



## **Guidance Notes: Free Carried Interest**

### **Introduction**

When investing in large energy projects IM Power PLC will set up a local operating company.

The equity in this company will be shared with local investors. This guidance note sets out the process to be used to issue that equity.

### **Local Interests**

In negotiating a project, IM Power PLC seeks to get to the point where a heads of terms or a concession agreement is signed with a Ministry of Energy or Railways in a national government.

Achieving this will involve local people contributing time, money and relationships to facilitate a series of approvals to allow the project to proceed.

### **The Carried Interest**

To incentivise this process IM Power PLC will offer a free carried interest in the equity of the local operating company to the local people equivalent to a pre-agreed percentage.

### **The Percentage**

In all cases the intention is to hold the local interest below 20 % so that IM Power PLC will own 80 % of the project . This is not a hard and fast rule as the national government may well ask for an interest in the equity of the local company in exchange for land rights or licenses.

### **The Process**

As soon as the heads of terms have been agreed to confirm the support of the Ministry, IM Power PLC will set up a local operating company. The initial capital will be agreed, say £1000. Usually there are a number of peoples with an interest in the project

Local investors or Governments will make preliminary investments into infrastructure projects and make land, licenses and approvals available at the start of the project development.

The value of the local investment is made up of:

1. Funds invested, to be confirmed by the last audited accounts.
2. Land valuation, based on the average of the survey report from three independent valuers.



3. License and approvals, based on the cost of issuance plus an agreed process fee.

Where the desired percentage is higher than the valuation, IM Power can agree to an earn out of equity against future earnings.

Notional dividends are withheld and credited in a share account until the amount earned equals the agreed percentage of the operating company at which point the shares are released to the local investor.

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