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Floating Terminals Financing and its Commercial Implications

Workshop 4th October 2012

Presented By:
David Wignall
David Wignall Associates

12th October 2012

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How to finance my floating terminal…

- Understand your development and the quantum of finance that could be required to be raised
- Understand the capability of the capital markets and other options to provide finance
- Identification of non financial factors that impact the definition of financing strategy
- How can you access the required finance?
- Preparing yourself to seek finance
- Controlling factors in financing and identification of financial “no go” events
- Case Study

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Who are we?

Our role, our experience, our knowledge…

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David Wignall

Born and brought up in the North of England

Married to Carolyn with three children, Mark 20, Richenda 18, Lucy 16

Live in Singapore, has lived in Jakarta, Bangkok, Hong Kong , Sweden and UK

Run my own a Port Development and Consulting Company with about 20 other, previously I was:

- Responsible for developing a group of ten ports in Europe turning them from a loss making State Owned Enterprise into a profitable private company
- Head of Port & Logistics of the worlds largest independent maritime research company

I plan and finance port developments with ongoing projects including:

- Coal Terminal investment of US$ 400 million in Africa
- Container Terminal of US$ 1,500 billion in Canada
- Oil Products Terminal of US$ 500 million in Malaysia

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What is your business?

- Port Authority
  - Can you bid for the national budget?
  - Do you have the right to talk as a Government body?
  - How well do you know your legal position?
- State owned company
  - Strong balance sheet?
  - Is this your sector?
- A developer with an idea
  - Have you experience in the sector?
  - How much cash do you have?
  - Do you own the commodity/seabed/anchorage?
- An international port operator/stevedore
  - Why are you here?

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Who are you?

- Managing Director/CEO
  - Miner
  - Commodity trader
  - Shipping line
- Engineer
  - Planner
  - Detailed design
- Commercial Manager
  - Marketing/Business Development
  - Contracts
- Finance Manager
  - Treasury
  - Management accounts

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Floating Terminals

What do they look like from a financial viewpoint?

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Is it a port or is it a boat?

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What does the terminal handle?

- Crude Oil
  - Everyone is doing it from hiring a VLCC to creating FSOs
- LNG
  - Shells floating terminal, more production than terminal
- Oil products
  - Many are doing it to provide bunkers
  - Pertamina's offshore storage
- Coal
  - Kalimantan
  - Indian west coast port
- Iron ore
- Containers

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Financial nature of a port development

- High capital demand project
  - A lot of the money spent up front
- Strong cash flow over long period
  - In a stable environment a port can deliver cash
- Ability to cash out, exit options…
  - May be good, may be limited
- Port infrastructure is not very mobile
  - Despite the idea that foreigners may run your ports…

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Financially a floating terminal is…

- High capital demand project
  - A lot of the money spent up front
  - Still high investment but more maintenance…
- Strong cash flow over long period
  - In a stable environment a port can deliver cash
  - How long can a floating terminal survive?
- Ability to cash out, exit options…
  - May be good, may be limited
  - More exit options than a port for floating terminals?
- Port infrastructure is not very mobile
  - Despite the idea that foreigners may run your ports…
  - Floating terminals are different, to some degree…

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Understanding your development…

From the view of someone who has money!

Its my money and I want to…

- Equity – an optimist
  - Make as much money as possible
  - Take the minimum of risk
  - Borrow as much as practical to improve my profits
  - Not lose control of my money
- Debt – a pessimist
  - Make sure I get what I lend back
  - Make sure the interest is paid
  - Make sure I have methods of recovering my money
    - Escrow on revenue
    - Collateral to sell (and I can sell!)
    - Guarantees (someone to chase and bankrupt)
  - Be nice to the borrower but never ever trust him

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The Business Plan

The Critical Financial Document

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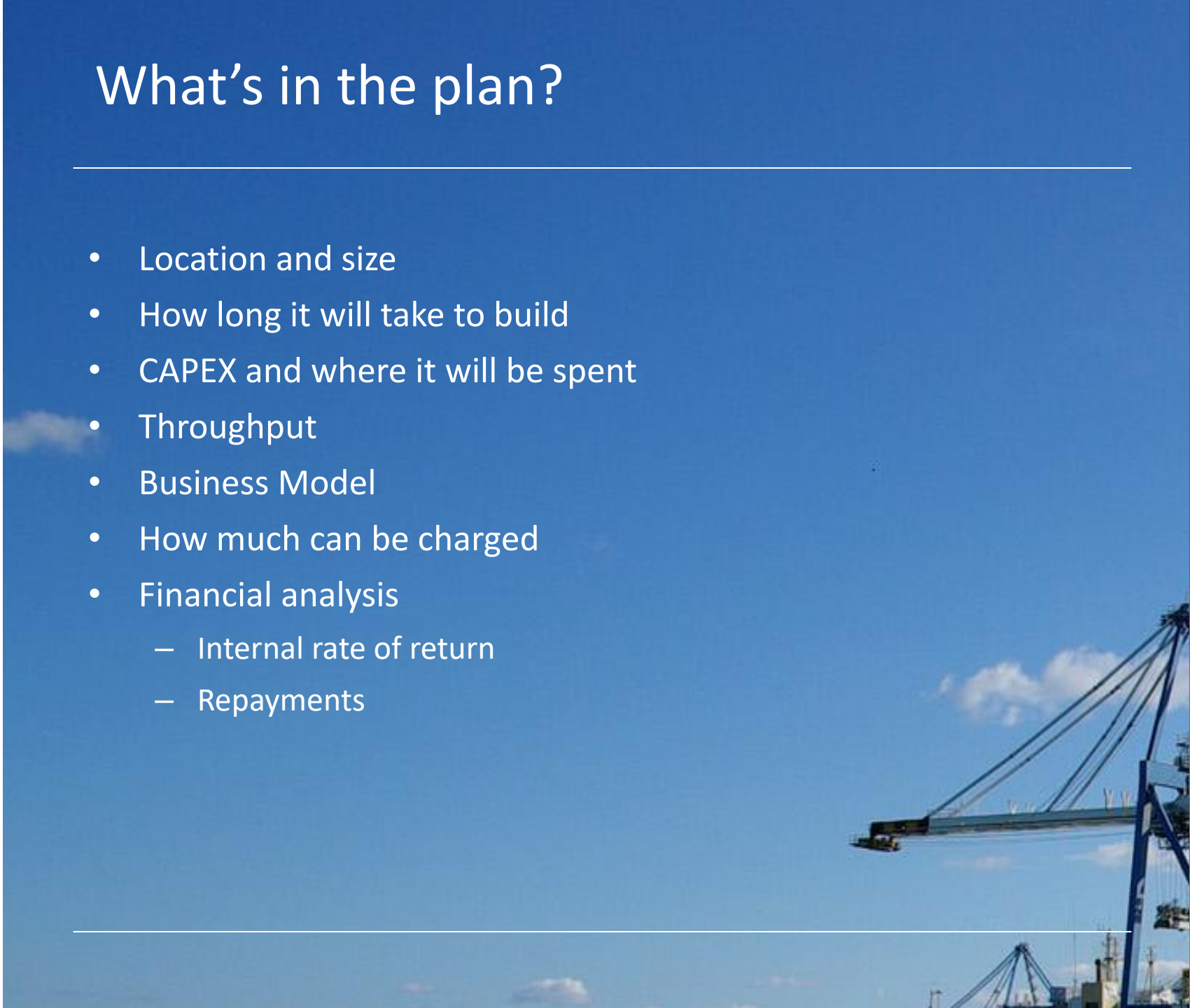
What's in the plan?

- Location and size
- How long it will take to build
- CAPEX and where it will be spent
- Throughput
- Business Model
- How much can be charged
- Financial analysis
  - Internal rate of return
  - Repayments



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Floating Terminal Business Models

- Standard Terminal Model
- For the Charter Market
- Long Term Leases
- Five year deployment and resale
- I need an initial idea of the contents of a plan to borrow some money….
  - Up to five key headings
  - An idea of relative importance
  - Comments on why…

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What is in a business plan?

- Why should anyone believe your plan…
  - Are you credible?
  - Do you have experience
  - Have you got documentary proof of:
    - Approvals
    - Contracts
    - Reports & Accounts
    - Etc…
- What is your market?
  - How much can you handle
  - What can you charge, who is your competition
  - How secure and long are your contracts
    - 3rd party tank terminals, fully contracted
    - Container terminals, worthless letters of intent
- Does the rest of the logistics chain work for you?
- How well have you researched the costs?

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Why should anyone believe you?

- It is not personal…
  - Are you credible
  - Do you have cash, experience, assets, “power”
- Everything must be verified
  - Multiple sources
  - Written proof
- Certainty helps people make decisions
  - Equity and debt may differ in their approach here
- Do not ignore the risks admit them and mitigate
  - Capex cost, good SI, transfer the risk to contractor
  - Insurances, political as well as physical
- Use known formats
  - SWOT
  - Risk matrices

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Building market understanding

- Pre-feasibility
  - Strategic understanding
  - Scales and variables
- Feasibility/Initial Financial Plan
  - Identified key market players
  - Clear understanding of their drivers
  - Range of what they will pay
- Implementing the Financial Plan
  - Detailed understanding of each player position
  - Ability to model their position and your own
- Financial Close
  - Contracts in place

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Building Market Understanding

Case Study 1

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Indonesian coal production

- Prospects are generally good:
  - Indonesia has large coal reserves and resources relatively close to ports
  - Indonesia is close to major Asian markets
  - High world energy prices likely
    - In stable periods coal prices driven by production cost
    - In periods of high or rising energy prices thermal coal prices driven by the energy equivalent prices of alternative fuels minus a “coal discount”
    - Coal can substitute for natural gas and heavy fuel oil in many industries such as power production and cement manufacturing
- But coal is a high-carbon fuel….

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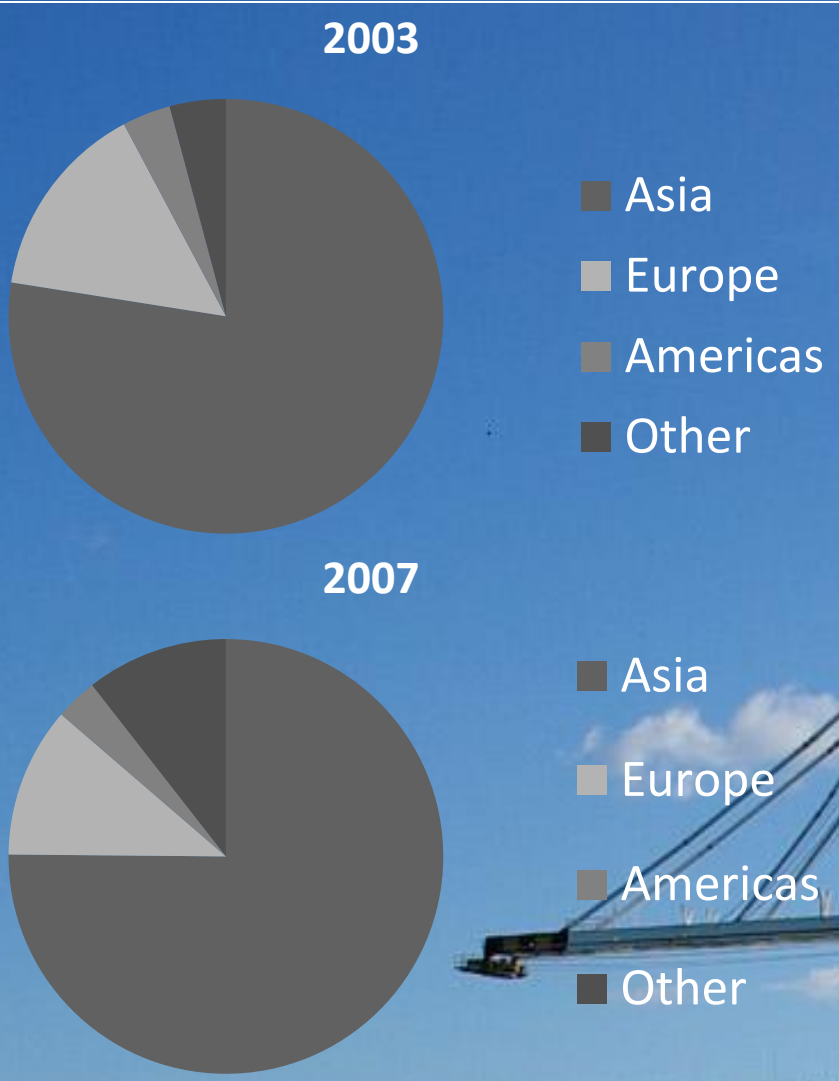
Export markets

- 2003
  - Domestic, 29mt
  - Export, 86mt
- 2007
  - Domestic, 17 mt
  - Export, 140 mt
- 2020
  - Export 500 mt+



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Concessions: numbers and nature

Radius from Proposed Terminal	to 50 km	to 75 km	to 100 km	to 150 km	Total
Number of Concessions	45	151	103	201	500
Concessions with Data	9	7	11	19	46
Concessions without Data	36	144	92	182	454
Concessions in Production	7	6	8	5	26
Concessions Possibly in Production	2	1	3	14	20

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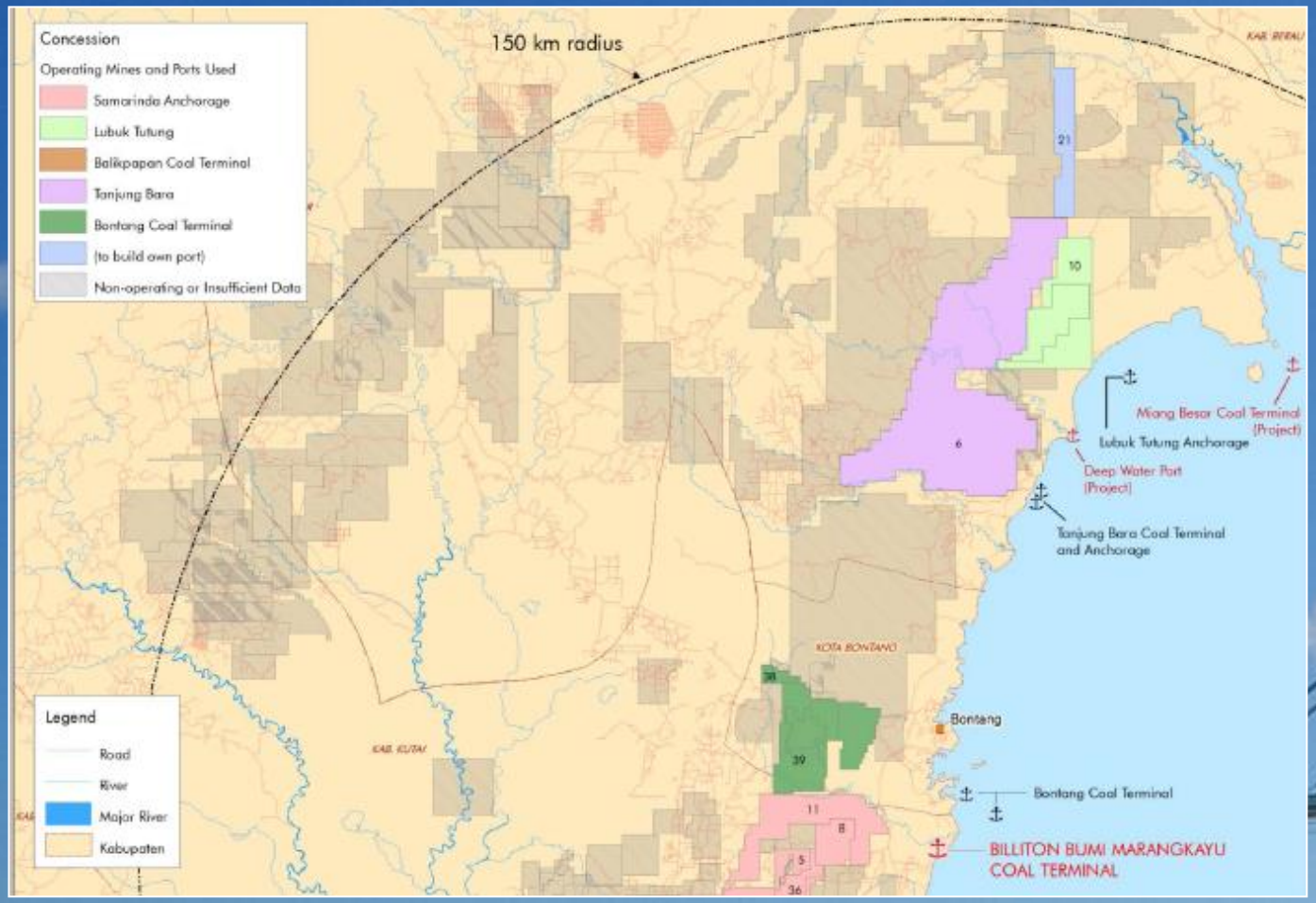
Market to north of terminal



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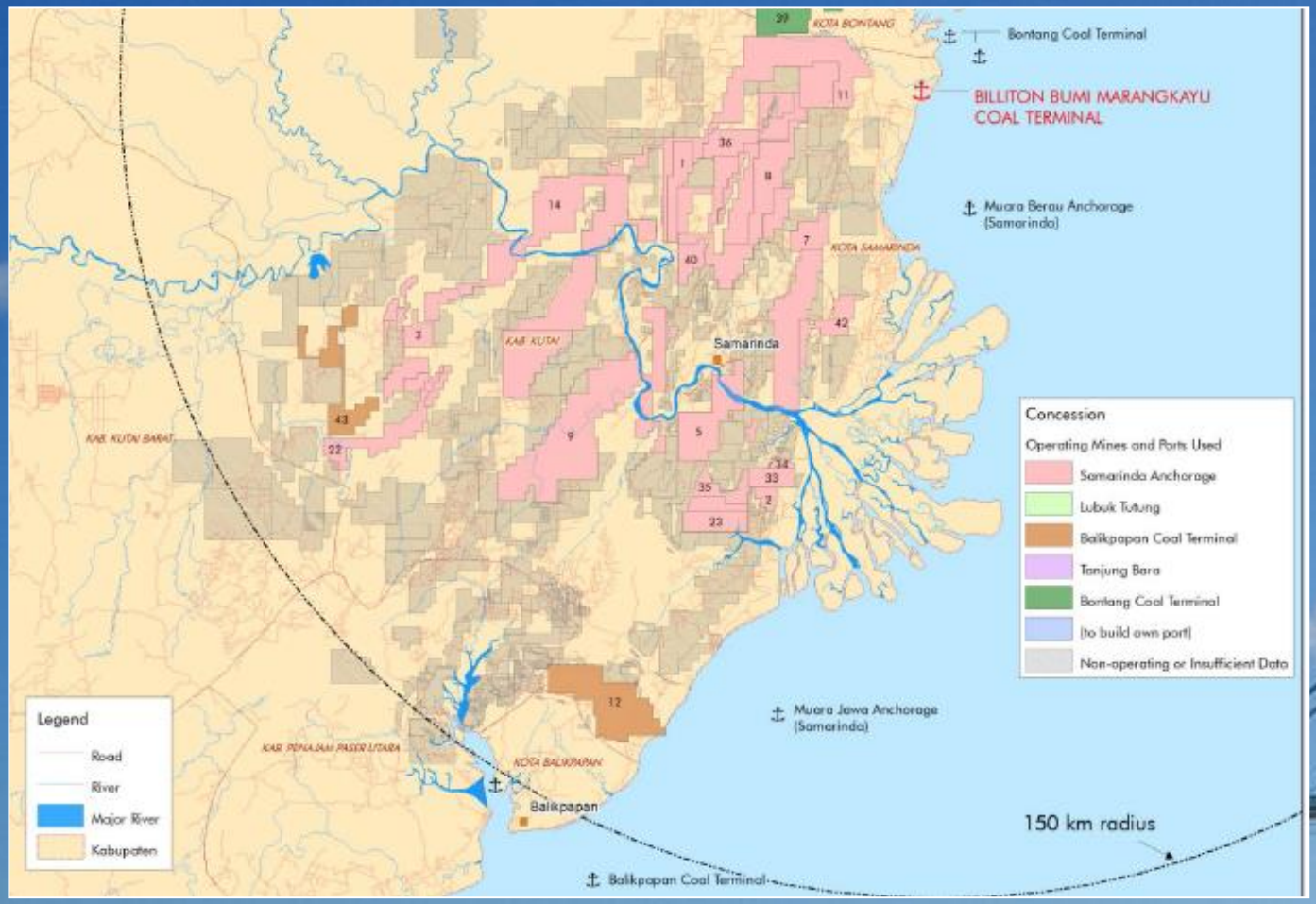
Market to south of the terminal



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Key concessions

The following criteria identify key concessions

- located on the north side of the Mahakam River
- currently haul or plan to haul coal south or southwest to the Mahakam River
- the haul distance east to the coast near the proposed terminal is comparable to the haul distance to the Mahakam River

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The rationale

Such concessions are key because:

- There is the potential to eliminate barging costs
- No or limited additional haulage costs
- Competing logistics costs US$ 6 to 8 per tonne

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The key producing concessions

The main producing concessions meeting the criteria are:

- Concession 1 – 3 to 5 mtpa, limited resource
- Concession 2 – 6 mtpa and to rise
- Critical concession – 15 to 50 mtpa needs terminal

Other opportunities covering about thirty concessions in preparation represent a throughput of 100 mtpa of prospects within the criteria

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Additional benefits

Key challenges in hauling coal to the east from these concessions is crossing the public roads and other infrastructure in this area including opl pipelines and towns and villages. The proposed haul road eliminates these concerns for the key concessions

A haul road alignment located further to the south may reduce the haul distance from more concessions that are potential clients for the terminal

most coal hauled using rigid body coal trucks of 20 to 30 tonne capacity. The haul road to the proposed terminal could use larger multi wagon road trains giving additional savings

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The competition

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The competition – at anchor?

Port Name	Tanjung Bara	Lubuk Tutung	Muara Berau	Muara Jawa
Stockpile Capacity	At terminal	None	None	None
Ave. Loading Rate	15,000 t/day	10,000 t/day	10,000 t/day	15,000 t/day
Loading Facility	Ship's Gear & Grabs	Ship's Gear & Grabs	Ship's Gear & Grabs	Ship's Gear & Grabs
LOA	No Restriction	No Restriction	No Restriction	No Restriction
Beam	No Restriction	No Restriction	No Restriction	No Restriction
Draft	25m	No Restriction	9 to 17m	15 to 16m
DWT	No Restriction	80,000 (?)	120,000	120,000
Bunker Available	No	Yes	Yes	Yes
Working Hours	24 Hours	24 Hours	24 Hours	24 Hours

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The competition – at berth

Port Name	Tanjung Bara	Bontang	Balikpapan	Deep Water	Miang Besar
Stockpile Capacity	1,000,000 t	350,000 T	1,040,000 T	Not available	1,000,000 t
Ave. Loading Rate	80,000 t/day	50,000 t/day	50,000 t/day	50,000 t/day	100,000 t/day
Loading Facility	2 Quadrant Loaders	Quadrant Luffing Loader	Conveyor or Ship Loader	Ship Loader	Ship Loader
LOA	310m	250m max	235m	Not available	389m max
Beam	50m	No restriction	45m	No restriction	65m max
Draft	17.25m	13.5m max	13m LWS	20m	31m max
DWT	210,000	90,000	90,000	200,000	400,000
Bunker Available	No	No	No	No	No
Working Hours	24 Hours	24 Hours	24 hours	24 Hours	24 Hours

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Floating transshipment…

- PIK Lubuk Tutung
- Muara Berau
- Muara Jawa
- US$ 1.5 to 2.5/t +++

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Tanjung Bara (KPC)

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Balikpapan Coal Terminal

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Bontang Coal Terminal

PT Tekno Orbit Persada

MEC Coal

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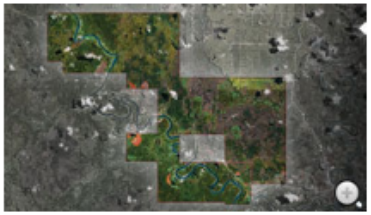

PT Tekno Orbit Persada (TOP), a subsidiary of MEC Coal, has coal concession held by MEC which is located in the district of Muara Wahau, East Kutai Regency, East Kalimantan Province, Indonesia. The coal concession is approximately 125 km north-west of the coastal town of Sangatta and covers 5000 ha of mining land.

The mining concession contains Joint Ore Reserves Committee (JORC) compliant resources of 1.621 billion tons of environment friendly coal with very low ash and sulphur.

Production schedule (mtpa)

- Production plan designed for 37.8 mtpa
- Open pit excavator and truck operation
- All plans include provisions to meet IFC performance standards, environment protection and community enhancement

Key Drivers

- Low sulphur and low ash coal
- Low strip ratio
- Single seam operation
- Low cost production

PRESS RELEASE


MEC to develop $5.6b smelting project


MEC's Commitment to Indonesia


Madhu Koneru with President Clinton at Clinton Global Initiative 2010


Madhu Koneru briefing the UAE Foreign Minister H.H. Sheikh Abdullah bin Zayed Al Nahyan about MEC's project in Indonesia

MEC Coal

MEC Supports Establishment of Batik Gallery

more

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Miang Besar Coal Terminal

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The core market

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Concession 1

- Owners:
  - 50% PT ????
  - 50% PT ????
- Minimum minable open cut reserve 50 million tonnes
  - Prospects for more based on resource indication and stripping
- Quality
  - 5,300 kcal
  - Low ash and sulphur
  - Could be blended to standard specifications
- Started construction in 2006 complete Sept. 2008
- Coal loaded onto barges on Mahakam
  - Transhipment to carriers at Muara Jawa etc…

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Concession 2

- Owners:
  - 80% PT ????
  - 20% PD ????
- Reserves “substantial” but opaque
- Quality
  - 6,100 kcal
  - Would benefit from blending
- Production:
  - 4.5 million tons in 2009
  - 5.5 million tons in 2010
  - Has plans to up production to over 6.0 mtpa
- Coal loaded onto barges on Mahakam
  - Transhipment to carriers at Muara Jawa etc…

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Criticial Concession

- Owners:
  - ??????????Resources
- Reserves over 600 million tonnes
- Quality
  - 5,900 to 6,100 kcal
  - Would benefit from blending
- Production:
  - Restricted by logistics
  - Would produce more if they could ship more
  - Target 50 to 60 mtpa
- Coal loaded onto barges on Mahakam
  - Transhipment to carriers at Muara Jawa etc…

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Barge jetties on the Mahakam River

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Barging on the Mahakam River

- Most barging on the river is by specialist contractors
  - Mix of 4,000 to 8,000 DWT barges used
  - Large pool of tugs and barges 300+
  - Take or pay contracts used for time charters (COA form)
- Charter rates:
  - US$ 70,000 per month
  - US$ 9.0 /t from Bunyot
  - US$ 6.5 /t from Selerong
  - US$ 2.0 /t minimum
- Stevedore and transhipment charges
  - Complex cost structure
  - Estimates US$ 0.5 to 1.5 /t for loading (sometime “in house”)
  - Estimated US$ 2.0 to 2.5 /t for unloading
  - Estimated US$ 1.5 to 2.5 /t for transhipment

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Competing tariff's and costs

- High bound scenario
  - based on the terminal being permitted to take in some of the economic and cost benefits the terminal delivers
  - US$ 9.0 to 10.0 /t upwards
- Anticipated scenario
  - matching overall costs/tariff charged by existing logistics
  - US$ 6.0 to 8.5 /t
- Low scenario
  - Based on cost saving to key concessions
  - US$ 3.5 to 5.0 /t
- Rates assessed for non key concessions will be lower
  - One rate demand from key concessions?

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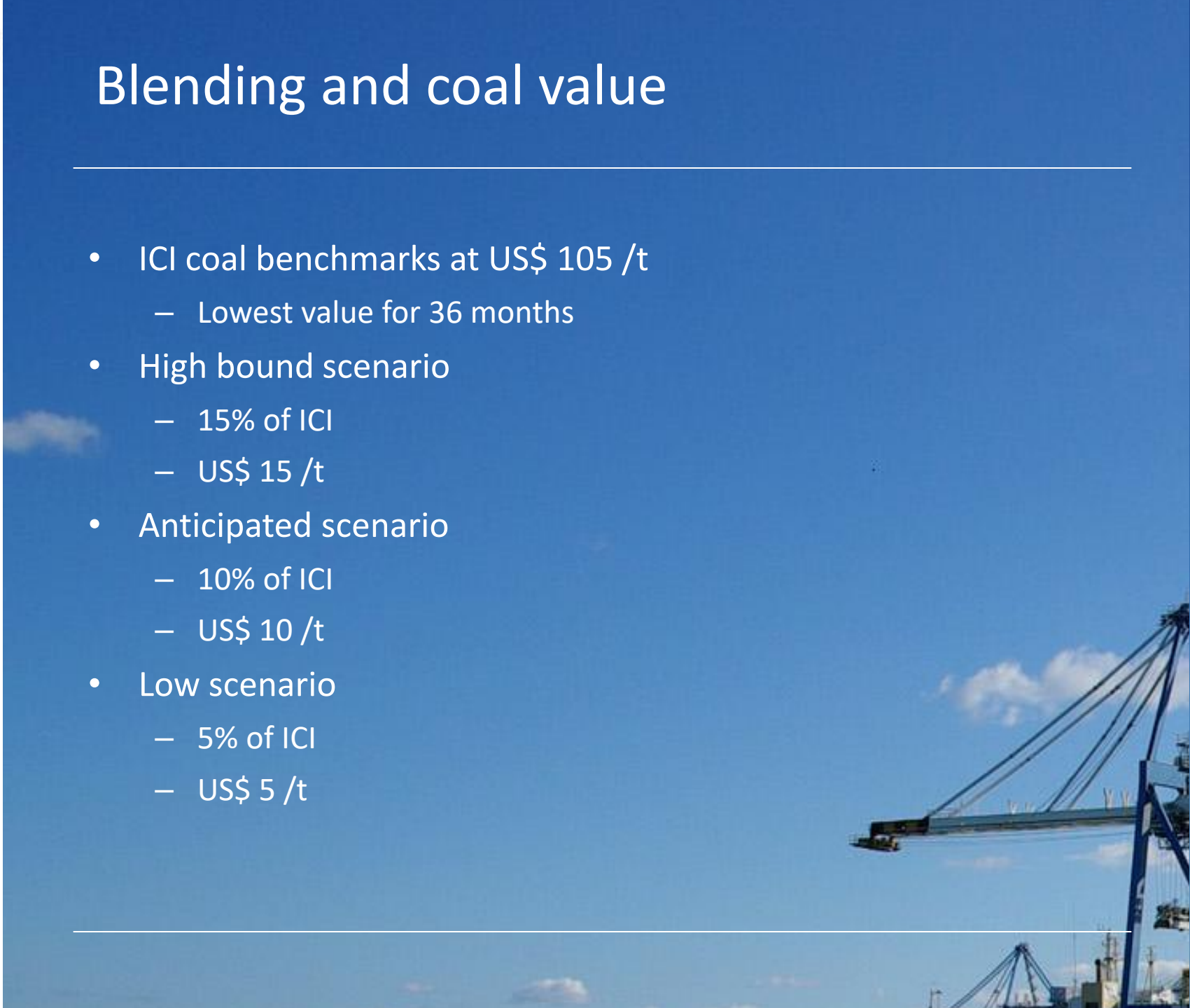
Blending and coal value

- ICI coal benchmarks at US$ 105 /t
  - Lowest value for 36 months
- High bound scenario
  - 15% of ICI
  - US$ 15 /t
- Anticipated scenario
  - 10% of ICI
  - US$ 10 /t
- Low scenario
  - 5% of ICI
  - US$ 5 /t



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Building Market Understanding

Case Study 2

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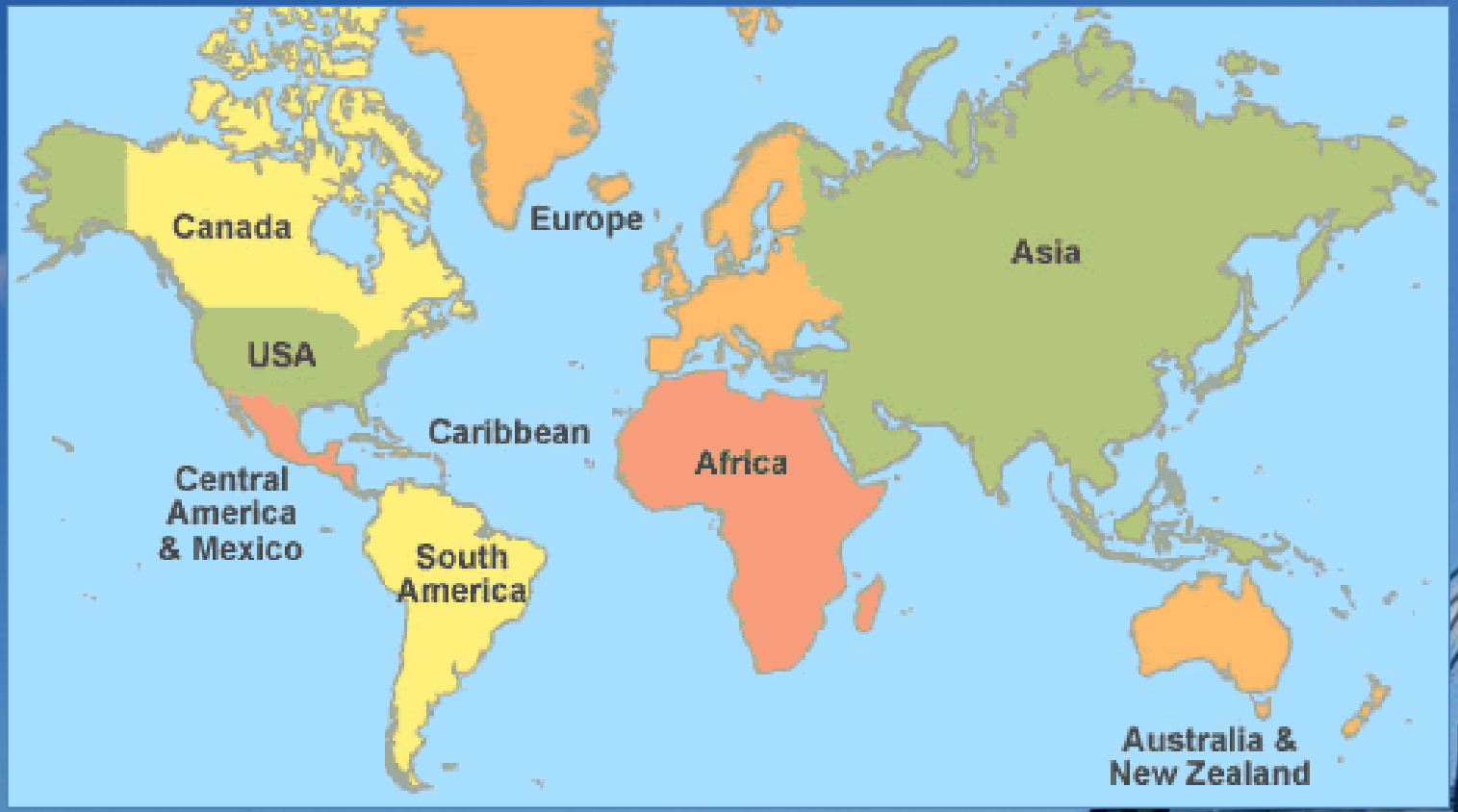
Location, Location, Location



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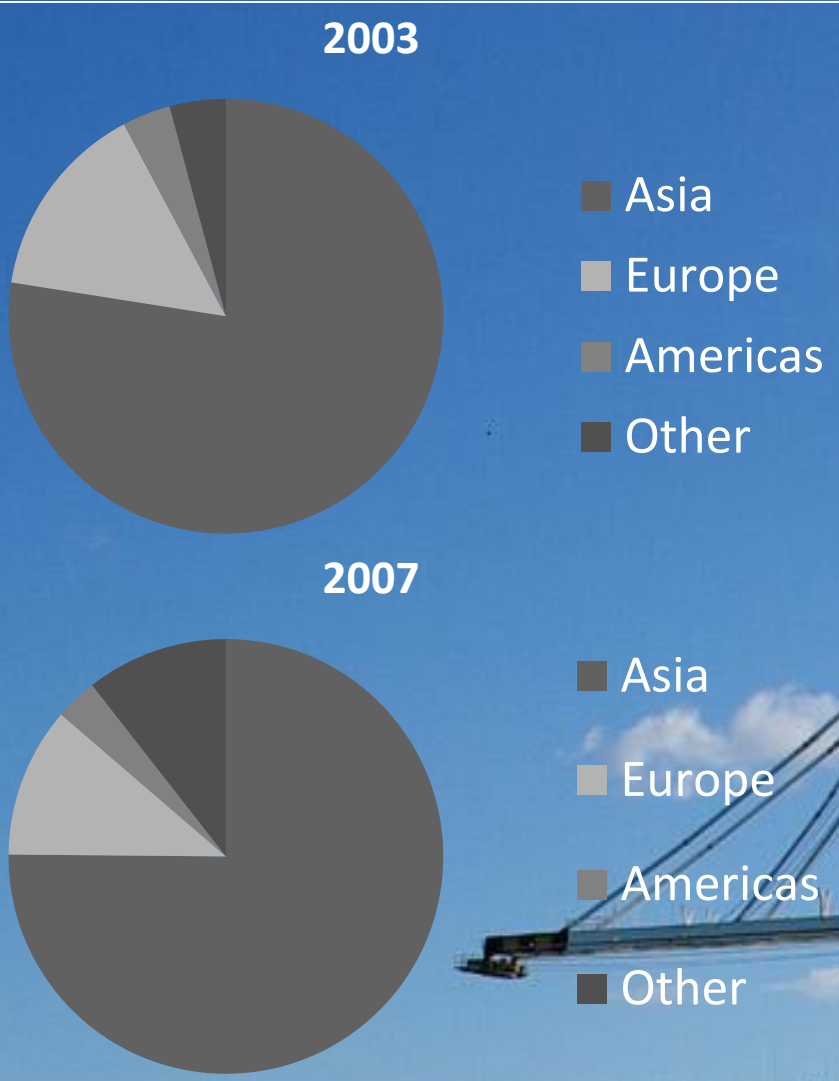

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Indonesian coal production

- Prospects are generally good:
  - Indonesia has large coal reserves and resources relatively close to ports
  - Indonesia is close to major Asian markets
  - High world energy prices likely
    - In stable periods coal prices driven by production cost
    - In periods of high or rising energy prices thermal coal prices driven by the energy equivalent prices of alternative fuels minus a “coal discount”
    - Coal can substitute for natural gas and heavy fuel oil in many industries such as power production and cement manufacturing
- But coal is a high-carbon fuel….

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2012 and the fall in the coal price

- Coal price down 20 to 25%
  - Testing US$ 80/t
  - Still well above US$ 45 to 50/t long term price
- Short term effect
  - Pull back in key markets, China...
  - New coal capacity coming on line
  - Projects being deferred or cancelled
  - Production being scaled back
- Long term competitive position
  - Production costs, variable but in general low
  - Government take, low in international terms
  - Logistics costs
    - Haul distance to river, Length of river, Transhipment

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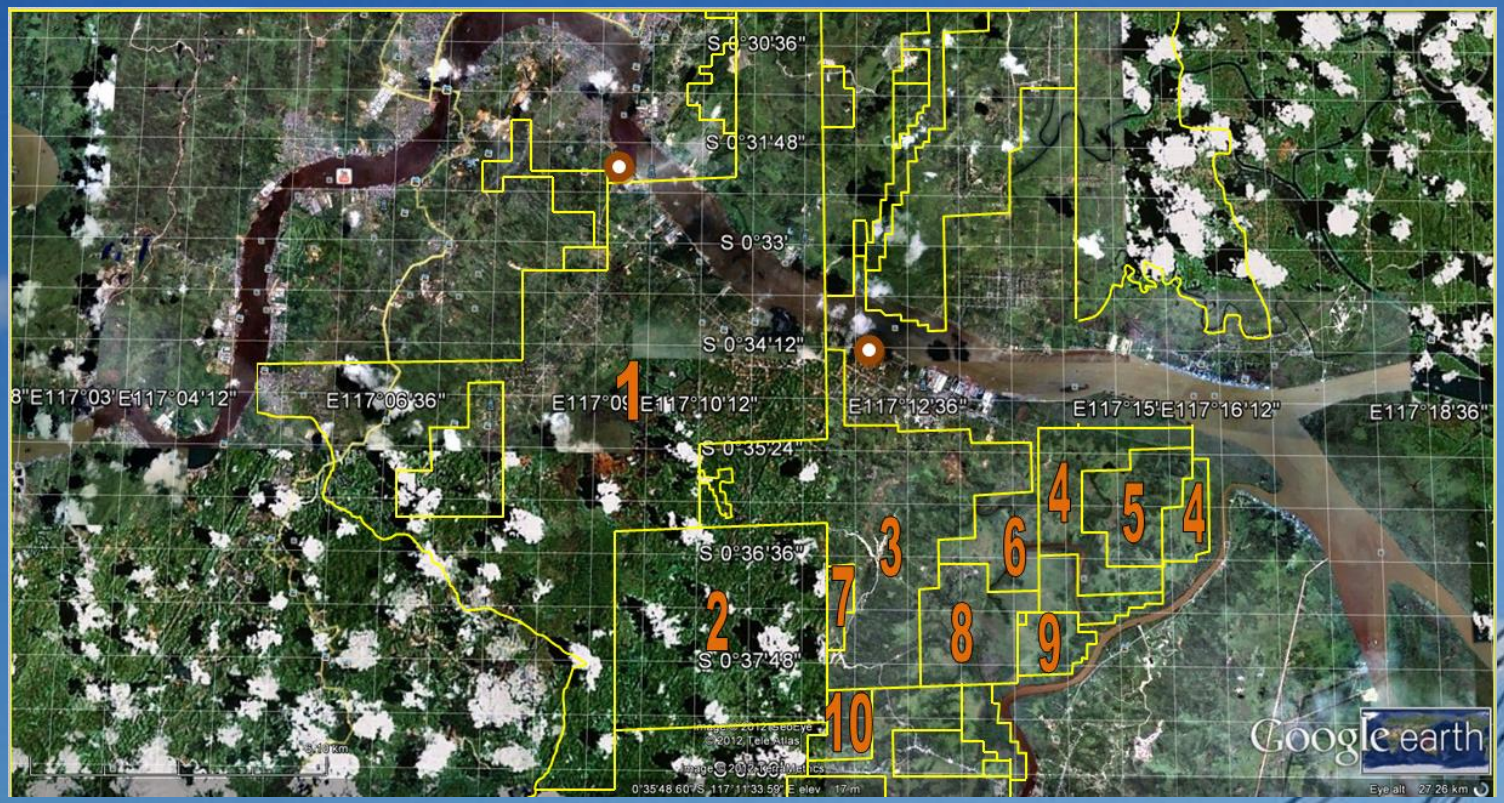

Coal production

Concession	Production (kilo tonnes)				
	2007	*2008*	*2009*	*2010*	*2011*
1	178	772	1008	2228	4,222
2	-	-	5	111	555
3	25	140	585	535	3,200
4	-	5	65	86	444
5	-	60	430	300	540
6	-	-	-	-	60
7	-	105	30	260	*350*
8	-	-	110	16	55
9	-	-	-	10	55
10	-	-	115	460	780
	203	1,082	2,348	4,006	10,261

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Sustainability of production

Concession	Resource	Reserves	Est. Life	Quality		
				kCal	S	M/C
1	1,200	500	50	5,000 to 6,400	0.2 to 2.4%	15%
2	20	15	10	4,700 to 5,300	1%	18%
3	10	25	10	4,500 to 4,700	1%	17%
4	5	15	10	4,700 to 4,900	2%	16%
5	5	15	10	4,700 to 4,900	2%	16%
6	5	15	10	4,500 to 4,700	1%	17%
7	40	100	20	4,700 to 5,300	1%	18%
8	10	50	15	4,700 to 5,300	1%	18%
9	10	80	20	4,700 to 4,900	2%	16%
10	20	100	20	4,700 to 5,300	1%	18%

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Competitiveness and logistics

Concession	Production Capacity	After Invest?	Method	Production costs	Logistics
1	4,920	6,000	Open cast	12 to 15	Own jetty
2	1,200	No plan	Open cast	18 to 20	10
3	4,000	No plan	Open cast	12 to 14	8
4	500	No plan	Open cast	15	14
5	Variable	No plan	Open cast	17	14
6	Variable	No plan	Open cast	17	14
7	500	No plan	Open cast	18	8
8	200	No plan	Open cast	14	10
9	250	No plan	Open cast	14	15
10	1,000	No plan	Open cast	19	16

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Barge jetties on the Mahakam River

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Barging on the Mahakam River

- Most barging on the river is by specialist contractors
  - Mix of 4,000 to 8,000 DWT barges used
  - Large pool of tugs and barges 300+
  - Take or pay contracts used for time charters (COA form)
- Charter rates:
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  - US$ 6.5 /t from Selerong
  - US$ 2.0 /t minimum
- Stevedore and transhipment charges
  - Complex cost structure
  - Estimates US$ 0.5 to 1.5 /t for loading (sometime “in house”)
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  - Estimated US$ 1.5 to 2.5 /t for transhipment

Target markets and design ship

Ship Type	*Capacity*	*Beam*	*Draft*	*Length*
Capesize	175,000 DWT		18.0 m	289 m
Small Capesize	125,000 DWT		16.5 m	289 m
New Panamax	105,000 DWT		15.0 m	up to 366 m
Panamax	80,000 DWT	32.8m	12.1 m	224 m
Handy-max	50,000 DWT	31 m	11.3 m	180 m

- Markets
  - "Chinamax" 400,000 DWT long distance ore trades
  - China, Panamax and Capes
  - India, Vietnam Handy-max to Supra-max
- New Panamax to Cape cost increase > 5%
- Target small Capes?

The competition – at berth

Port Name	Tanjung Bara	Bontang	Balikpapan	Deep Water	Miang Besar
Stockpile Capacity	1,000,000 t	350,000 T	1,040,000 T	Not available	1,000,000 t
Ave. Loading Rate	80,000 t/day	50,000 t/day	50,000 t/day	50,000 t/day	100,000 t/day
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Beam	50m	No restriction	45m	No restriction	65m max
Draft	17.25m	13.5m max	13m LWS	20m	31m max
DWT	210,000	90,000	90,000	200,000	400,000
Bunker Available	No	No	No	No	No
Working Hours	24 Hours	24 Hours	24 hours	24 Hours	24 Hours

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Key Coal Concessions

The following criteria identify key concessions

- located on the south side of the Mahakam River
- currently haul or plan to haul coal north or north east to the Mahakam River
- No owned barge facility
  - Distances too short for real decision changes
- Haul distance is shorter than existing
  - Not critical factor but important at start up
- Ability to agglomerate coal and blend
  - Has to be with barged coal…

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Market Forecast

Current Market in the order of 5 to 8 mtpa

- Only local concessions
- There is competition and a clear offering is required
  - Blending
  - Trading
  - Small bulk carriers?
- Future market perhaps 15 mtpa in 2015
  - Depends on recovery in coal price
- Broader market perhaps 20 mtpa of road haul coal
  - This may rise to 25 mtpa

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Tariff – Handling

- High bound scenario
  - based on the terminal being permitted to take in some of the economic and cost benefits the terminal delivers
  - US$ 3.0 /t upwards
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Blending and coal value

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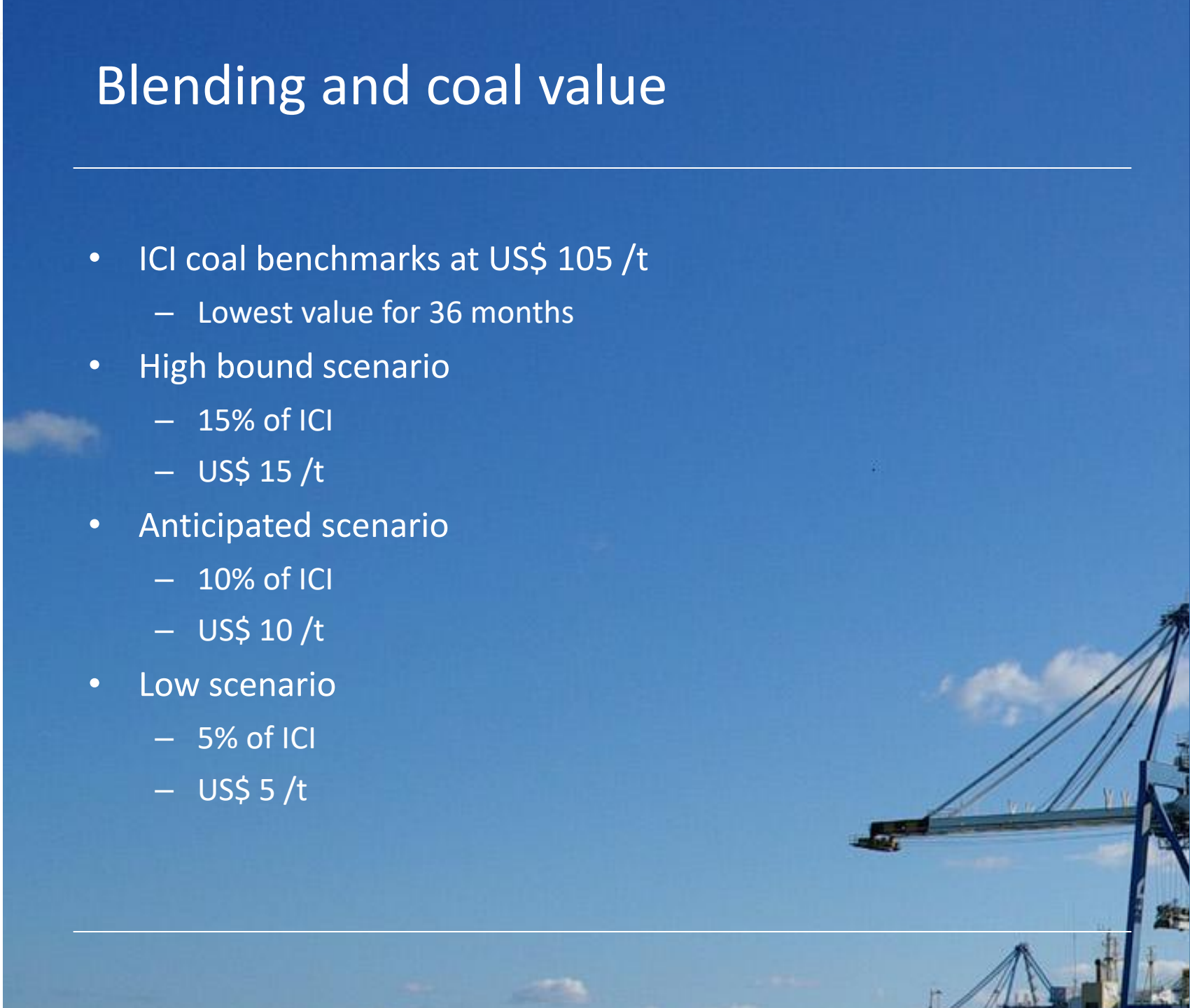
  - US$ 10 /t
- Low scenario
  - 5% of ICI
  - US$ 5 /t



Storage

- Not high percentage of terminal revenue
  - Things may be different
  - Sometime no significant mine stockpiles
  - Storing for “trade” purposes

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Building the Market/Business Case

Customer	Product	Contract capacity ('000s cbm)	Length of contract (yrs)	Renewal option	Renewal date	Years to renewal (from 31 Dec 2006)	% share of contracted capacity	Customer since >5yrs	Customer since >10yrs
Contracts for existing capacity									
Customer A	CPP	160	3	✓	31-May-08	1yr 5mth	13.5%	✓	
Customer B	CPP	86	2	✓	31-Jul-08	1yr 7mth	7.2%		
Customer C	CPP	124	3	✓	31-Dec-09	3yr	10.5%	✓	✓
Customer D	CPP	43	1	✓	31-Dec-07	1yr	3.6%		
Customer E	CPP	122	5	✓	28-Feb-12	5yr 2mth	10.2%	✓	✓
Customer F	CPP	63	2	✓	31-Jul-08	1yr 7mth	5.3%		
Customer G	CPP	8	3		30-Nov-07	11mth	0.6%	✓	
Customer H	CPP	8	8		31-Dec-09	3yr	0.6%	✓	
Customer I	CPP	161	5		31-Aug-08	1yr 8mth	13.6%	✓	✓
Customer J	CPP	79	3	✓	31-Dec-09	3yr	6.7%		
Customer K	CPP	163	2	✓	31-Dec-07	1yr	13.8%	✓	✓
	FO	170	2	✓	31-Dec-07	1yr	14.3%	✓	✓
		1,186					**100%**		
Contracts for capacity under construction								Contract commencement	
Customer L	Biodiesel	29	15		NA	NA	NA		
		1,215							

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Contracting

- Finance, risk and security of return
- Length of contract
  - Need for security
  - Ability to take advantage of market conditions
- Key terms
  - Take or pay
  - Volume guarantee
  - Revenue guarantee
  - Rates per tonne
  - Volume discount (?)

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Contracting – Lateral Thinking

- If your counterparties are men of straw what can you do?

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The problems of floating terminals

- CAPEX
  - Quantum , shipyards and contracting
    - Opportunity or risk
  - Performance benchmarking
- OPEX
  - Staffing
    - Skills shortage and cost
  - Consumables
  - Maintenance
    - M&E, Ship maintenance, FPSO experience
    - Asset life
  - Environmental risk
    - “real” productivity
    - Downtime
    - Accidents

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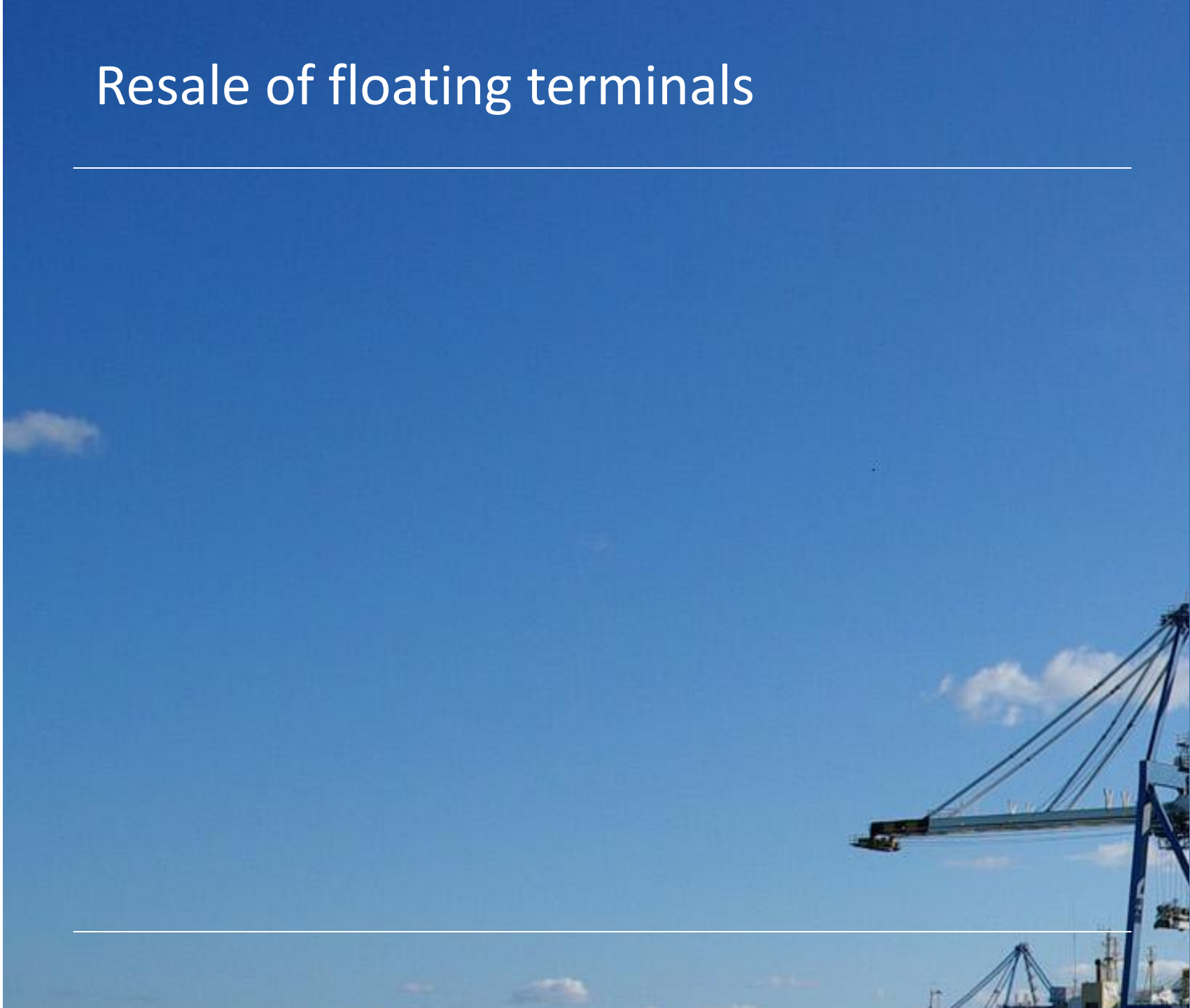
Resale of floating terminals



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What can the finance markets deliver

Researching who can provide the money…

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Sources of finance

- Construction financing/Export Credit Agencies etc…
- Bilateral aid
- International capital markets
  - Special structures…the KG House
  - Infrastructure investors
  - Banks and specialist shipping banks
  - Bonds, junk and others types (Mortgage Bonds)
- Local capital markets
  - Equity Market
  - Bonds
  - Banks
  - Infrastructure funds/Private investors (major and small)
- Government…
- Multi-lateral institutions

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Where would you look for the money?

- Need US$ 50 million
  - I have US$ 10 million, maybe
- The project is a strong one for the country
  - Reasonable IRR but not great…
  - Some view this as strategic for their businesses
- Little competition
  - Difficult for others to develop
  - Few alternatives
- Foreigners
  - 49% of a port
  - 95% of an oil terminal
  - 100% of a ship?
- Where should I look for the finance?
- Ten minutes to get some ideas…

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Sources of finance

- Construction financing/Export Credit Agencies etc…
- International capital markets
  - Special structures…the KG House
  - Infrastructure investors
  - Banks and specialist shipping banks
  - Bonds, junk and others types (Mortgage Bonds)
- Local capital markets
  - Equity Market/IPO
  - Bonds
  - Banks
  - Infrastructure funds/Private investors (major and small)

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Capacity of financial markets for debt

- International markets
  - Single banks, US$ 200 to 400 m?
  - International consortium, 6 plus possible (US$ 2,000 m+)
  - Bond market
    - Investment grade
    - Junk bonds
- Indonesian capital markets
  - Single banks
    - US$ 20 to 50 million
  - Number of banks in consortium
    - 5 to 8 at US$ 20 million (US$ 160 million?)
  - Bond market, limited
- All banks retreating to safety…
- Liquidity in the market is impaired

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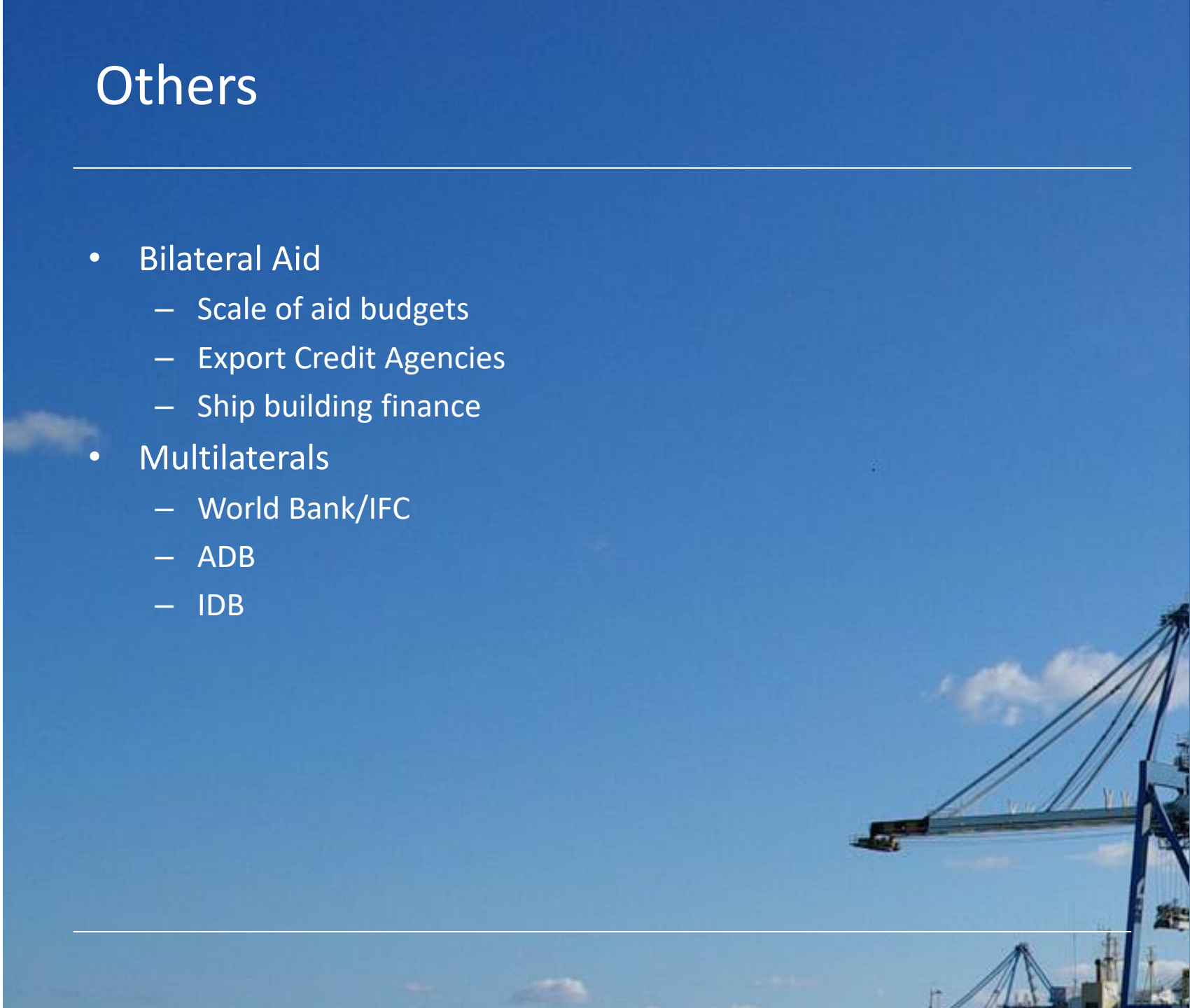
Capacity of financial markets for equity

- Operators/Sector players
  - Knowledgeable
  - Interest and capacity?
- Related parties
  - Shipping companies
  - Coal mines
- Domestic players
  - Scale, liquidity and interest
- Insurers/Pensions Funds (Institutional investors)
  - Investment grade
- Infrastructure funds
  - More speculation
  - Capacity in cycles
- Major private investors

Others

- Bilateral Aid
  - Scale of aid budgets
  - Export Credit Agencies
  - Ship building finance
- Multilaterals
  - World Bank/IFC
  - ADB
  - IDB



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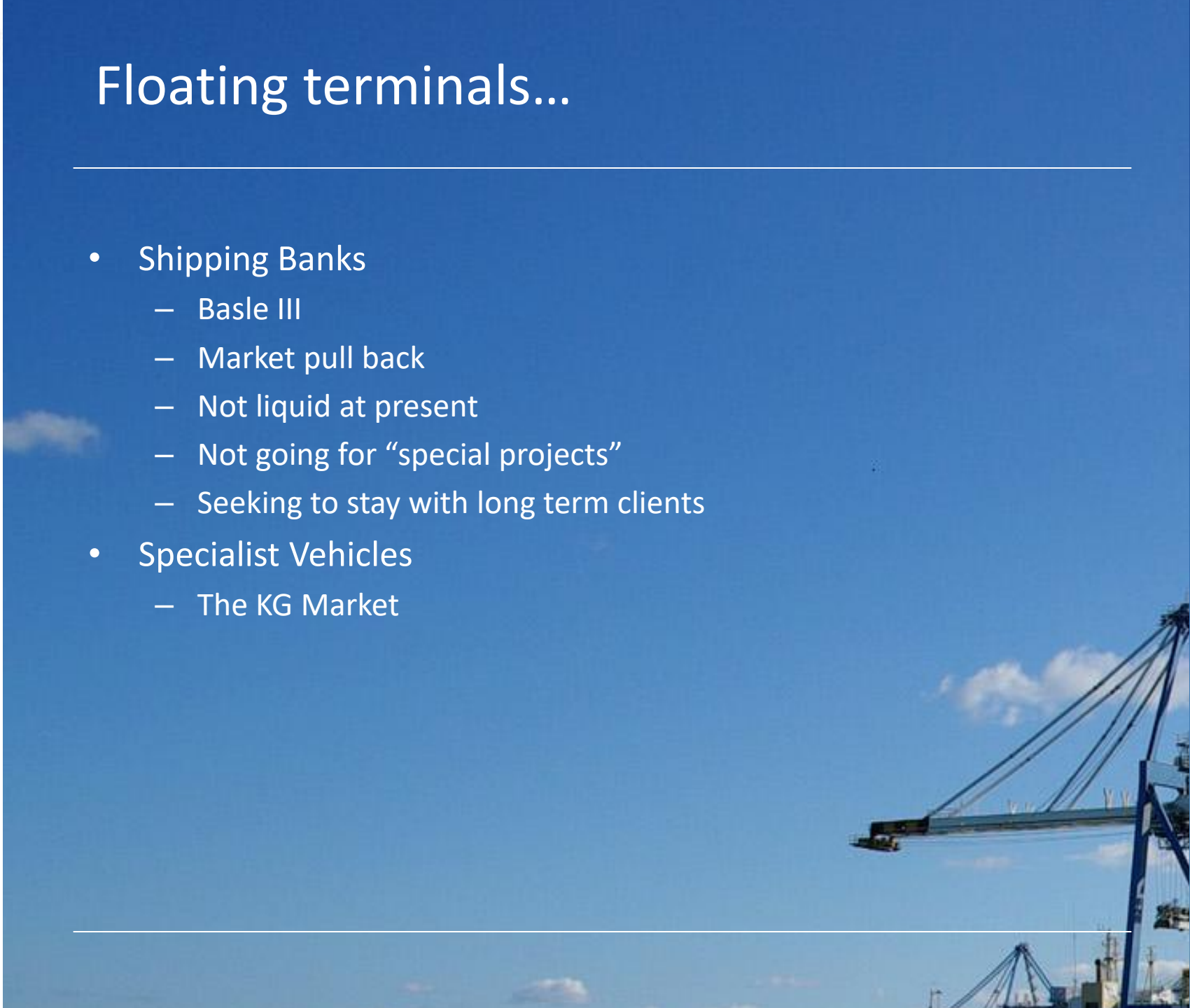
Floating terminals…

- Shipping Banks
  - Basle III
  - Market pull back
  - Not liquid at present
  - Not going for “special projects”
  - Seeking to stay with long term clients
- Specialist Vehicles
  - The KG Market



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Non financial factors

Legal, regulatory, confidence…

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The big picture

- General – growing competition
  - Political stability
  - Rule of law
  - Clarity of legal position
    - Disputes a serious problem
  - Mitigation…
    - Political risk insurance
    - Sovereign guarantees
    - Underwriters
- Image and presentation
  - The Media
  - NGOs National & International
  - Domestic/International
    - Chinese investment
    - Arab investment
  - Corruption
  - The Equator Principles

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Regulations

- Port & Shipping Law
- Petroleum/Minerals Law
- Land ownership
  - Sea bed leases
- Investment controls
  - ??% limit on equity
    - Reverse listing, investment trusts
  - Local partners: Bumi…
  - Local investors: How liquid
- Foreign exchange
  - controls
  - Revenue currency
  - Expenses currency
- Trade regulations & customs
- The environment

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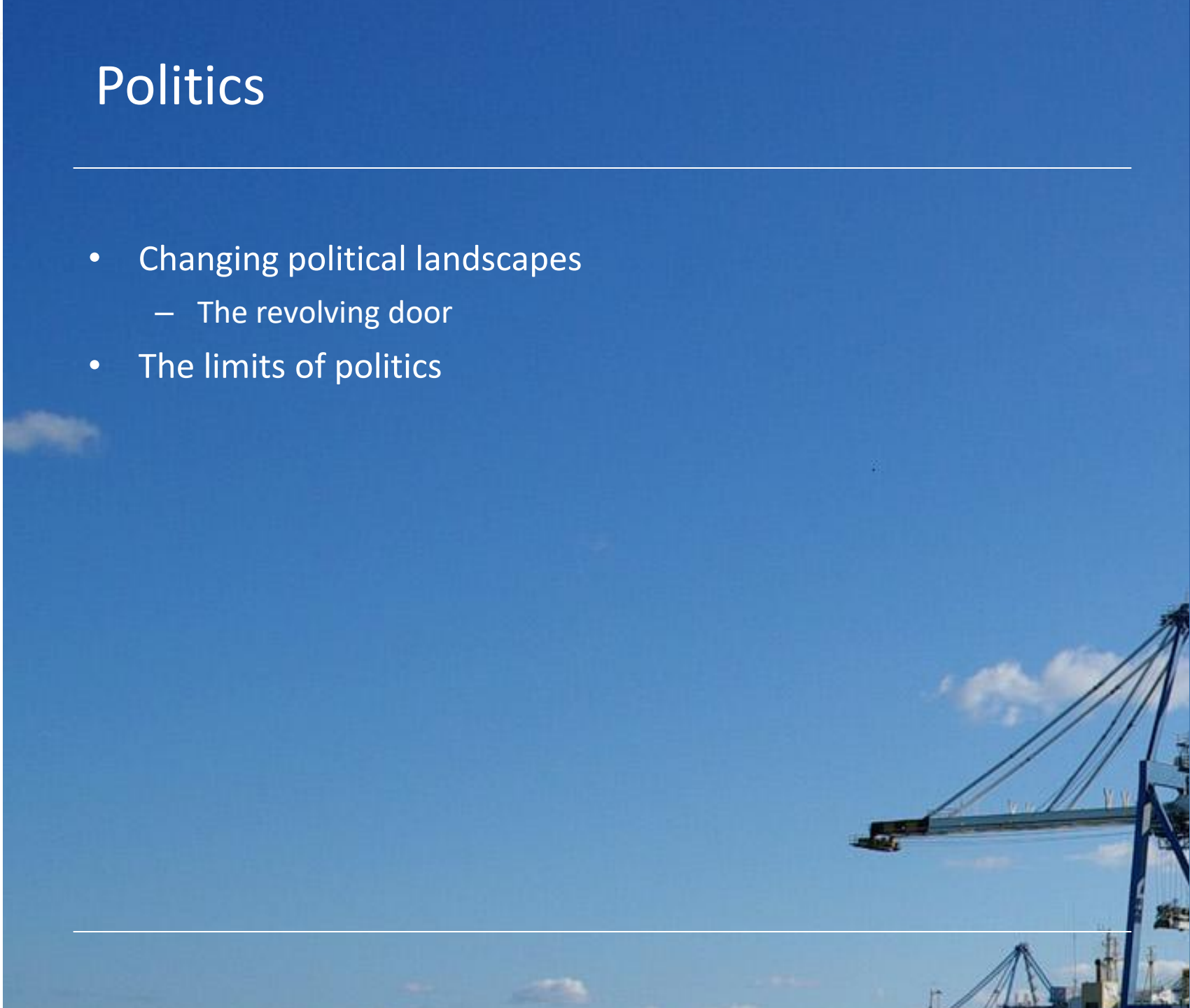
Politics

- Changing political landscapes
  - The revolving door
- The limits of politics



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Market sentiment

- IPO
  - PT Krakatau Steel
  - Garuda
  - Ports and not shipping
- Bonds
  - Investment rating
  - Junk…
- Loans
  - Financial crisis
  - Quantitative easing
  - Government bonds

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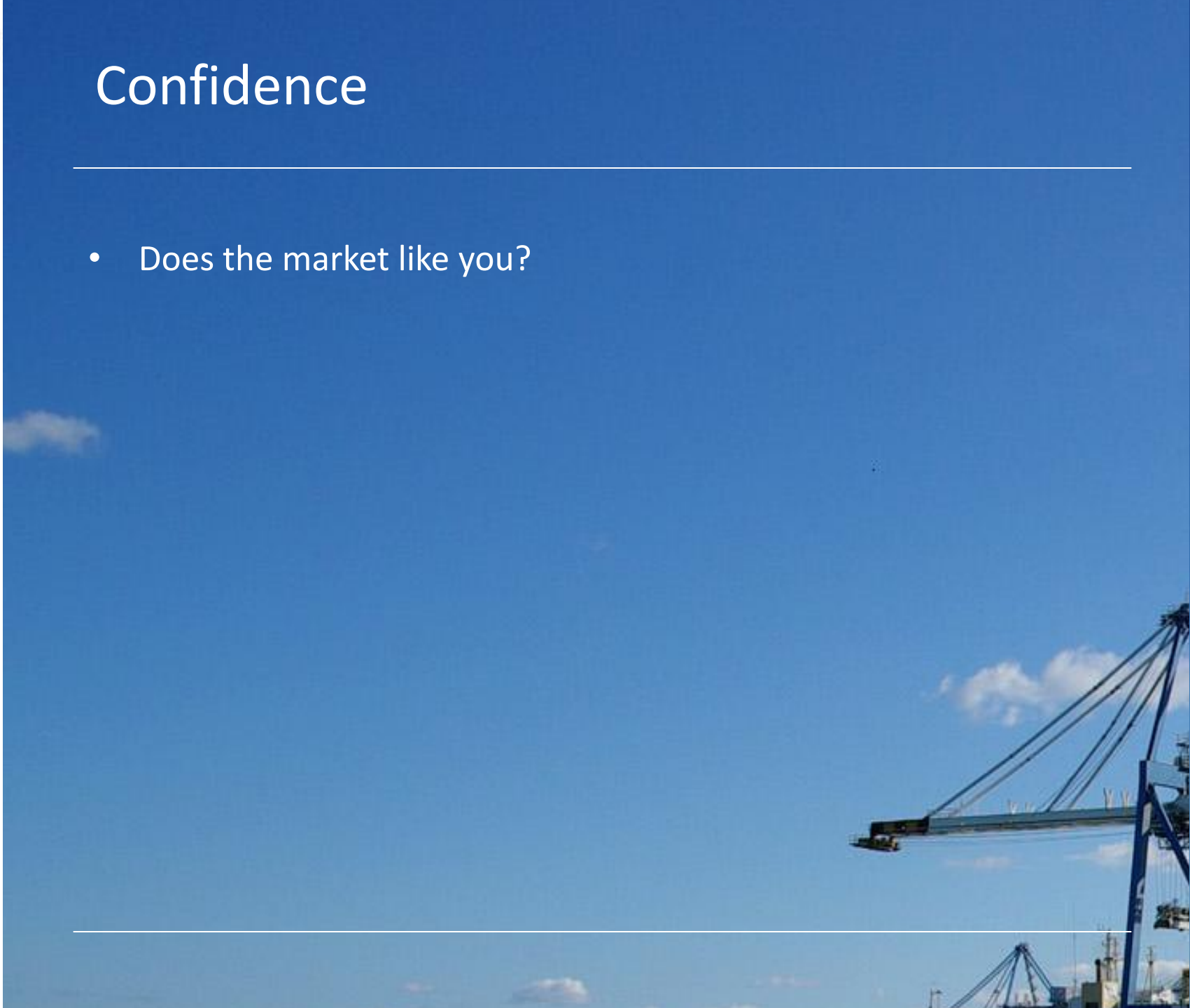
Confidence

- Does the market like you?



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How can you access the finance?

Selling, leasing, borrowing…

Selling and borrowing

- Delaying payment
  - Construction and fabrication related
- Borrow
  - Term loans
  - Bond issues
- Sell…
  - Operating partners
    - Lease?
    - Sub-concession?
    - JV/carried interests
  - Infrastructure investors
    - Tax benefits
    - Stable cash flow
    - Significant returns
  - IPO/Selling a “lease”

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Partners & Contractors

- Structuring of construction/equipment tenders
  - Adequacy of Balance Sheet?
  - Payment schedules
  - Leasing
  - Sovereign guarantee
  - Politics
  - Guarantees
  - Insurances
- Operating partners
  - Lease?
  - Sub-concession?
  - JV/carried interests

Term Loans

- Basic commercial loans
  - Fixed or floating interest rates
  - Initial grace period
  - Monthly or quarterly repayment schedules
  - Set maturity date
  - The cause of the Financial Crisis (Mortgage)
- Intermediate-term loans, under 3 years
  - Repayment often tied to the useful life of the asset
- Long-term loans, 3 to 10 years, some 20 years
  - Collateralized by a business's assets
  - Repayments from cash flow possibly via escrow accounts
  - Limits the amount of additional financial commitments
  - Rigorous approval process, the four C’s

The Four C's

- **Character**, has the company or its promoters managed other loans?
- **Credit capacity**, does the company have the ability to repay with a margin for error?
- **Collateral**, Is the asset worth more than the loan and can the bank get hold of it and sell it?
- **Capital**, How much are you putting at risk in the asset? Banks will not lend out of proportion to the risk the borrower or its promoters are taking.
  - in usual financing a debt to equity ratio of 2.0 is aggressive
  - for Project Finance in ports in OECD countries less than 15% equity is seen as requiring an increase in equity

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A few thoughts on EXIM

- Shipbuilding is different from civil works
  - Argument away from full EPC
- Need to ensure you have competing EXIM banks
  - Difficult to achieve from one EXIM
  - Japan, China, Korea and others
- Lead contractor important
  - Relationships with EXIM
- EXIM nations content only covered
  - Of benefit in Floating Terminals
  - Equipment sourcing important
  - Installation and commissioning not usually covered

A few thoughts on Term Loans

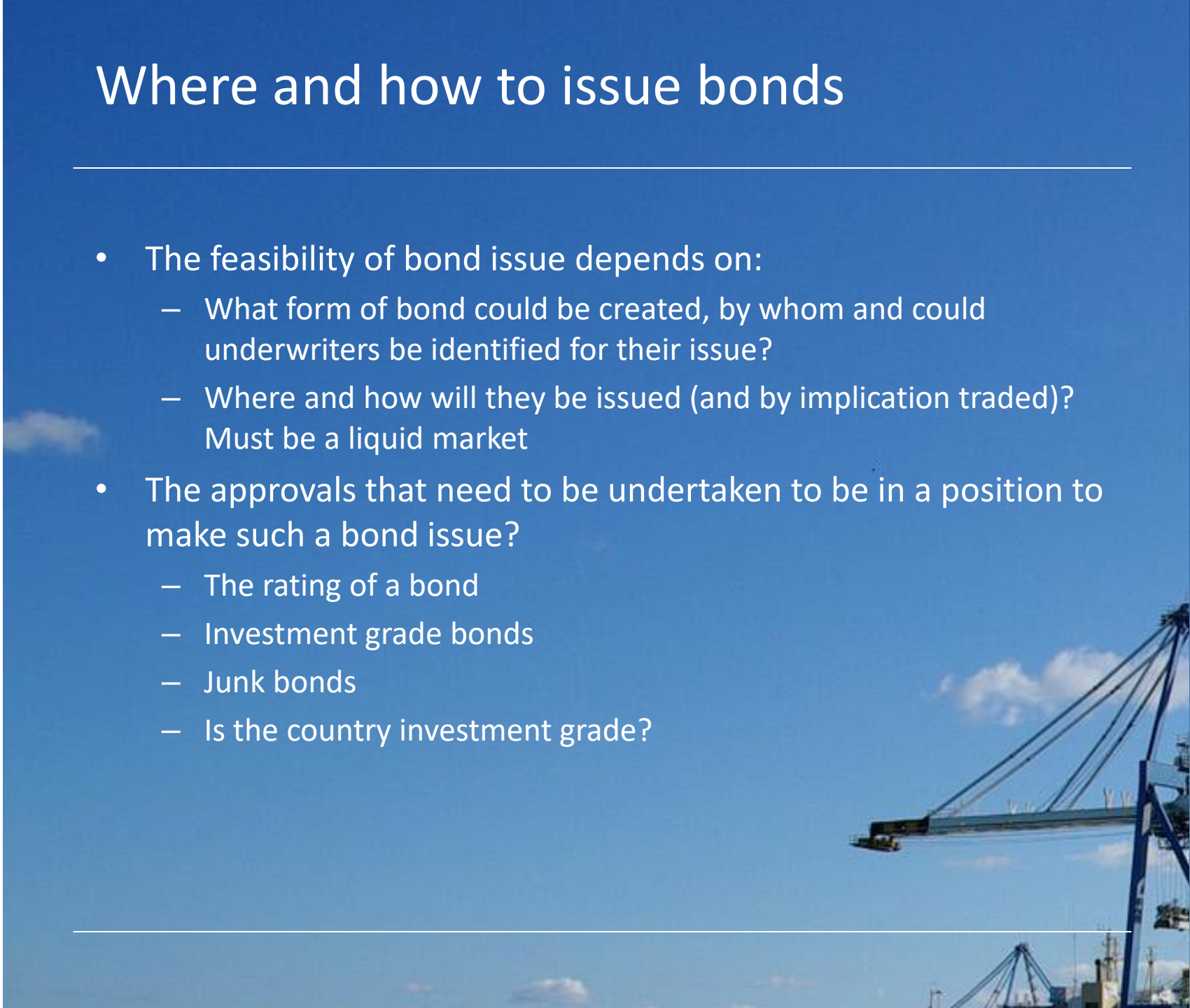
- Term loans appeal to those who need large loans quickly?
- Lenders structure loans as lines of credit that can be drawn down as need over a number of years
- After that they must be repaid on a set schedule
- Common in project finance
  - Often granted to SPV where there is no prior performance or balance sheet
  - Loans partial or non-recourse; that is the lenders has no ability to seek repayment from anyone other than the SPV
- When pricing a term loan the more risk:
  - the higher the price or interest rate
  - the more recourse (access to promoters assets)
  - in the ultimate a refusal to grant the loan

Issuing bonds

- A bond is a formal contract to repay borrowed money with interest at fixed intervals
- To raise longer-term debt with maturities between ten and thirty years.
- Bonds are often listed on major exchanges however
- BUT the vast majority of trading is dealer-based
- Bonds come in a wide range of types including:
  - Debentures, Sub-ordinate debentures, Income bonds
  - Mortgage, Collateral trust, Equipment trust certificates
  - The first three are unsecured bonds
  - The last 3 secured against specific assets

Where and how to issue bonds

- The feasibility of bond issue depends on:
  - What form of bond could be created, by whom and could underwriters be identified for their issue?
  - Where and how will they be issued (and by implication traded)? Must be a liquid market
- The approvals that need to be undertaken to be in a position to make such a bond issue?
  - The rating of a bond
  - Investment grade bonds
  - Junk bonds
  - Is the country investment grade?



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Preparing yourself to seek finance

Preparing and getting the right help…

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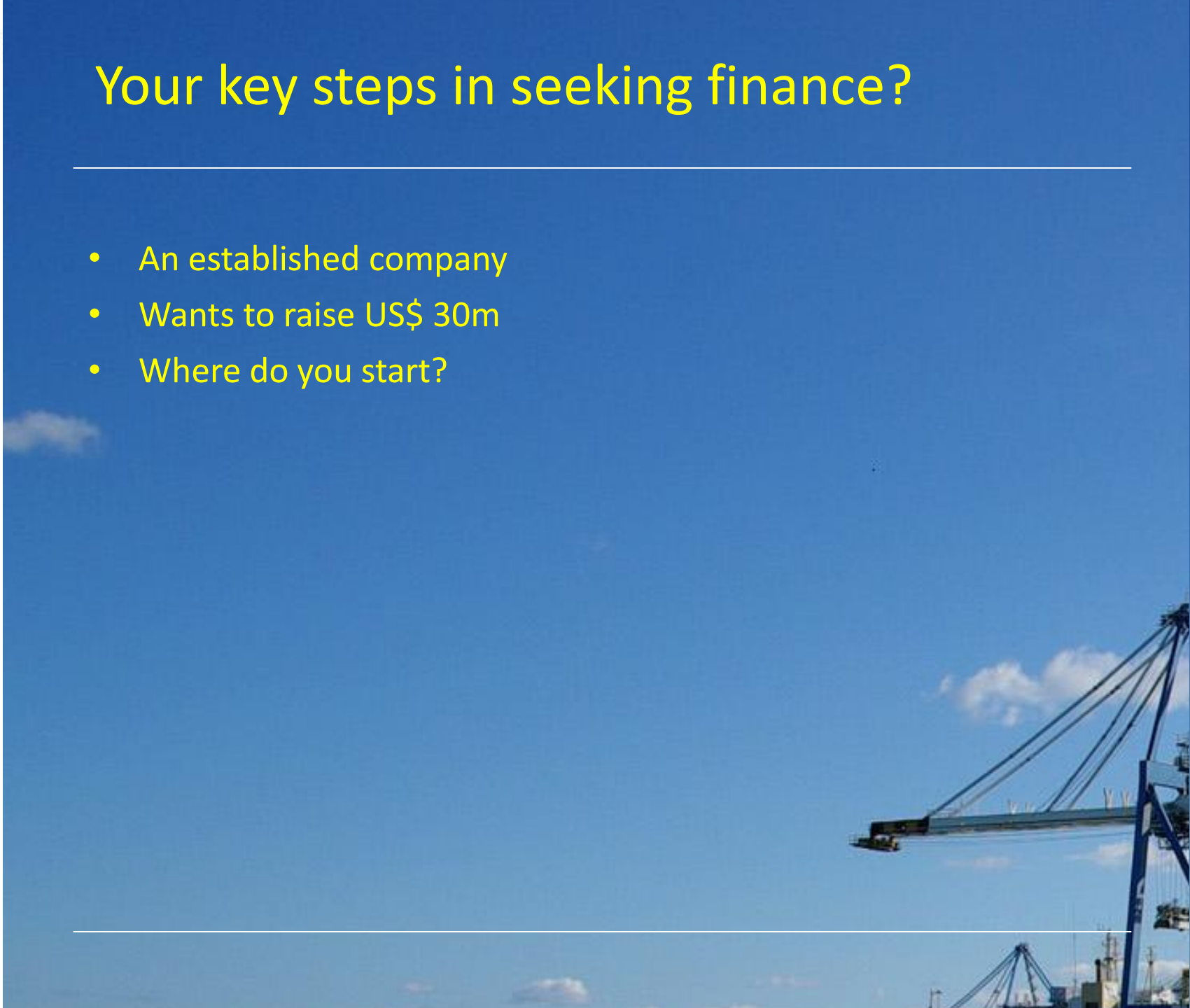
Your key steps in seeking finance?

- An established company
- Wants to raise US$ 30m
- Where do you start?



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Understand your financial position

- Audited report & accounts
  - International standard?
- Balance sheet position
  - How much have your borrowed
  - What assets do you own
    - Shares?
    - Land?
- Borrowing capacity
  - 75% of assets?
    - collateral value of assets
- Historic performance
  - Profitability
  - Cash flow
  - Dividend policy

Management

- Leadership
  - Clarity of communication
  - Consistency of communication
  - Explicitly manage transitions
- Do not let the project impact core business
- Capability
  - Have you done this before
  - Have you brought in the right talent
- Distractions
  - Big projects require no distractions
- Management of projects
  - Overall strategy
  - Reporting and control
  - Interfaces matter a lot…

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Approvals

- Agreements with Ministries and Port Authorities
  - In place
  - Needs tight legal wording
    - Remove doubt
  - Needs to cover
    - Scale and location
    - Duration
    - Termination
    - Payments
- Environmental
  - Social
  - Environment
  - Gap assessment for Equator Principles
    - Gaps need to be filled
    - Commitments and implementation of mitigation critical

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Advice and independence

- The more complex the more need for independence
  - Financial advice has great value
- Finance providers offer advice
  - It is not independent
  - Conflicts of interest are common and denied
  - Banks often swap lead (non lending roles) round syndicates
- A beauty parade for advisers
  - Experience in the right market is critical
  - Costs can be controlled
  - Success fees are attractive and expensive

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Selecting partners, practical points

- The decision influences debt as well as equity
- Any selection process gives unforeseen delays
- Government regulations may require a tender process to be undertaken…
- Time to select an operating partner 18 to 24 months
- There are significant risks in trying to fast track
  - A poor decision could be felt for twenty years
- How you get out is important to understand BEFORE you commit to being in…
- The ability to sue a partner for breaches is important
- Get search underway ASAP to minimize impact of delays down the line

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Preparing for Due Diligence

- Good quality processes
  - Well documented
  - Auditable
- A central repository of knowledge
  - View point system
- What else?

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The fatal flaws

What is your Achilles heel?

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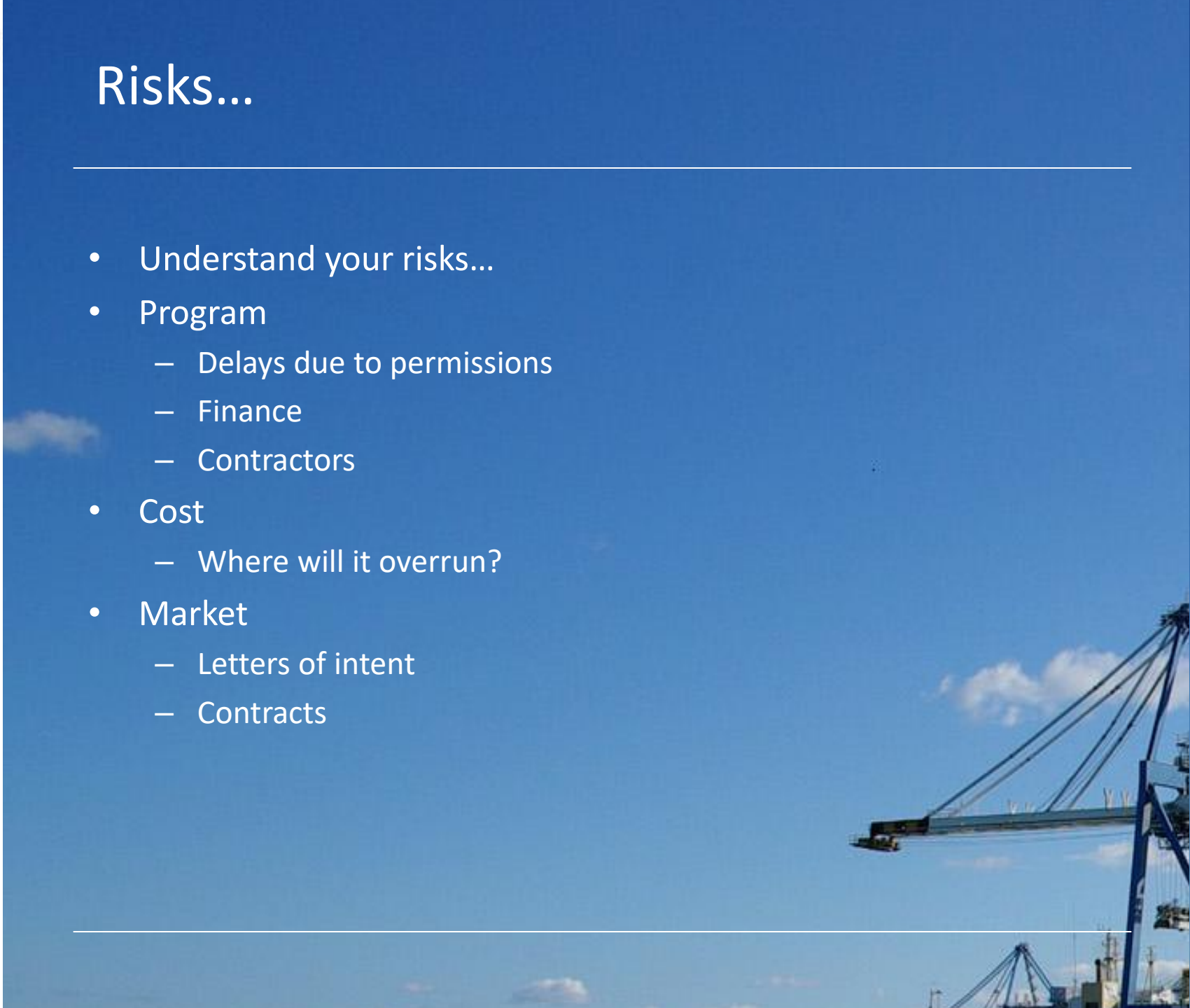
Risks…

- Understand your risks…
- Program
  - Delays due to permissions
  - Finance
  - Contractors
- Cost
  - Where will it overrun?
- Market
  - Letters of intent
  - Contracts



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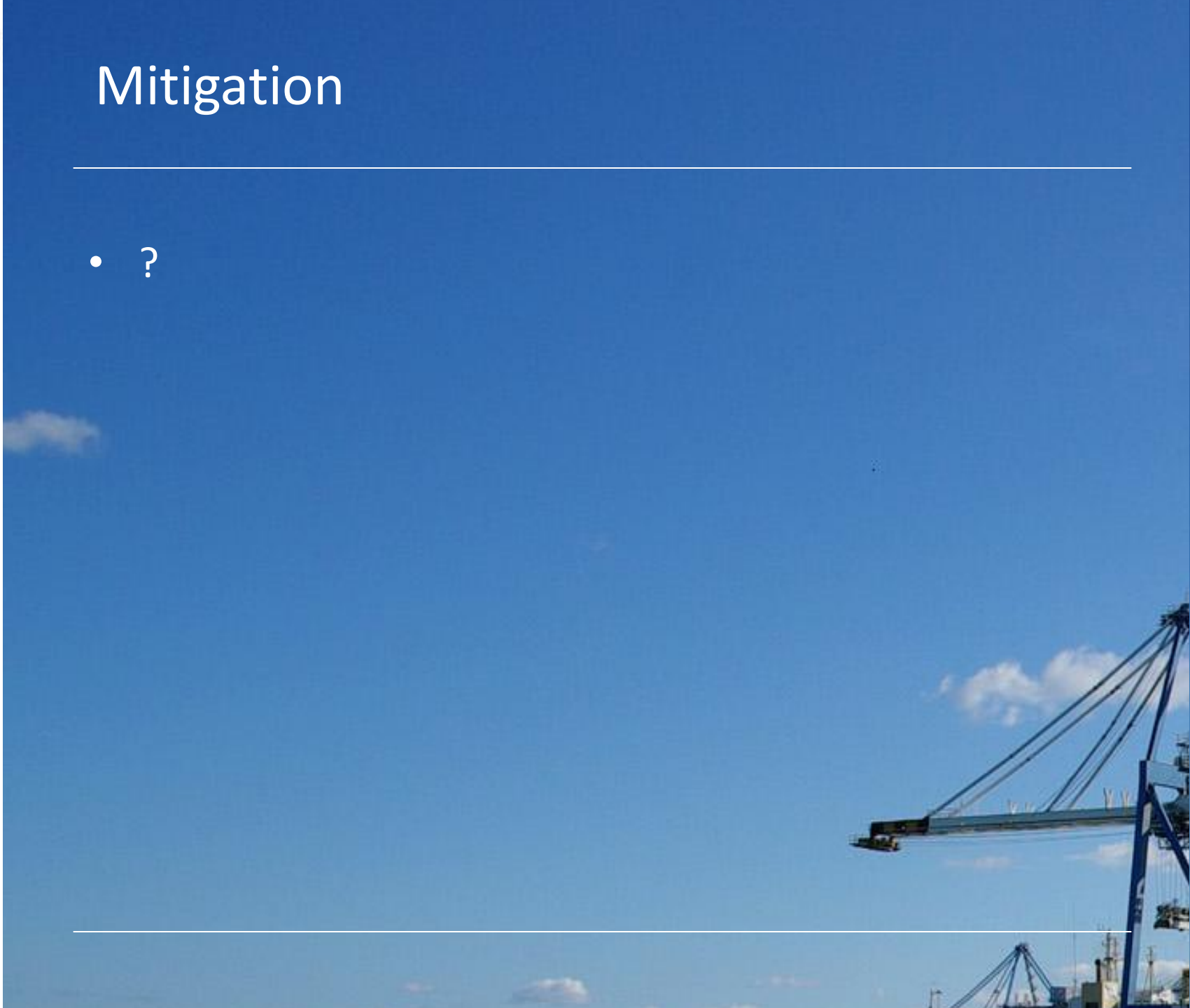
Mitigation

- ?



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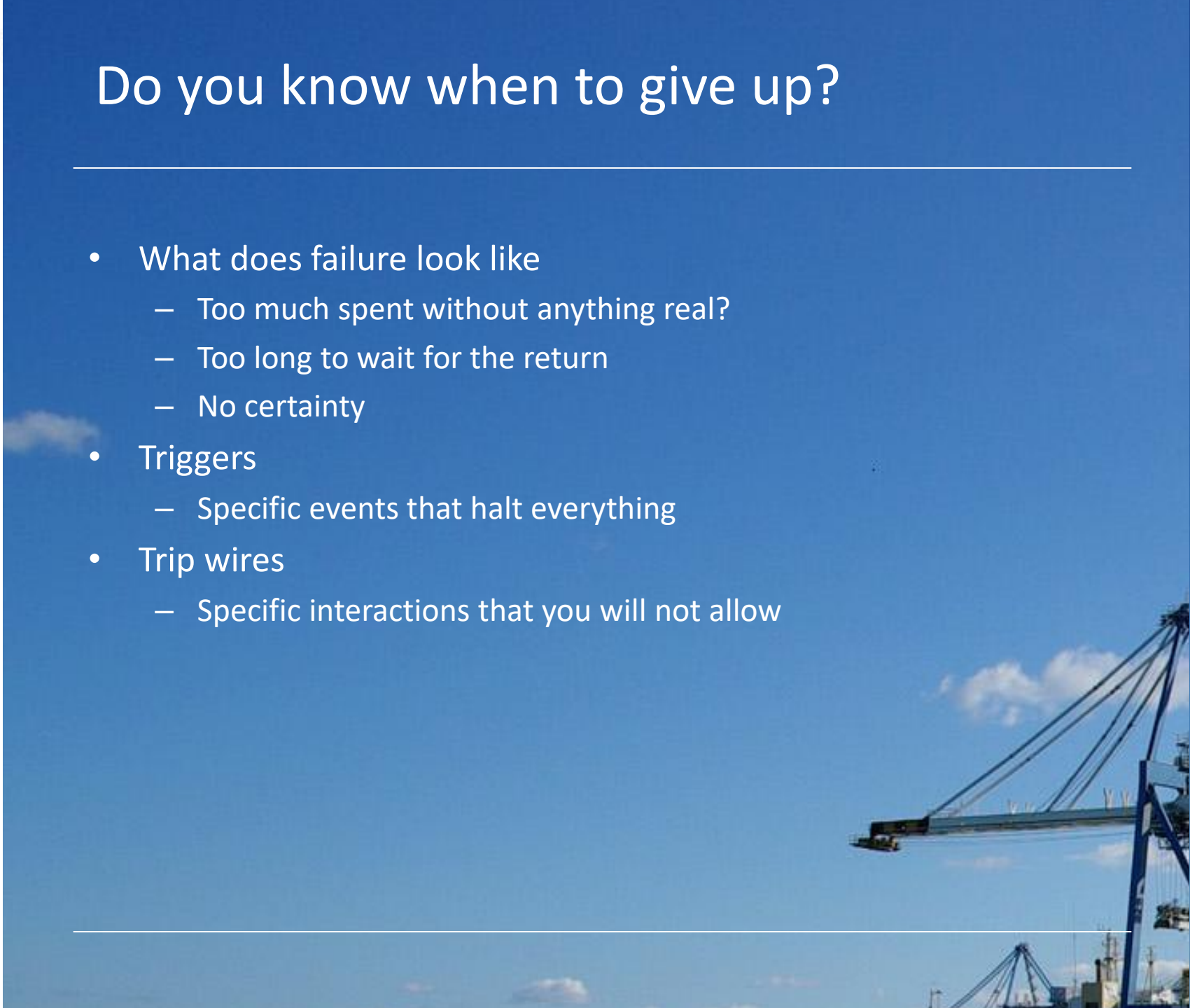
Do you know when to give up?

- What does failure look like
  - Too much spent without anything real?
  - Too long to wait for the return
  - No certainty
- Triggers
  - Specific events that halt everything
- Trip wires
  - Specific interactions that you will not allow



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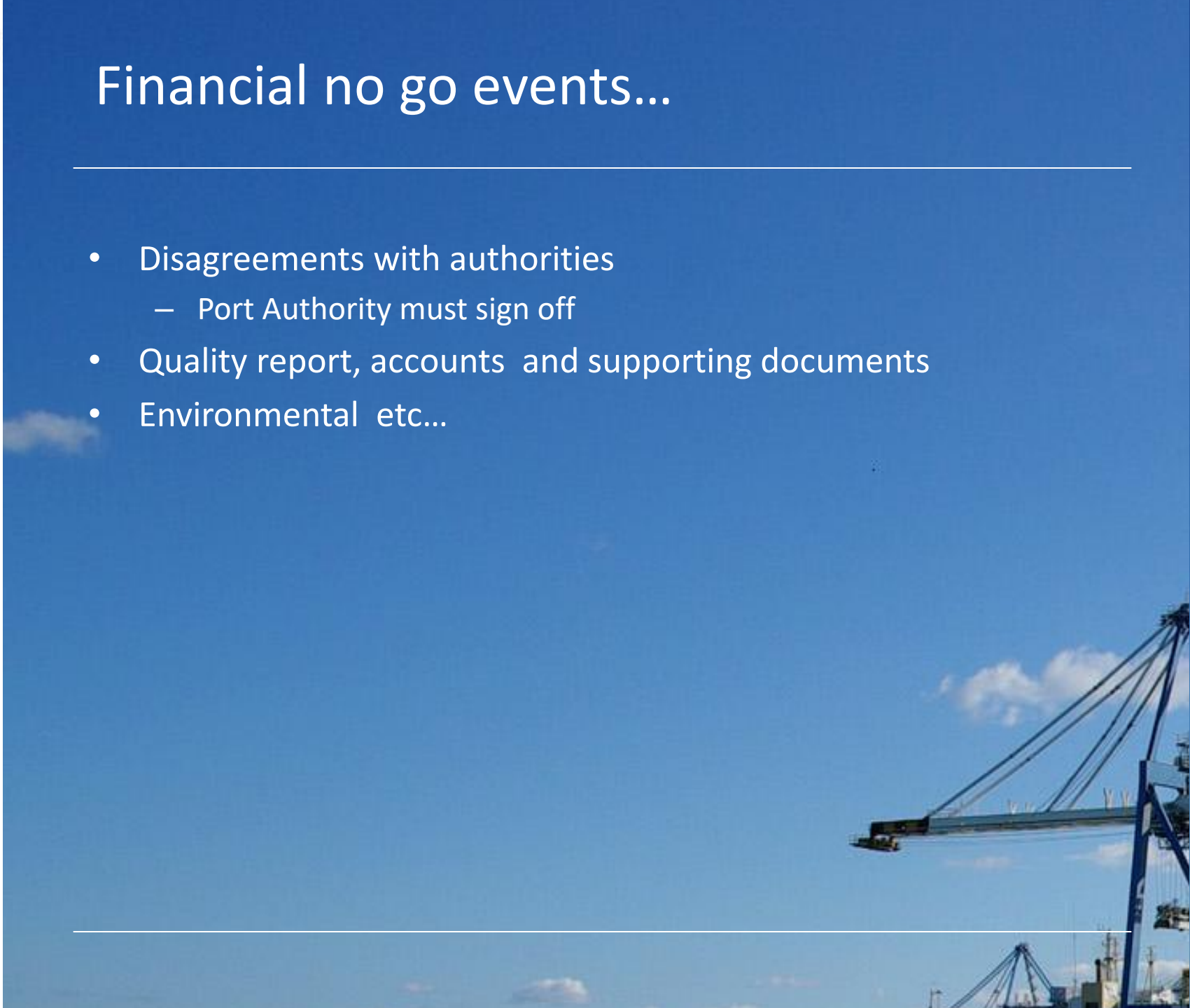
Financial no go events…

- Disagreements with authorities
  - Port Authority must sign off
- Quality report, accounts and supporting documents
- Environmental etc…



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A Case Study

Structuring and preparing to access the money

Indonesian Coal Production

- Prospects are generally good:
  - Indonesia has large coal reserves and resources relatively close to ports
  - Indonesia is close to major Asian markets
  - High world energy prices likely
    - In stable periods coal prices driven by production cost
    - In periods of high or rising energy prices thermal coal prices driven by the energy equivalent prices of alternative fuels minus a “coal discount”
    - Coal can substitute for natural gas and heavy fuel oil in many industries such as power production and cement manufacturing
- But coal is a high-carbon fuel….

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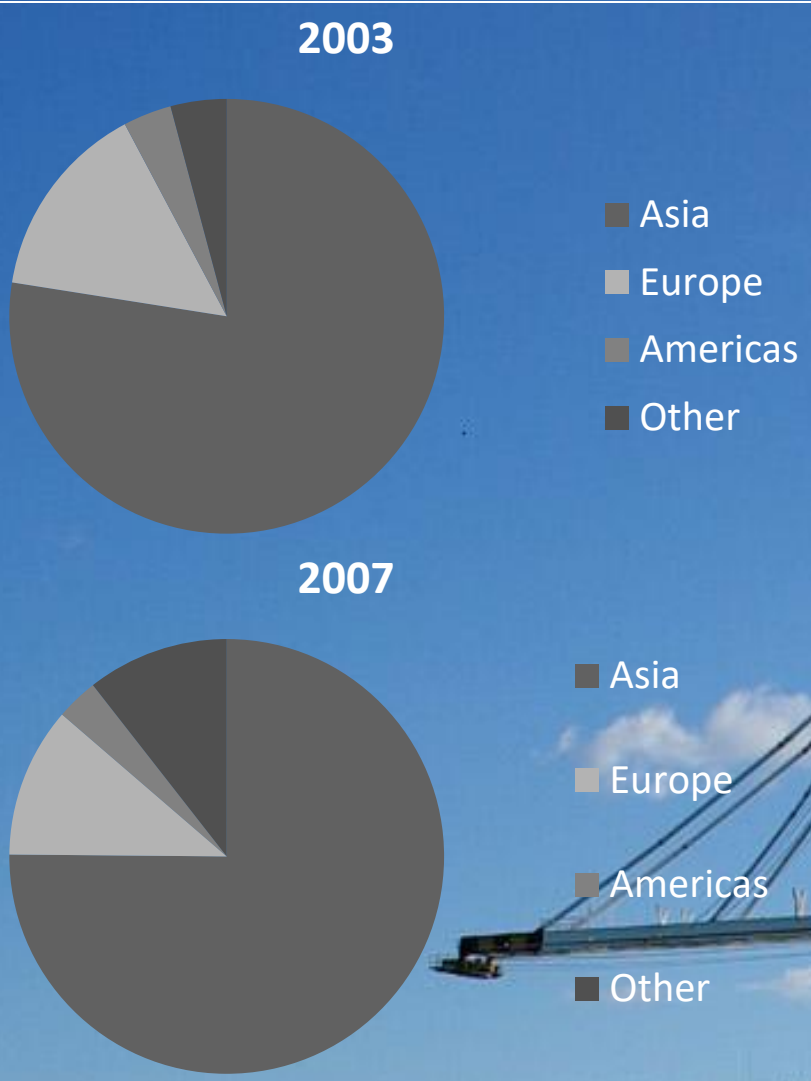
Export Markets

- 2003
  - Domestic, 29mt
  - Export, 86mt
- 2007
  - Domestic, 17 mt
  - Export, 140 mt
- 2020
  - Export 500 mt+



The Export Process

- Mine to Terminal
  - Road
  - Rail
  - Conveyor
  - Barge
- Unload
  - How to stockpile
  - To ship direct?
- Consolidate packets
- Load ship

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Floating Transshipment

- Seasons
- Downtime
- Risk

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Target Users

- Captive users
  - Total about 5.0 mtpa
  - PT Harisindo Batu Mulia, 120,000 ton/month++
  - PT Bumi Tala Sejahtera (BTS), 50,000 ton/month++
  - PT Satria Agro Foresto, 40,000 ton/month+
  - PT Berkat Karuna Utama 50,000 ton/month+
  - PT Alfa Riung, 40,000 ton/month+
- To be developed
  - About 10.0 mtpa

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Target Users

- Targets trading more that 200,000 ton/month each
  - PT. Prima Multi Mineral
  - PT. Redox Resource Indonesia (Trader dari Australia)
  - PT. Daya Bambu Sejahtera (Suplier Indonesia Power)
  - PT. Putra Tujuh Sebelas
  - PT. Antang Gunung Meratus (AGM) – Tamara Group
  - PT. Asia Prima Coal (APC) – Tamara Group
  - PT. Rukum Makmur (RM) – Tamara Group
  - PT. Bangun Benoa Persada Kalimantan – Tamara Group
  - PT. Nobel
  - PT. Total
  - PT. Pinang Coal
  - Sinar Mas Group
- Currently trading through Indonesia Bulk Terminal

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Location of Proposed Terminal

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Status

- Amdal/Environmental Approved in principle and 75% completed in documentation
- All other licenses and associated investment certificates have been approved including:
  - Transport Minister's decision of No. KP.??? in ????, on Determination of the location of the special port
  - Certificate No. PS. ????/??/BJM-????, by General Manager Pelindo 111 Banjarmasin Branch
  - Certificate No. ???/??????/Eko position recommendation, Prepinsi South Kalimantan
  - Certificate No. ???.??/??/Fispral/??/Bappeda, on Development Recommendation coal by Tanah Laut Regent
  - Etc…

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Proposed Investment

- Coal Terminal
  - Preparatory Phase: US$ 5,000,000
    - Engineering and planning
    - Tender management and award
    - Negotiation of LOIs with mines
  - Development Phase: US$ 115,000,000
    - Terminal
    - Supporting stockyards and barges
    - Working capital
- Coal Concessions
  - To be confirmed on case by case basis for four concessions

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Investment Analysis

- Capital costs
  - From contractors
  - Estimates need refinement
- Revenue
  - By comparison to international examples
  - Should be able to exceed such estimates
- Operational costs
  - By comparison to international examples
- Financing costs
  - Debt or no debt
  - Equity IRR/Project IRR

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Estimated returns

- Prime estimate returns
  - Steady EBITDA US$ 40 million+
  - IRR, 40% approx
  - NPV, US$ 209 million
- Low estimate returns
  - Steady EBITDA US$ 15 million+
  - IRR, 20%+
  - NPV, US$ 70 Million

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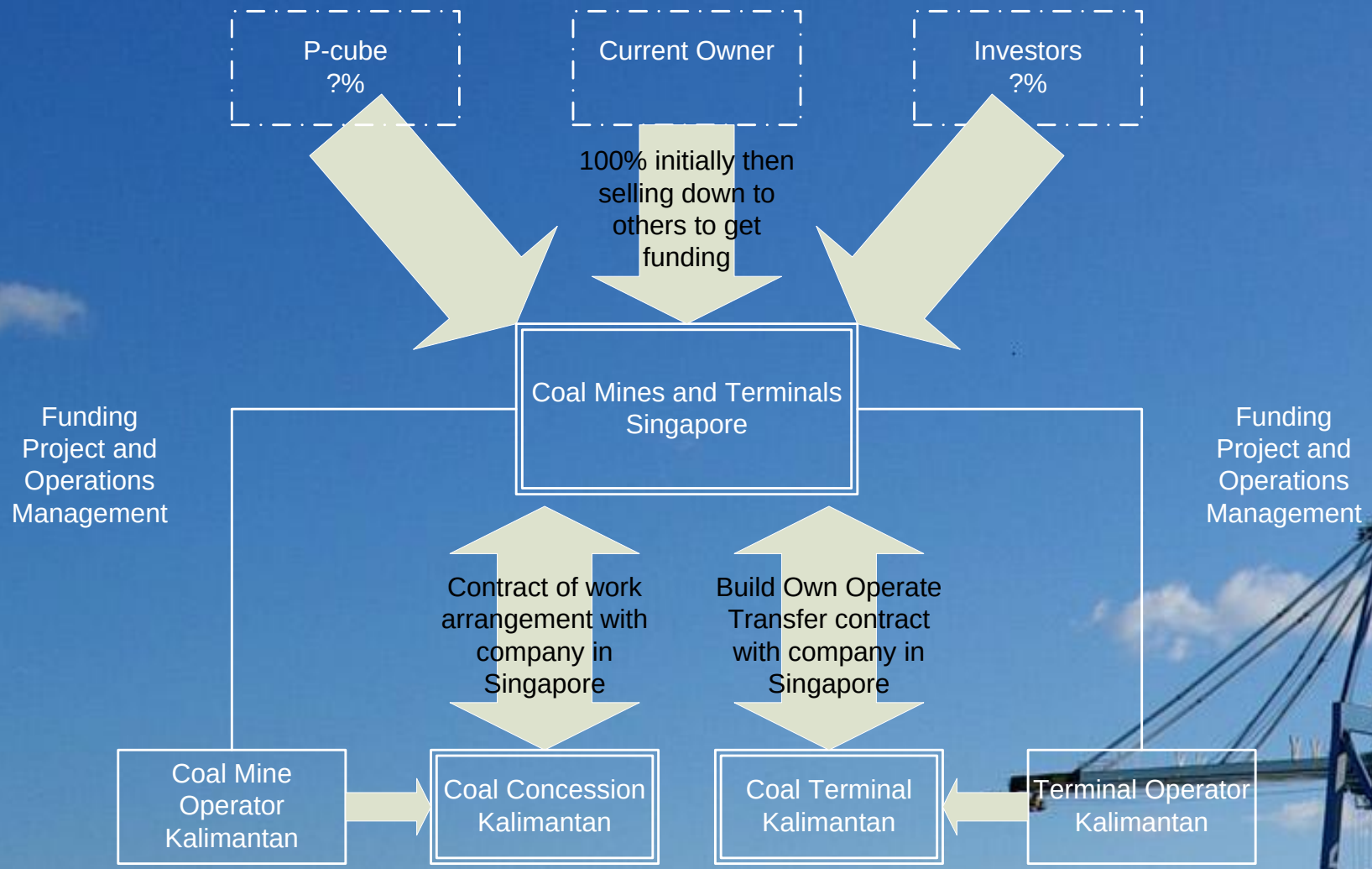
Deal Structure



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Deal Sequence

- Form wholly owned company (NEWCO) in Singapore
- NEWCO enters into Build Own Operate Transfer (BOOT) arrangements for development of the coal terminal.
- NEWCO enters into exclusive thirty year contract of work for coal concessions. This based on existing Indonesian contracts of work.
- Shares in NEWCO sold to investors, part of package that finances development and operation of the terminal.
- A revised shareholders agreement protecting minority investors agreed prior to the S&P.
- Indonesia subsidiaries of NEWCO undertake day to day operations and funnel investment as required.

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Way forward

- Site visit and introductions
  - Review documentation
- MOU on route to investment
- Prepare Due Diligence assessment pack
  - Need to review and confirm to international standards
- Set up joint project
- Progress construction tenders
- Conclude investment agreements
- Debt financial close
- Award construction tenders

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Thank you for your attention