secured lenders in the transaction and (on a residual basis) for the borrower itself. English law trusts are normally long-term arrangements; beneficial ownership remains with the secured party so the trust assets do not fall within the trustee’s estate if the trustee becomes insolvent.

3.2 If a security trust is not recognised in your jurisdiction, is an alternative mechanism available (such as a parallel debt or joint and several creditor status) to achieve the effect referred to above which would allow one party (either the security trustee or the facility agent) to enforce claims on behalf of all the lenders so that individual lenders do not need to enforce their security separately?

This is not applicable in our jurisdiction. See question 3.1 above.

4 Enforcement of Security

4.1 Are there any significant restrictions which may impact the timing and value of enforcement, such as (a) a requirement for a public auction or the availability of court blocking procedures to other creditors/the company (or its trustee in bankruptcy/liquidator), or (b) (in respect of regulated assets) regulatory consents?

In general, no. In relation to unregulated assets, there is no requirement for a public auction following enforcement of security. It is impossible to exclude the possibility of third parties seeking injunctive relief to prevent enforcement of security or the sale of secured assets following enforcement, but generally, English courts will oppose any such proceedings where security was validly given and (where required) properly registered.

The Financial Collateral Arrangements (No. 2) Regulations (“FCA”) came into force in England Wales in December 2003 in order to implement the Financial Collateral Directive (2002/47/EC), with the aim of simplifying the enforcement of security over cash, financial instruments (including shares, bonds and warrants) and credit claims.

The FCA Regulations 2003 were amended by the Financial Collateral Arrangements (No. 2) Regulations 2003 (Amendment) Regulations 2009 (SI 2009/2462) that came into force in October 2009. These amendments provided for changes in the Companies Act.

The FCA Regulations 2003 were further amended by the Financial Markets and Insolvency (Settlement Finality and Financial Collateral Arrangements) (Amendment) Regulations 2010 (SI 2010/2993) (FCA Amendment Regulations 2010). These came into force on 6 April 2011 and included credit claims as financial collateral.

Following the FCA, paragraph 43(2) of Schedule B1 to the Insolvency Act 1986 will not apply to any security interest created or otherwise arising under a financial collateral arrangement. This means that neither the consent of the administrator, nor the permission of the court, is required to enforce such a security interest, which would otherwise be applicable when a company is in administration or the subject of a company voluntary arrangement (“CVA”).

4.2 Do restrictions apply to foreign investors or creditors in the event of foreclosure on the project and related companies?

“Foreclosure” has a narrower meaning under English law than it does in the US.

Foreclosure in the context of security over an asset is the process by which the mortgagor's rights in the secured asset are extinguished (the mortgagor's equity of redemption is extinguished), and that asset becomes vested in the mortgagee.

The mortgagee could obtain a court order under which it becomes the owner of the property. A mortgagee's right to foreclose arises once the liabilities secured by the mortgage have become repayable.

Even in these circumstances, a mortgagee normally has certain obligations to the mortgagor – including an obligation to obtain a reasonable price on sale of a mortgaged asset, and (pursuant to the “equity of redemption”) to return any excess proceeds over the secured debt finalised by it to the mortgagor. In general, under English law, foreign investors are treated differently from businesses established in England and Wales in relation to the enforcement of security.

5 Bankruptcy and Restructuring Proceedings

5.1 How does a bankruptcy proceeding in respect of the project company affect the ability of a project lender to enforce its rights as a secured party over the security?

There are different types of insolvency proceedings under English law:

- administration;
- receivership/administrative receivership;
- compulsory liquidation;
- CVAs; and
- schemes of arrangement.

From a lender's perspective, administration and administrative receivership are the most important regimes.

Lenders to a project normally insist on taking security over all, or substantially all, of the Project SPV's rights and assets. Special rules apply to security created by “project companies” (prior to the Enterprise Act 2002, these rules were capable of applying to all businesses). An administrative receiver is generally appointed over the whole of the company's assets by, or on behalf of, the holders of any of the company's charges that, as created, were floating charges.

Since the coming into force of the Enterprise Act 2002, only lenders holding security created before 15 September 2003 are able to appoint an administrative receiver, subject to certain exceptions. The key exception in the case of project finance is that set out under section 72E of the Insolvency Act 1986. Section 72E states that the appointment of an administrative receiver by a project company is not prevented if the project is a “financed” project and is subject to step-in rights. A project is “financed” if, under an agreement relating to the project, a project company incurs (or, when the agreement is entered into, is expected to incur) a debt of at least £50 million for the purposes of carrying out the project. The administrative receiver's primary duty is to the secured lender who appointed him, but he is also an agent of the company. If the secured lender has the highest-priority fixed charge over the company's assets, the lender may appoint one or more fixed-charge receivers over the secured assets. Appointing its own receiver offers the lender more control over the realisation of the assets.

Out of court, an administrator can be appointed by the holder of a “qualifying” floating charge, provided that the charge relates to the whole or substantially the whole of the company's assets, and the company has triggered an Event of Default under the financing documentation. A company need not be insolvent in order for administration to occur. Once appointed,

the administrator owes his duties to all creditors, not only to the project lenders. His primary objective is to rescue the company as a going concern. If a lender has the right to appoint an administrative receiver (as described above), that lender may veto the appointment of the administrator.

5.2 Are there any preference periods, clawback rights or other preferential creditors' rights (e.g. tax debts, employees' claims) with respect to the security?

Following the formal insolvency of a company, an administrator or liquidator may challenge transactions entered into by the company before the start of the relevant insolvency procedure. The period when such transactions are vulnerable to being challenged is known as a “hardening period”. Such transactions include transactions at an undervalue, preferences, extortionate credit transactions, avoidance of floating charges and transactions defrauding creditors. The hardening period ranges from two years (transactions at an undervalue) to six months (preferences).

A creditor with a claim that ranks in priority to other unsecured creditors and (in corporate insolvencies) to floating charge holders and the prescribed part (Schedule 6 and sections 175, 176, 328, 347 and 386, Insolvency Act 1986) is a preferential creditor. Employees are usually the only preferential creditors following the introduction of the Enterprise Act 2002 (they will receive wages, holiday pay and contributions to pensions). In order of priority, a party secured by way of mortgage or fixed charge will rank ahead of any preferential creditors. Preferential creditors are paid from the proceeds of floating charges, which are ranked below the fixed-charge creditors but above all other unsecured creditors.

5.3 Are there any entities that are excluded from bankruptcy proceedings and, if so, what is the applicable legislation?

Private-sector entities incorporated in England and Wales are generally not excluded from bankruptcy proceedings in England and Wales.

5.4 Are there any processes other than court proceedings that are available to a creditor to seize the assets of the project company in an enforcement?

Injunctive relief may be available from the English courts in unusual and/or extreme circumstances. As described in the responses to questions 2.1 to 2.5 above, typical project security arrangements will include:

- detailed contractual controls over project receivables, cash and bank accounts; and
- “step-in” and related contractual arrangements with counterparties to key project documents providing protection against borrower non-performance, insolvency and other matters.

There are specific insolvency regimes relating to the insolvency of PPP and private finance initiative (“PFI”) projects and in relation to the preservation of certain types of strategically important assets (for example, certain pipelines and transmission assets).

5.5 Are there any processes other than formal insolvency proceedings that are available to a project company to achieve a restructuring of its debts and/or cramdown of dissenting creditors?

Part 26 of the Companies Act 2006 provides a procedure for

companies to make a compromise or arrangement with its creditors (or any class of them), which will be binding on all creditors in the relevant class(es) if the requisite majorities vote to approve the scheme. A scheme requires the approval of a majority in number of creditors holding 75% in value of each affected class, and the sanction of the High Court of England and Wales. The court will consider any objections from creditors, which commonly relate to the provision of insufficient information or notice of the scheme and/or the fairness of class composition. There is no statutory moratorium attached to the scheme, although lock-up agreements, whereby creditors commit in advance to vote in favour of the scheme and agree not to take enforcement action, are common in practice.

Since the legislation does not prescribe the subject matter of a scheme, it is a highly flexible device and is available to any company that can be wound up under the Insolvency Act 1986. This includes UK-registered companies, unregistered companies and foreign companies, provided a sufficient connection with England is established. This is a determination on the facts, but the presence of English law governed debt, often together with English creditors or bank accounts, will typically be considered sufficient.

A restructuring plan was introduced as part of the UK Corporate Insolvency & Governance Act 2020, set out in Part 26A of the Companies Act 2006, and is similar to the scheme of arrangement. A company looking to use a Restructuring Plan must have encountered or be likely to encounter financial difficulties. The threshold for a class to approve a plan is 75% in value of those present at a class meeting, though a dissenting class of creditors can be bound (“cross-class cram down”) if the court is satisfied that: (i) none of the members of the dissenting class would be any worse off under the Restructuring Plan than they would be under the relevant alternative; and (ii) at least one class who has a genuine economic interest in the proposed Restructuring Plan has voted in favour.

This same act also introduced the option of a statutory moratorium, which provides an initial period of 20 business days for a company, during which creditors cannot take enforcement action. A Licensed Insolvency Practitioner (“IP”) must have agreed to act.

5.6 Please briefly describe the liabilities of directors (if any) for continuing to trade whilst a company is in financial difficulties in your jurisdiction.

Under English law, a director will potentially be liable for wrongful trading if “at some time before the commencement of the winding up of the company, that [director] knew or ought to have concluded that there was no reasonable prospect that the company would avoid going into insolvent liquidation” (section 214(2), Insolvency Act 1986). A director will have a defence if, after that director knew or should have concluded that there was no reasonable prospect of avoiding an insolvent winding-up or entering insolvent administration, the director took every step with a view to minimising the potential loss to the company’s creditors that he ought to have taken (section 214(3), Insolvency Act 1986). This will generally give conscientious directors facing financial difficulties sufficient time to organise a restructuring while continuing to trade, provided there continues to be a reasonable prospect that restructuring negotiations will successfully conclude (even if in fact they do not).

Liability for fraudulent trading (that is, knowingly carrying on the business of the company with the intent to defraud creditors) can also extend to directors, who may be personally

liable in an action brought by a liquidator. Directors could also face criminal liability for fraud, misconduct, falsification of the company’s books, material omissions from statements and false representations under sections 206 to 211, Insolvency Act 1986 and are liable to disqualification from being a director of any company for up to 15 years under the Company Directors Disqualification Act 1986.

6 Foreign Investment and Ownership Restrictions

6.1 Are there any restrictions, controls, fees and/or taxes on foreign ownership of a project company?

There are no restrictions on foreign investors investing in UK companies as a general rule under English law, but there are specific statutory regimes in place for certain industries. Authorisation is required for investment in specific regulated areas including the nuclear industry, banking, media, financial services and defence.

UK competition rules may impact ownership by companies with UK or global business turnovers exceeding specific thresholds.

6.2 Are there any bilateral investment treaties (or other international treaties) that would provide protection from such restrictions?

The UK has signed bilateral investment treaties, protecting investor rights, with around 120 countries.

6.3 What laws exist regarding the nationalisation or expropriation of project companies and assets? Are any forms of investment specially protected?

Expropriation of assets or companies is generally rare in the UK in the absence of hostilities, breach of international sanctions or financial market turmoil. Certain public-private assets are subject to compulsory purchase powers; compulsory purchase is also possible (subject to public processes and appeal rights, and to the payment of “market value” compensation) for the development of infrastructure and other assets (such as new railway lines). Subject to limited exceptions (for example, the State’s ability to acquire shareholdings in financial institutions in certain circumstances), the State has no special legal right to expropriate private-sector assets.

7 Government Approvals/Restrictions

7.1 What are the relevant government agencies or departments with authority over projects in the typical project sectors?

The exact nature of the project will determine which regulatory bodies and/or UK Government agencies will have authority over the project. However, there are a number of bodies that have an overarching function in respect of development related to the typical project sectors.

Local authorities

The majority of onshore projects will require planning permission, and the identity of the body granting planning permission depends on the nature of the project. Planning permissions are usually granted

by the local authority of the relevant area. Local authorities are also responsible for granting consent for the storage of large quantities of hazardous substances, such as natural gas and chemicals. Local authorities, and the London Mayor, introduced the Community Infrastructure Levy in April 2010, which is a charge attached to development once it has been granted planning permission, to fund and pay for the maintenance of local infrastructure.

National infrastructure planning

Where a proposed development in England is classed as a Nationally Significant Infrastructure Project (e.g. power plants, airports and major road schemes), planning permission/development consent for these will be dealt with by the Planning Inspectorate (specifically the Major Infrastructure Planning Unit). The ultimate decision-maker for such projects will be the relevant Secretary of State, e.g. the Secretary of State for Energy and Climate Change in the case of energy projects.

Welsh Assembly Government

Planning decisions that would be taken by the relevant Secretary of State in England will be made by the Welsh Ministers when these projects are in Wales.

Environment Agency

The Environment Agency is the main environmental regulator in England and is responsible for the environmental permitting regime, which covers a variety of areas including waste management, water pollution and air pollution. There is a separate Welsh Environment Agency that, on 1 April 2013, was merged into a new environmental body for Wales alongside the Countryside Council for Wales and Forestry Commission Wales.

Health and Safety Executive (“HSE”)

The HSE is the principal regulator for all health and safety issues in Great Britain.

Marine Management Organisation (“MMO”)

The MMO implements and regulates the UK’s marine planning and licensing system in respect of all offshore construction works.

A number of other public, private or semi-public regulators may also have authority over projects, depending on their exact nature. These may include Natural England, the Crown Estate, the Office of Gas and Electricity Markets (“Ofgem”), the Water Services Regulation Authority (“Ofwat”) and the Office of Communications (“Ofcom”).

7.2 Must any of the financing or project documents be registered or filed with any government authority or otherwise comply with legal formalities to be valid or enforceable?

In general, no. Registration of prescribed particulars at Companies House and/or other applicable registrars must, however, comply with the relevant registration requirements.

7.3 Does ownership of land, natural resources or a pipeline, or undertaking the business of ownership or operation of such assets, require a licence (and if so, can such a licence be held by a foreign entity)?

Land

To own land in England and Wales, there is no requirement for a licence, nor is there any general bar on foreign ownership of private-sector land.

Water

In order to impound or abstract groundwater and surface water, a licence must be obtained from the Environment Agency.

Wind, wave, tidal and solar energy

No licences are required to use any renewable energy resources, although the usual planning permissions and consents required to carry out construction and engineering works will be needed. A licence to generate electricity (or an exemption from obtaining such a licence) must also be obtained from the Department for Business, Energy & Industrial Strategy.

Minerals (other than oil and gas, coal, gold and silver)

Ownership rights of minerals located in privately owned land (except oil and gas, coal, gold and silver) will generally reside in the owner of the surface land, although these rights may be retained by a previous landowner.

The Crown Estate generally holds the right to exploit all minerals on the UK foreshore and continental shelf, with the exception of gas, oil and coal.

Oil and gas

Ownership of all onshore and offshore oil and gas in Great Britain (to the limits of the continental shelf) is vested in the Crown. The OGA grants exclusive rights to “search and bore for and get” petroleum within Great Britain. The rights granted by onshore licences do not include any rights of access, which must be obtained from the relevant landowner, and the licensees must also obtain any consents required under other legislation, such as planning permissions and environmental permits. Licensees wishing to enter or drill through coal seams for coal-bed methane and coal-mine gas must also seek the permission of the Coal Authority (see below). Within UK territorial waters, consent for placing installations and laying pipelines on the seabed must be obtained from the Crown Estate.

Coal

Following the privatisation of the coal industry in 1994, the ownership of almost all coal now resides with the Coal Authority, which grants licences for coal exploration and extraction.

Gold and silver

Rights to gold and silver in most of England and Wales are owned by the Crown, and a licence for the exploration and development of these metals must be obtained from the Crown Estate Commissioners through the Crown Mineral Agent.

7.4 Are there any royalties, restrictions, fees and/or taxes payable on the extraction or export of natural resources?

Owners of minerals may receive royalties in relation to the extraction of minerals. Such royalties would be subject to UK tax. From April 2013, all mineral royalties are taxed 100% to income tax rather than 50/50 to income and capital gains tax, as before. There may be restrictions in place in relation to the extraction and exploitation of natural resources. For example, the Environment Agency has discretion to refuse to grant water abstraction licences if it believes there will be a detrimental environmental effect.

Customs procedures and/or duties may apply on certain exports.

7.5 Are there any restrictions, controls, fees and/or taxes on foreign currency exchange?

There are no general restrictions on foreign currency exchange.

The Money Laundering Regulations could be relevant, and apply to all categories of businesses, including those active in the UK financial sector.

Fees may be imposed by banks in the UK when dealing in foreign currencies. Corporation taxes may arise on exchange gains and losses, depending on the asset or liability in question.

7.6 Are there any restrictions, controls, fees and/or taxes on the remittance and repatriation of investment returns or loan payments to parties in other jurisdictions?

The UK is business-friendly and has relatively low levels of bureaucracy. There is no exchange control regulation, which means that repatriation of funds is straightforward subject to international sanctions that may be in place (for example, against North Korea). There is no discrimination in favour of local companies and there is no requirement to reinvest profits in the UK.

Remittance applies on an individual basis when a non-UK-domiciled UK resident can choose to pay tax on the “arising basis” or on the “remittance basis”. The latter is when the individual pays tax on UK income and gains and on any foreign income or gains that are brought into (remitted to) the UK.

7.7 Can project companies establish and maintain onshore foreign currency accounts and/or offshore accounts in other jurisdictions?

Subject to sanctions and the Money Laundering Regulations, project companies in England and Wales can establish and maintain onshore foreign currency accounts and/or offshore accounts in other jurisdictions.

7.8 Is there any restriction (under corporate law, exchange control, other law or binding governmental practice or binding contract) on the payment of dividends from a project company to its parent company where the parent is incorporated in your jurisdiction or abroad?

No; only as agreed contractually amongst the shareholders of a project company, its lenders and the parent. There are, however, tax implications.

7.9 Are there any material environmental, health and safety laws or regulations that would impact upon a project financing and which governmental authorities administer those laws or regulations?

Legislation and regulations, in addition to the permits and licences already mentioned above, that may affect a project include:

Environmental impact assessment

Where a development may have adverse impacts on the environment, the developer will be required to submit an environmental impact assessment to the relevant planning authority when applying for planning permission/development consent.

Contaminated land regime

The contaminated land regime contained in Part 2A of the Environmental Protection Act 1990 may apply to any project that either pollutes land and/or water or is located on previously contaminated land. Under the regime, liability for the clean up of contaminated land falls on any person who causes or knowingly permits contamination in, on or under land. If such people cannot be found, then liability passes to the current owners and/or occupiers, regardless of their awareness of the contamination. However, if a project involves redevelopment of a site, then it is likely that the planning regime will govern clean-up rather than the contaminated land regime.

Common law

A person (including a company) who has suffered loss as a result of environmental or health and safety issues such as noise, odour or other pollution, may in some cases be entitled to bring a civil claim under the common law of nuisance, negligence, or trespass and/or the rule in *Rylands v Fletcher* against those who have caused the loss.

Statutory nuisance

Certain nuisances such as noise and dust are regulated by local authorities as “statutory nuisances”.

Environmental Permitting regime

The Environmental Permitting regime is an integrated permitting regime that regulates a range of activities that may give rise to pollution, including those covered by the EU Industrial Emissions Directive (as such directive forms part of UK domestic law by virtue of the European Union (Withdrawal Agreement) Act 2020), such as waste management, air pollution and water pollution.

Climate change

The Climate Change Act 2008 established a framework to develop an economically credible emissions reduction path. The Department for Business, Energy & Industrial Strategy focuses on climate change and energy supply.

Environmental Damage (Prevention and Remediation) (England) Regulations 2015

These Regulations (as amended by the Environment (Amendment etc.) (EU Exit) Regulations 2019 and the Waste and Environmental Permitting etc. (Legislative Functions and Amendment etc.) (EU Exit) Regulations 2020) implement the EU Environmental Liability Directive (2004/35/EC) in England. There are equivalent regulations in Wales. They apply to damage to species, habitats or water, or risks to human health from contamination of land, and require those responsible to take immediate action to prevent damage occurring or remediate damage where it does occur.

Nature conservation legislation

The Environment Agency and Natural England are responsible for enforcing laws implementing the EU Wild Birds Directive (2009/147/EC) and the EU Habitats Directive (92/43/EC) (as both directives are amended by the Conservation of Habitats and Species (Amendment) (EU Exit) Regulations 2019), which protect certain species and habitats.

Health and safety legislation

The Health and Safety at Work, etc. Act 1974 provides the framework for health and safety regulation in England and Wales. The Act is enforced by the HSE and local authorities, although in general the HSE will be the regulator for major projects. Other legislation such as the Control of Major Accident Hazards Regulations 2015/483 may also apply to major projects.

7.10 Is there any specific legal/statutory framework for procurement by project companies?

Public Procurement (Amendment etc.) (EU Exit) Regulations 2020

The EU procurement laws (as implemented into the laws of England and Wales and further amended by the Public Procurement (Amendment etc.) (EU Exit) Regulations 2020 (the “EU Exit Regulations”)) are applicable to project companies developing public-sector projects, if the public contracts fall within the scope of the rules and exceed certain financial values. The rules ensure that the award process is transparent, non-discriminatory and respects the principles of equal treatment.

EU procurement laws (as amended by the EU Exit Regulations) apply to contracts awarded by central governments, local authorities or other public-sector bodies.

WTO Agreement on Government Procurement

Project companies are also subject to the World Trade Organization’s plurilateral Agreement on Government Procurement (“GPA”), to which the UK is now a party in its own right. The GPA commits its signatory parties to guaranteeing fair and transparent public procurements and to treating suppliers from fellow GPA countries in the same manner as domestic suppliers for all procurements covered.

EU-UK Trade and Cooperation Agreement

The TCA was agreed on 24 December 2020 and its provisions are binding in UK domestic law by virtue of the European Union (Future Relationship) Act 2020. The TCA commits the UK and EU to offering increased access to each other’s procurement markets and to enhancing the transparency of public procurement procedures.

8 Foreign Insurance

8.1 Are there any restrictions, controls, fees and/or taxes on insurance policies over project assets provided or guaranteed by foreign insurance companies?

There are no restrictions on insurance policies over project assets provided by foreign insurance companies, unless the foreign insurance company is carrying out and effecting the insurance in the UK.

If the foreign insurance company is carrying out and effecting the insurance in the UK, it may require authorisation by the Prudential Regulation Authority (“PRA”), and may therefore have to comply with the PRA rules. The PRA was created by the Financial Services Act 2012 and is part of the Bank of England. We note that it is not yet clear whether foreign firms will be able to rely on European Economic Area (“EEA”) “passporting” rights following the UK’s withdrawal from the European Union.

8.2 Are insurance policies over project assets payable to foreign (secured) creditors?

Foreign banks, and other foreign creditors, can be co-insured by the insurance company over the project assets.

9 Foreign Employee Restrictions

9.1 Are there any restrictions on foreign workers, technicians, engineers or executives being employed by a project company?

Commonwealth nationals who have a grandparent born in the UK or the British Islands have been granted permission to work in the UK. However, following the UK’s withdrawal from the European Union, EEA nationals and Swiss citizens who arrive in the UK after 31 December 2020 no longer have an automatic right to work in the UK and must obtain immigration permission under the new UK Points Based System (“PBS”), which also applies to non-EEA nationals. Under the PBS, it is mandatory that: the offer of a job to the worker is by an approved sponsor; the job is at an appropriate skill level; and the worker speaks English at the required level. Project companies who wish to employ workers through this route must apply to become a licensed sponsor. Subject to meeting the requirements, project companies may also be able to rely on a number of other selected routes for employing foreign workers, including the ability to employ international students who have completed a degree in the UK.

10 Equipment Import Restrictions

10.1 Are there any restrictions, controls, fees and/or taxes on importing project equipment or equipment used by construction contractors?

As a result of the TCA signed on 30 December 2020, applied provisionally on 1 January 2021 and extended until 30 April 2021, UK companies can buy most goods from EU member countries without restrictions – although VAT and excise duty will normally still apply. If a UK company imports from another country outside the EU, it may have to comply with import licensing requirements and with customs tariffs that such country may apply to UK importers. Apart from the general restrictions concerning materials that are deleterious to health and safety and the environment, there are no legal restrictions or controls that apply exclusively to importing construction equipment. We note that the TCA remains subject to ratification by the European Parliament and the Council of the European Union before it takes formal effect.

10.2 If so, what import duties are payable and are exceptions available?

This is not applicable. Please see the response to question 10.1 above.

11 Force Majeure

11.1 Are force majeure exclusions available and enforceable?

Force majeure provisions and exclusions are set out in virtually all project documents, and although the term “*force majeure*” is derived from French law with no recognised meaning under English law, such provisions and exclusions are enforceable under English law provided that they are properly defined in the agreement. Normally *force majeure* exclusions do not apply to payment obligations.

12 Corrupt Practices

12.1 Are there any rules prohibiting corrupt business practices and bribery (particularly any rules targeting the projects sector)? What are the applicable civil or criminal penalties?

The Bribery Act 2010 received Royal Assent in April 2010 and came into force on 1 July 2011. It repeals previous statutes in relation to bribery, including the Public Bodies Corrupt Practices Act 1889, the Prevention of Corruption Act 1906 and the Prevention of Corruption Act 1916 (the “Bribery Act” or the “Act”). The legislation arms prosecutors with a range of criminal offences, which will cover a wide range of conduct that they may employ to prosecute any potentially corrupt activity.

The Bribery Act’s arrival coincides with a significant shift in the UK’s approach to fighting corruption, which has seen prosecutors bring companies into the criminal courts for corruption on numerous occasions in recent years. The Act reflects a general tightening of anti-bribery laws globally in line with the OECD Convention on the Combatting of Bribery, as well as an increased level of international cooperation to enforce such legislation; however, the Act raises the bar even higher than equivalent legislation in other jurisdictions, such as the US Foreign Corrupt Practices Act.

The Act affects all UK businesses and those incorporated abroad who do business in the UK, and creates four new offences related to bribery (the offering or receipt of financial or other advantages) of a person with the intent of bringing about improper performance of that person’s duties. These are:

- (1) Offering (or promising or giving) a bribe, intending that another person perform their duties improperly (or rewarding them for having done so).
- (2) Accepting (or requesting or agreeing to accept) a bribe, intending that duties will be performed improperly.
- (3) Bribing a foreign public official in order to retain business or to gain an advantage in the conduct of business.
- (4) Failure of commercial organisations to prevent bribery on behalf of the organisation. If any person associated with an organisation is found guilty of bribery, then the organisation is deemed guilty of an offence, unless it can show it had adequate procedures in place to prevent those people from committing bribery.

Individuals found guilty of certain of these offences can be imprisoned for up to 10 years and/or receive an uncapped fine. Commercial organisations found guilty of any of the above offences can receive an uncapped fine. Directors and senior officers of commercial organisations may also be convicted if they are deemed to have given their consent or connivance to the offence.

For natural resources companies operating in countries where Government offices are seen by some in positions of influence as an opportunity to accumulate personal wealth and as involving tasks that justify small additional financial incentives, the Bribery Act presents a significant compliance challenge, not least because the list of those who can expose the company and risk a criminal conviction extends well beyond its employees.

The corporate offence of failing to prevent bribery means that senior management may be held accountable for the actions of persons associated with the organisation. A company’s only defence is to show that it had adequate bribery prevention procedures in place. These would include establishing policies that define acceptable behavioural limits, procedures to record all related events with a means of seeking approval in uncertain cases, and training and briefing for all staff likely to be affected by the provisions of the Act.

The Act has forced natural resources companies that do business in the UK, and UK companies that do business overseas, to re-examine their approach to assessing and managing bribery risk throughout their operations in the UK and abroad to ensure that adequate anti-corruption procedures are in place internally. Such procedures also need to address the risk that third-party service providers will expose the company to criminal liability by bribing in connection with the company’s business.

13 Applicable Law

13.1 What law typically governs project agreements?

Project agreements relating to projects located in England and Wales are generally governed by the laws of England and Wales. Scottish law is substantially different to English law and normally applies to some or all project documents relating to projects located in Scotland. Northern Irish law is broadly similar to English law, subject to a number of qualifications.

13.2 What law typically governs financing agreements?

Financing agreements for English projects are generally governed by English law. Financing agreements for a broad range of projects located throughout the world are often subject to English law.

13.3 What matters are typically governed by domestic law?

Land-related agreements, concessions and the like, and permits and consents, are normally governed by the law of the location of the project.

14 Jurisdiction and Waiver of Immunity

14.1 Is a party’s submission to a foreign jurisdiction and waiver of immunity legally binding and enforceable?

Judgments obtained through a party’s submission to a foreign jurisdiction may be legally binding and enforceable, provided the conditions for recognition and enforcement of those judgments are fulfilled. Judgments, relating to civil and commercial matters, of EU Member State courts (except Denmark), dated from 10 January 2015 onwards, will be enforceable in England and Wales pursuant to the Recast Brussels Regulation (EU 1215/2012). Similar rules apply to Iceland, Norway and Switzerland pursuant to the 2007 Lugano Convention. Judgments of courts of some non-EU States (mainly Commonwealth members) with which reciprocal conventions exist will be enforced by a different process of registration under the Administration of Justice Act 1920 or the Foreign Judgments (Reciprocal Enforcement) Act 1933. We note that the detail of the UK’s future relationship with the EU is yet to be made clear.

Judgments of courts of all other States will usually be enforced through new English proceedings and the English courts must recognise the basis on which jurisdiction was accepted by the ruling court; namely, territorial or submission. Typical exceptions to these regimes include: judgments obtained following fundamental procedural irregularities; proceedings brought in breach of statutory or international convention obligations; or where the judgment is based upon fraud, is contrary to English public policy or natural justice, or is contrary to the Protection of Trading Interests Act 1980 (e.g. for multiple damages).

Sovereign immunity is governed by the State Immunity Act 1978. The starting point is that a State or State entity will enjoy sovereign immunity from both suit and attachment. However, the Act contains several ways in which a court can disregard this immunity, such as a consensual waiver. If the usual conditions for recognition and enforcement of a judgment are fulfilled, a State will not benefit from immunity if it would not have been able to claim immunity had the proceedings been brought in the UK. Ordinarily, where a sovereign entity is acting in a private or commercial capacity, it will not be entitled to claim sovereign immunity from suit or attachment.

15 International Arbitration

15.1 Are contractual provisions requiring submission of disputes to international arbitration and arbitral awards recognised by local courts?

Contractual provisions in project documents governed by the laws of England and Wales requiring submission of disputes to international arbitration are generally recognised, and supported by the courts of England and Wales. Provided the arbitration agreement is in writing, the English courts will stay any proceedings brought in breach of that agreement unless the court is satisfied that the arbitration agreement itself is null and void (Arbitration Act 1996). The UK is a signatory to the New York Convention, under which arbitral awards may be recognised and enforced.

15.2 Is your jurisdiction a contracting state to the New York Convention or other prominent dispute resolution conventions?

The UK has been a Contracting State to the New York Convention since December 1975.

15.3 Are any types of disputes not arbitrable under local law?

Whether or not a matter can be subject to arbitration is determined on a case-by-case basis, although arbitration is, in general, limited to civil proceedings. Criminal or family law matters, or matters relating to status, are not capable of being submitted to arbitration. Disputes in which the UK Government has a direct interest, such as criminality, cannot be submitted to arbitration. However, a claim for compensation arising out of a criminal act may well be arbitrated (for example, in respect of a claim for trespass to the person or property, as these would be civil actions).

Divorce also cannot be arbitrated and can only be granted by the courts in England and Wales, though the division of property might be subject to arbitration proceedings, provided that the arbitrator was not involved in the initial divorce proceedings. Similarly, succession issues do not lend themselves to arbitration and wills are usually only contested in court, though certain matters involving trusts might well be arbitrated. Again, the beneficiaries of a will can agree to a different method of sharing out the estate and could enlist the help of an arbitrator in reaching a settlement.

Arbitration of issues involving minors and the insane is sometimes possible, but enforcement will be subject to the same constraints as apply to the courts in respect of enforcement of claims against minors and the insane for public policy reasons.

In some disputes, parts of claims may be arbitrable and other parts not. For example, in a dispute over patent infringement, a determination of whether a patent has been infringed could be adjudicated upon by an arbitration tribunal. However, the validity of a patent would not ordinarily be arbitrated, as patents are subject to a system of public registration. Therefore, an arbitral panel would have no power to order the relevant body to rectify any patent registration based upon its determination.

It is relevant to note that, although the English courts at one point suggested that an arbitration agreement would be considered “null, void and inoperative” insofar as it purports to require the submission to arbitration of issues relating to mandatory EU law (see *Accentuate Ltd v ASIGRA Inc.* [2009] EWHC 2655), this approach has not been followed in subsequent cases (see *Fern Computer Consultancy Ltd v Intergraph Cadworx & Analysis Solutions Inc* [2014] EWHC 2908 (Ch)). This case has subsequently received positive judicial treatment. However, there has not yet been any ruling by an appellate court in relation to this issue and, therefore, some ambiguity remains.

15.4 Are any types of disputes subject to mandatory domestic arbitration proceedings?

As a general principle, arbitration is consensual rather than mandatory. If a matter is arbitrable pursuant to agreement by the parties, then it is subject to the relevant dispute resolution and jurisdiction clause in a contract.

16 Change of Law / Political Risk

16.1 Has there been any call for political risk protections such as direct agreements with central government or political risk guarantees?

There have not been any calls for political risk guarantees in England and Wales in recent years. Lenders will typically require direct agreements with governmental authorities if the project is a PPP or PFI project. Direct agreements are commonly entered into by lenders with key project contract counterparties in all types of UK-based projects. Following retroactive changes to regulatory support regimes for renewable energy projects in countries such as Bulgaria, Czech Republic, Greece and Spain, investors in renewable energy are understandably wary of “change in law” risk in the renewables sector and the damaging effect that such retroactive changes can have on a project’s economics. For this reason, both the CfD and IUK Guarantee contain provisions safeguarding the generator/guaranteed beneficiary against UK “change in law” risk.

17 Tax

17.1 Are there any requirements to deduct or withhold tax from (a) interest payable on loans made to domestic or foreign lenders, or (b) the proceeds of a claim under a guarantee or the proceeds of enforcing security?

The UK imposes a withholding tax at the basic rate of income tax (currently 20%) on any payment of yearly interest arising in the UK. Consequently, a UK company paying yearly interest on a debt security will generally have an obligation to deduct 20% of such interest payment and account for this withheld amount to the UK tax authorities. Double tax treaties exist with many other jurisdictions, which in many cases will reduce withholding tax.

17.2 What tax incentives or other incentives are provided preferentially to foreign investors or creditors? What taxes apply to foreign investments, loans, mortgages or other security documents, either for the purposes of effectiveness or registration?

There are no UK tax incentives provided preferentially or specifically to foreign investors or creditors. Specific incentives are afforded to foreign investors in relation to the construction and operation of projects and businesses in specified locations.

18 Other Matters

18.1 Are there any other material considerations which should be taken into account by either equity investors or lenders when participating in project financings in your jurisdiction?

Currency exchange risk will always be a consideration for foreign investors in UK-based projects, where revenues are almost always sterling-based.

Change of law remains (as in all other jurisdictions) a risk for investors in the UK (albeit a risk of very low magnitude, but examples include the early closure of the Renewable Obligation regime in the UK), given the inability of any administration to tie the legislative hands of its successors.

US, UK and UN sanctions can be an issue if a project or business might involve dealing with sanctioned persons, entities or assets.

The National Security and Investment Act, which became operational in January 2022, permits the UK Government to scrutinise and potentially prohibit, unwind or impose conditions on transactions based on national security concerns. This act covers a broad range of deals, including acquisitions of assets including land and intellectual property, as well as minority investments. The regime involves a mandatory and a voluntary regime. The mandatory regime requires any qualifying transactions to be approved before they take place.

The test for a mandatory notification is broadly: (a) there is a trigger event; and (b) the transaction involves a target entity that is active in a qualifying sector. As energy and transport are qualifying sectors, investors and lenders participating in project financings in the UK, or in transactions involving assets that are in the UK, will need to consider the provisions of the Act. The Department for Business, Energy and Industrial Strategy has published specific guidance on the application of the Act. If a deal requiring mandatory notification is not approved, the transaction will be legally void.

18.2 Are there any legal impositions to project companies issuing bonds or similar capital market instruments? Please briefly describe the local legal and regulatory requirements for the issuance of capital market instruments.

There are no legal requirements that apply exclusively to project companies seeking to issue bonds or similar capital market instruments.

Any project company seeking to issue debt instruments (securities) on the London Stock Exchange (“LSE”) must comply with the UK Listing Authority’s (“UKLA”) Listing Rules (the “Listing Rules”). The UKLA, a division of the Financial Conduct Authority, is the body responsible for regulating all securities listed on the LSE. The Listing Rules contain (i) the rules and regulations for listing debt securities, and (ii) the continuing obligations that apply to issuers and bondholders for

the duration of the listing. The Listing Rules cover principles ranging from corporate governance and executive remuneration to accounting standards and full disclosure of information to prospective investors.

Debt securities admitted to the Main Market of the LSE must be listed in accordance with Chapters 2 and 17 of the Listing Rules. Debt securities admitted to the Professional Securities Market must be listed in accordance with Chapter 4. All debt securities admitted to trading must comply with the LSE’s Admission and Disclosure Standards and the relevant Disclosure and Transparency Rules.

Rules may differ according to the issuer’s market sector. For example, mineral, oil and natural gas companies are subject to the additional disclosure requirements set out in Chapter 6 of the Listing Rules. Rules may also differ according to the issuer’s investor base. For example, an issuer will be subject to more stringent obligations if marketing its securities to retail investors as opposed to solely professional investors.

19 Islamic Finance

19.1 Explain how *Istina’a*, *Ijarah*, *Wakala* and *Murabaha* instruments might be used in the structuring of an Islamic project financing in your jurisdiction.

Although these instruments have been used in other financing contexts in England and Wales (such as acquisition finance, corporate finance and capital markets), they have not yet been used in the project financing context in England and Wales. Were they to be employed, then it would be likely that an *Istina’a* or *Wakala* arrangement would be used for the purposes of financing the construction of the assets during the pre-completion period, and such assets would then be leased by the financier (as direct or indirect owner of the assets) to the project company, pursuant to the *Ijarah*.

The *Ijarah* is the mechanism by which the principal and the profit margin are returned to the financier during the post-construction period of a project financing as rental consideration comprising the purchase price of the asset as well as a fixed and/or floating profit margin calculated by reference to LIBOR.

A *Murabaha* instrument could be used to make available either a working capital facility or equity bridge loans to the project company, with full recourse to the sponsors.

19.2 In what circumstances may *Shari’ah* law become the governing law of a contract or a dispute? Have there been any recent notable cases on jurisdictional issues, the applicability of *Shari’ah* or the conflict of *Shari’ah* and local law relevant to the finance sector?

Shari’ah is not applied in the UK, and English law does not recognise *Shari’ah* as a system of law capable of governing a contract, on the basis that English law does not provide for the choice or application of a system of law other than a system of national law. This is based on the Convention on the Law Applicable to Contractual Obligations 1980 (the Rome Convention), which requires that the governing law of an agreement must belong to a country, and *Shari’ah* does not belong to a particular country (albeit *Shari’ah* has been adopted, through legislation, by countries such as Saudi Arabia).

The approach of the English courts, mainly, has been to distinguish between the *Shari’ah* and the contractual governing law of an Islamic finance agreement by ruling that *Shari’ah* issues are not justiciable in the English courts. That element of the agreement is deemed as forming part of the commercial

agreement (which English courts will rarely interfere with) and not the legal agreement. Instead, the dispute will be dealt with by applying the ordinary principles of English law, and an English court will avoid ruling or commenting on the compliance of the agreement with *Shari'ah* (see *Shamil Bank of Bahrain v Beximco Pharmaceuticals Ltd* [2003] 2 All ER (Comm) 84). This approach was reaffirmed in a recent English High Court case, *Dana Gas PJSC v Dana Gas Sukuk Ltd & Ors* [2017] EWHC 2928, where Dana Gas (an issuer based in the UAE) was attempting to render its *mudarabah sukuk* unenforceable on a number of grounds, one of which was that its *sukuk* was not *Shari'ah*-compliant.

Parties may still elect to have a dispute in relation to a contract determined and resolved in accordance with *Shari'ah* principles by submitting to arbitration. Under section 46 of the Arbitration Act 1996, arbitral tribunals are obliged to decide disputes with reference to either the national law chosen by the parties or any other agreed considerations (including *Shari'ah* considerations).

19.3 Could the inclusion of an interest payment obligation in a loan agreement affect its validity and/or enforceability in your jurisdiction? If so, what steps could be taken to mitigate this risk?

Generally, the inclusion of an interest payment obligation in a loan agreement would not affect its validity and/or enforceability

in England and Wales, unless that interest payment obligation is deemed a penalty offending the rules laid down in *Dunlop Pneumatic Tyre Co Ltd v New Garages & Motor Co Ltd* [1915] AC 79, *Cavendish Square Holding BV v El Makdessi and ParkingEye Ltd v Beavis* [2015] UKSC 67 (*Cavendish*). Note that a contractual provision for payment of a higher rate of interest after a default in payment by a borrower could be deemed a penalty; however, this will be difficult to establish in view of the new test set out in *Cavendish*, which requires that the clause in question impose a detriment on the contract breaker “out of all proportion to any legitimate interest of the innocent party”.

In determining this, an English court will now consider the wider commercial context of a transaction and, where the parties have negotiated a contract on a level playing field and with the assistance of professional advisors, it will now be much harder for the party paying the higher rate of interest to challenge the validity of such a provision on the basis that it is a penalty. Furthermore, a provision that provides for interest to increase on default is not likely to be held to give rise to a penalty if: (i) the increase is levied only from the date of default (and not before); (ii) the main purpose of the clause is not to deter default; and (iii) the increase is modest and commercially justifiable by reason of the increased credit risk represented by a debtor in default.



John Dewar is a partner in the London office of Milbank LLP and a member of the firm's Global Project, Energy and Infrastructure Finance Group. John is widely recognised as a leading individual in his field by a number of journals, among them: *Chambers UK* (which designated him among the first tier of project finance lawyers in the UK); *Chambers Global*; *The Legal 500*; and the *Who's Who of Project Finance*. He has advised on project financings all around the world and has built an extremely broad practice and outstanding reputation for advising on the most innovative and significant "market-first" transactions in the development and financing of mining and metals, oil and gas, natural resources, independent power, renewable energy, telecommunications, satellite and other infrastructure projects.

Milbank LLP
100 Liverpool Street
London, EC2M 2AT
United Kingdom

Tel: +44 20 7615 3004
Email: jdewar@milbank.com
LinkedIn: www.linkedin.com/in/john-dewar-bb300ab



Suzy Azim is a member of the Global Project, Energy and Infrastructure Finance Group based in the London office of Milbank LLP.

Milbank LLP
100 Liverpool Street
London, EC2M 2AT
United Kingdom

Tel: +44 7855 164 982
Email: sazim@milbank.com
LinkedIn: www.linkedin.com/in/suzy-azim-874a25181

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