

Project Finance: Past, Present & Future

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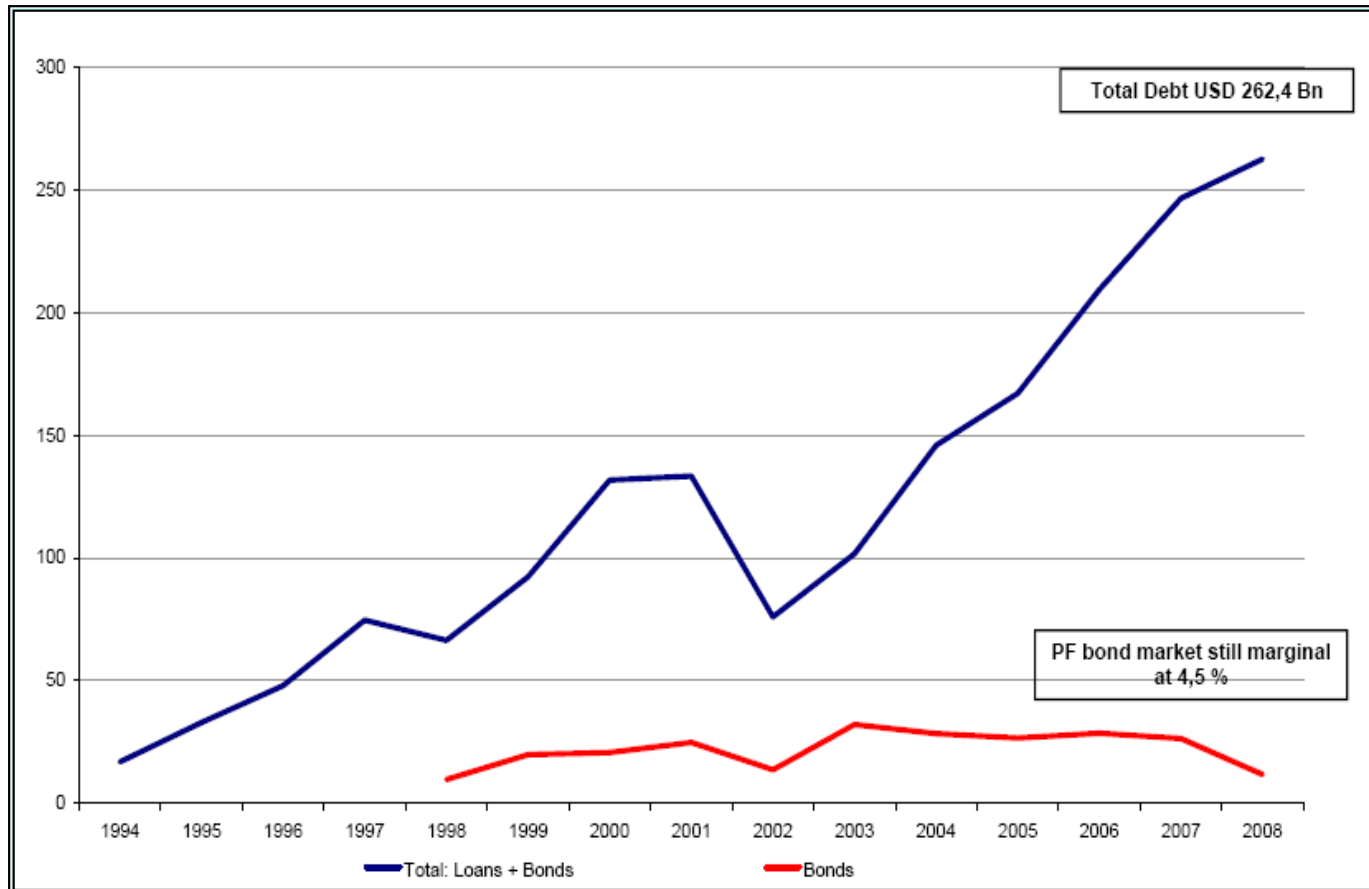
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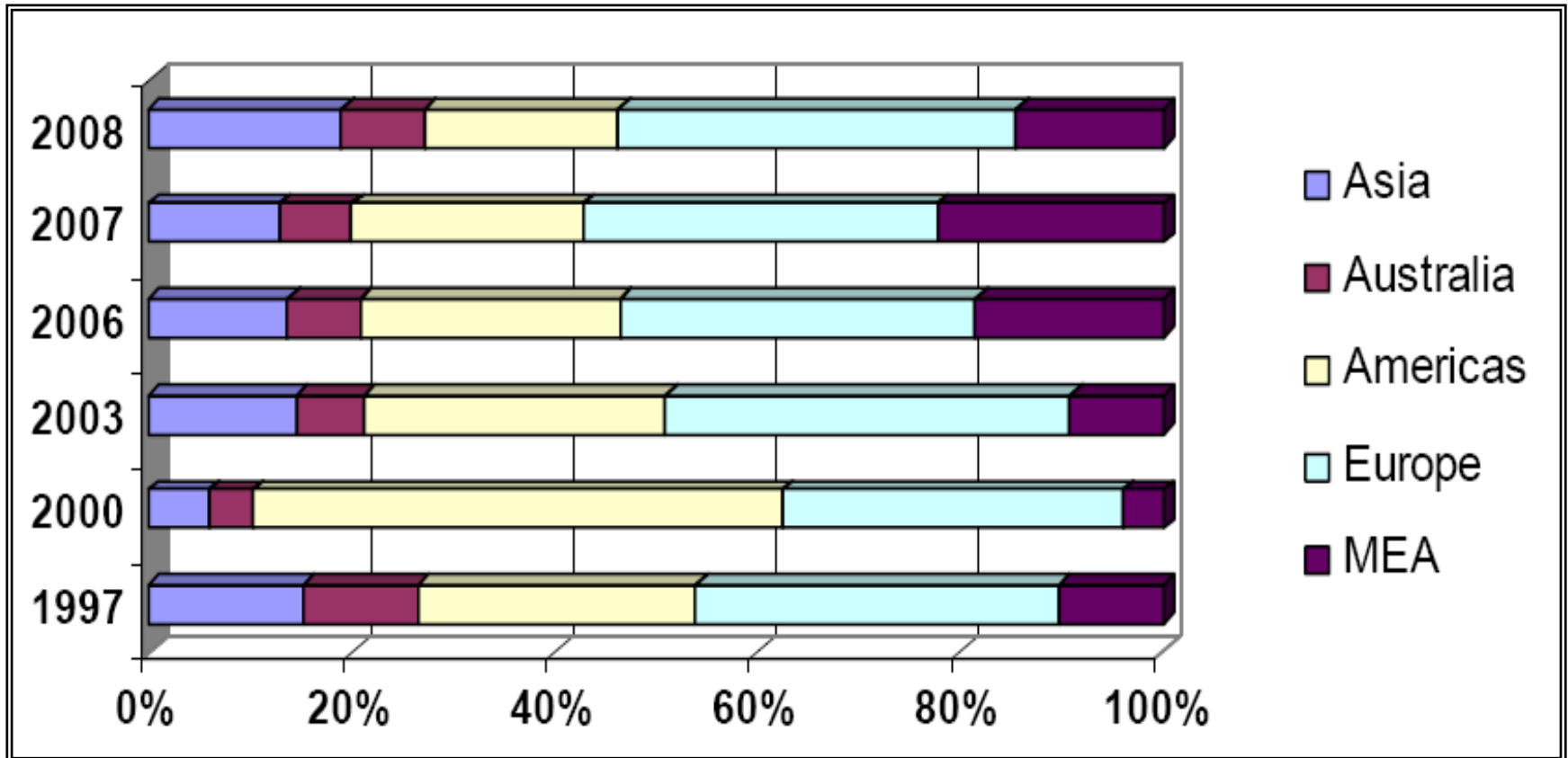
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Global PF Market: Unprecedented Growth



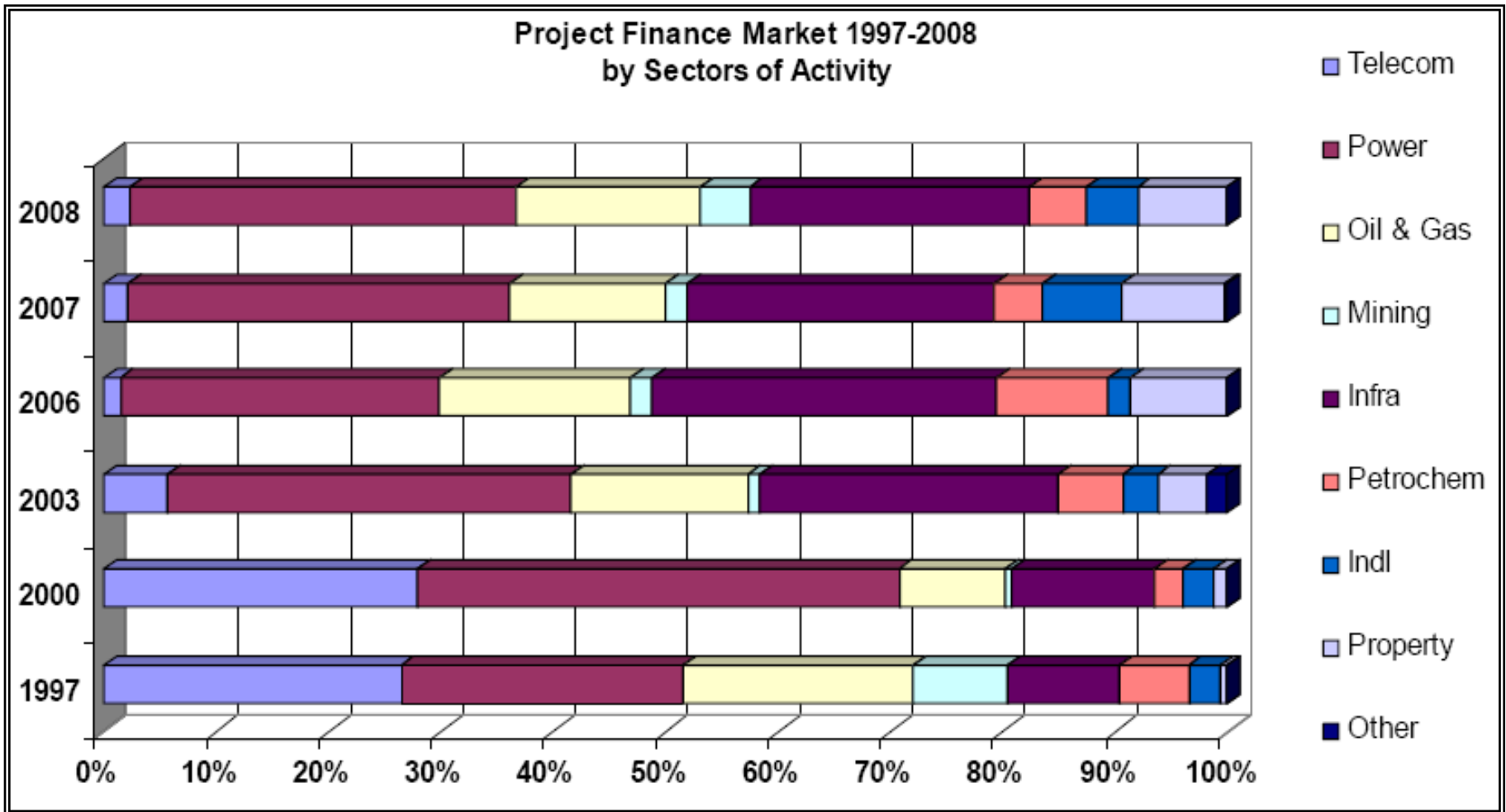
Source: Thomson PFI

Global PF Market : By Geography



Source: Thomson PFI

Global PF Market : By Sector



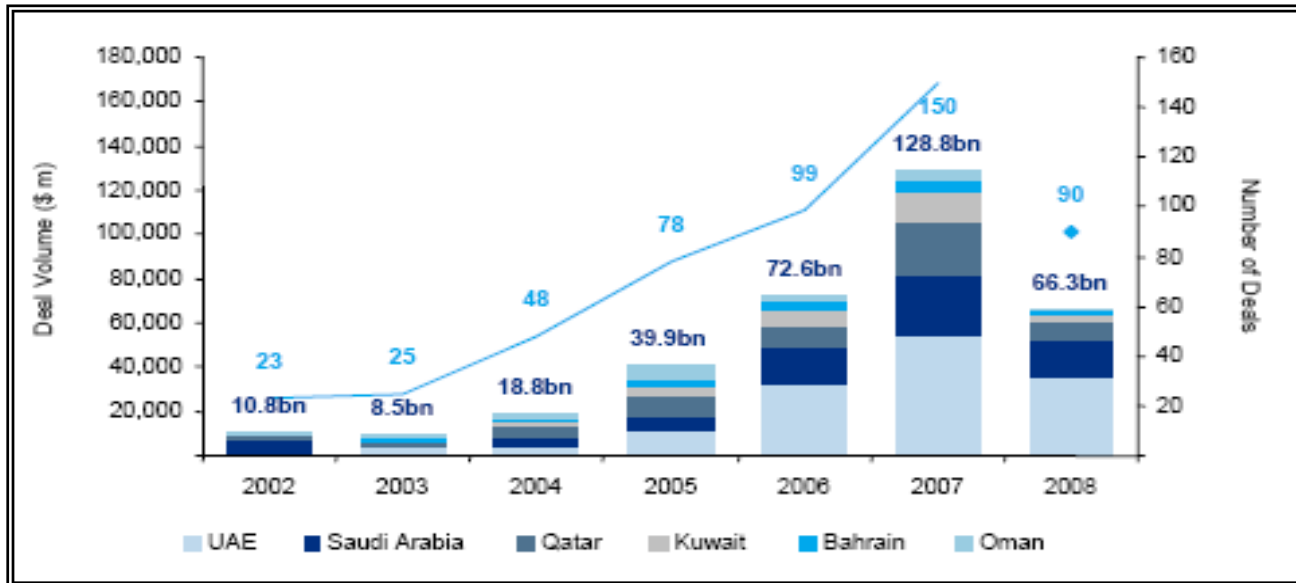
GCC Region: Impressive Growth; Strong fundamentals

- ◆ GCC as a whole is 7th largest economy in the world
- ◆ 40% of world proven oil reserves and 23% of gas reserves
- ◆ Combined GDP touching USD 1000 billion in 2008
- ◆ Cumulative current account surplus of USD 2500 billion, representing 30% of world deficit
- ◆ Favourable rating of A or above for all 6 countries by S&P
- ◆ Middle East becoming an industrial force
 - ◆ 15% of world petrochemicals
 - ◆ 20% of world fertilizers and
 - ◆ 6% of world Aluminium are produced in GCC
- ◆ Equity infused into MEA countries stands at USD 11 billion against USD 30 billion of equity invested globally in infrastructure projects during first half of 2008
- ◆ Over USD 2000 billion worth of projects underway or announced in GCC
- ◆ Increasing level of foreign investments to finance massive projects

Recent Achievements: Major PF Deals in GCC

Signing Date	Project	Sponsors	Country	Commercial Debt (USD MM)
Mar 2006	Greater Equate	Dow Chemicals/PIC	Kuwait	2500
Mar 2006	Rabigh Petrochemical	Aramco/Sumitomo	Saudi Arabia	2300
Jun 2006	Yansab	Sabic	Saudi Arabia	1700
Jul 2007	Qatar Aluminium	QP/Hydro	Qatar	2970
Jul 2007	Qatargas IV	QP/Shell	Qatar	2800
Dec 2007	EMAL	Mubadala/Dubal	UAE	4875
May 2008	National Chevron Philips	SIIC/CP Chem	Saudi Arabia	1880
May 2008	Saudi Kayan	SABIC	Saudi Arabia	1750
Jun 2008	Maaden Phosphate	Maaden/SABIC	Saudi Arabia	2000
Nov 2008	La Sorbonne	Mubadala	UAE	350

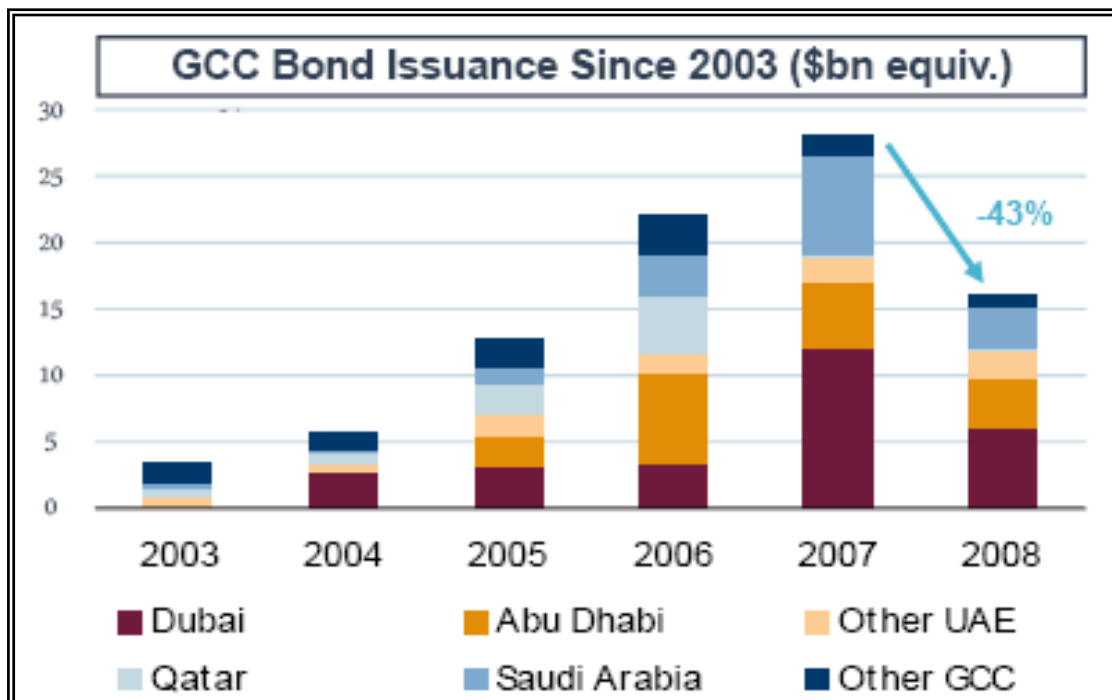
Impact of Global Crisis on GCC



Source: Loan Connector, October 2008

- Volumes grew rapidly between 2003 and 2007
- But in 2008, it declined by 50% due to global financial crisis
- Very few deals achieved closure in the region during the last quarter of 2008
 - ❖ Shuweihat S2: USD 900 million bridge facility for the S2 IWPP in Abu Dhabi
 - ❖ Yahsat: USD 1.45 billion long term satellite financing in Abu Dhabi
 - ❖ Sorbonne University: USD 383 million long term financing in Abu Dhabi

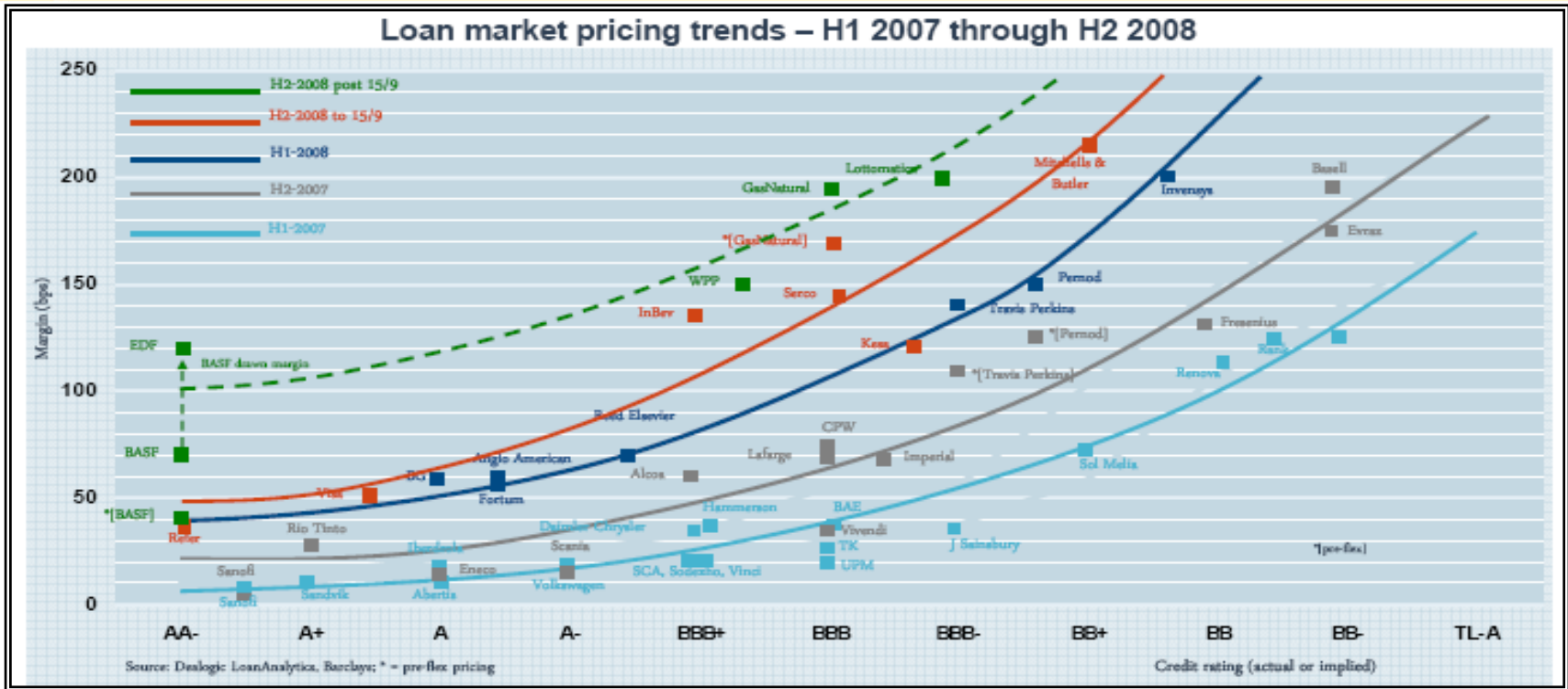
Impact on GCC: Bond Issuance



Source: Loan Connector, October 2008

- **FI bond issuance ceased**
- **Only highest grade corporates could issue bonds**
- **Government guarantee programs initiated**
- **GCC volumes dropped significantly**

Global Pricing Trend

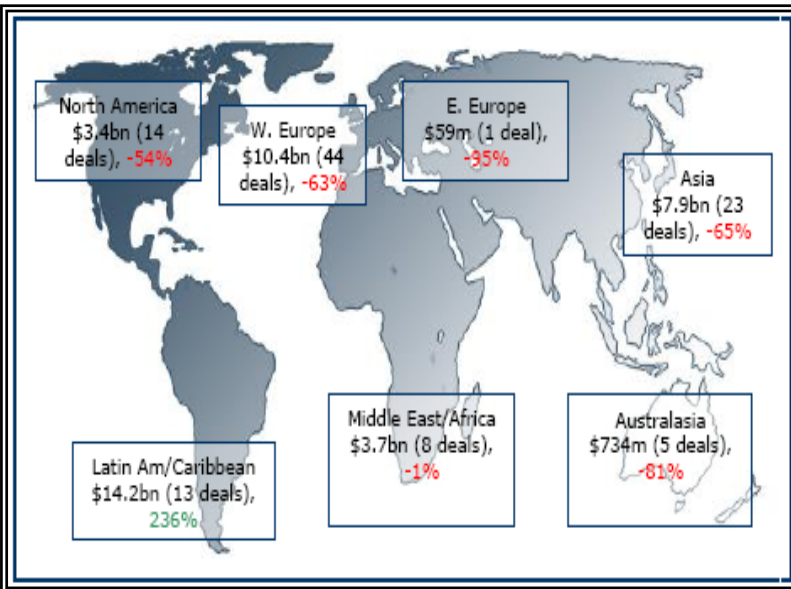
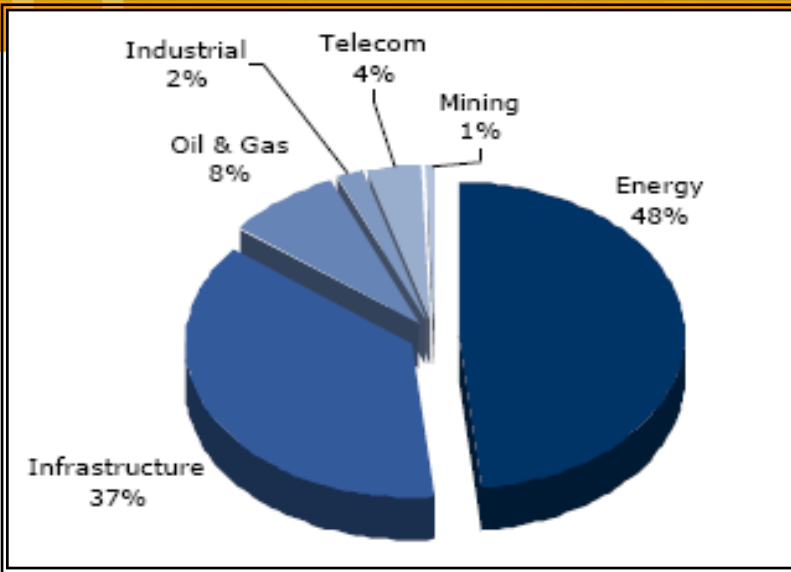


Source: Dealogic Loan Analytics, Barclays

➤ **Loan pricing shifted up across the credit curve for following reasons**

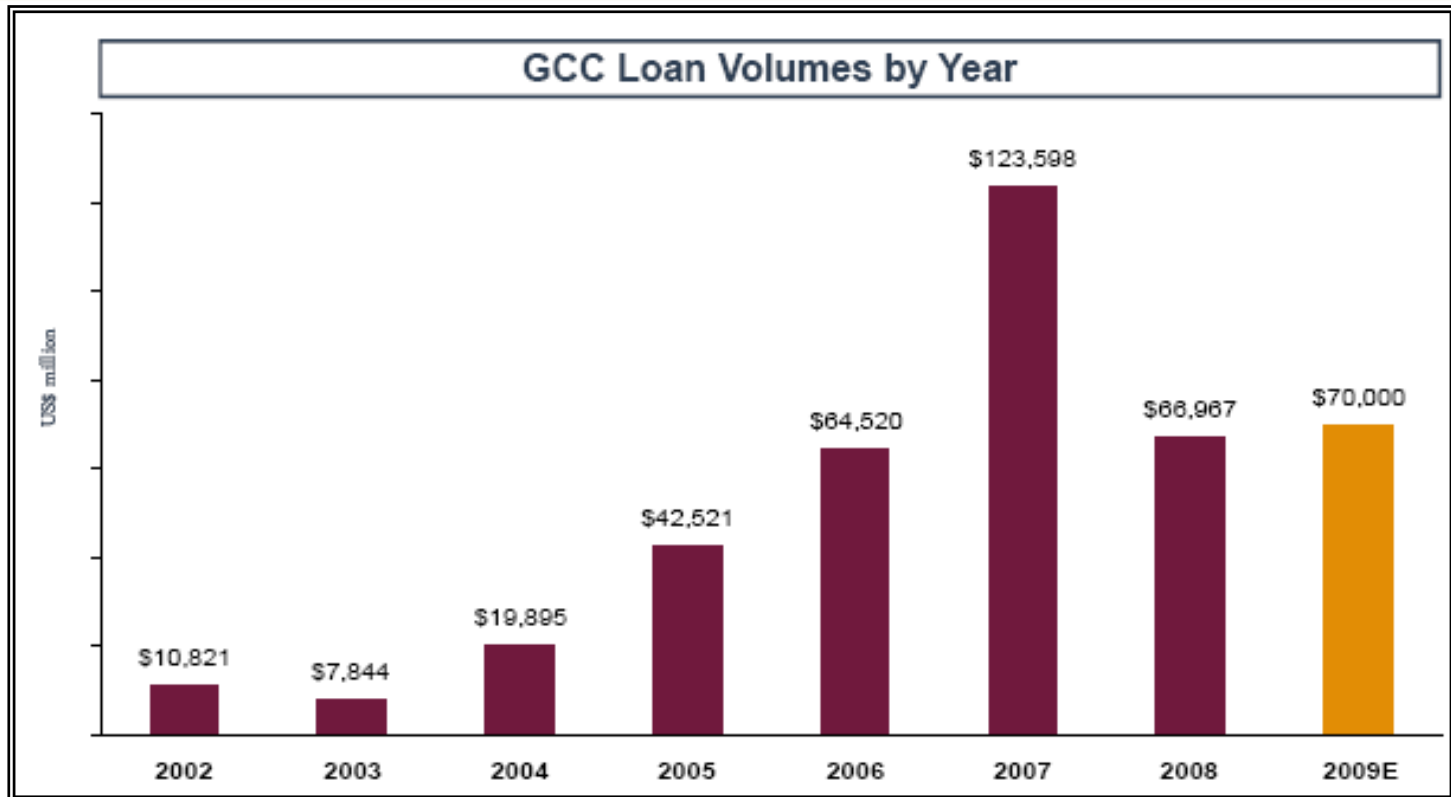
- ❖ Higher funding cost and disconnect between LIBOR and real borrowing rates
- ❖ Diminished capital base and Increased regulatory capital requirement
- ❖ Increased perceived corporate credit risk

Global PF Market at Present (Q1:2009)



Source: Dealogic Global PF Review, Q1 2009

GCC Market: Future Outlook

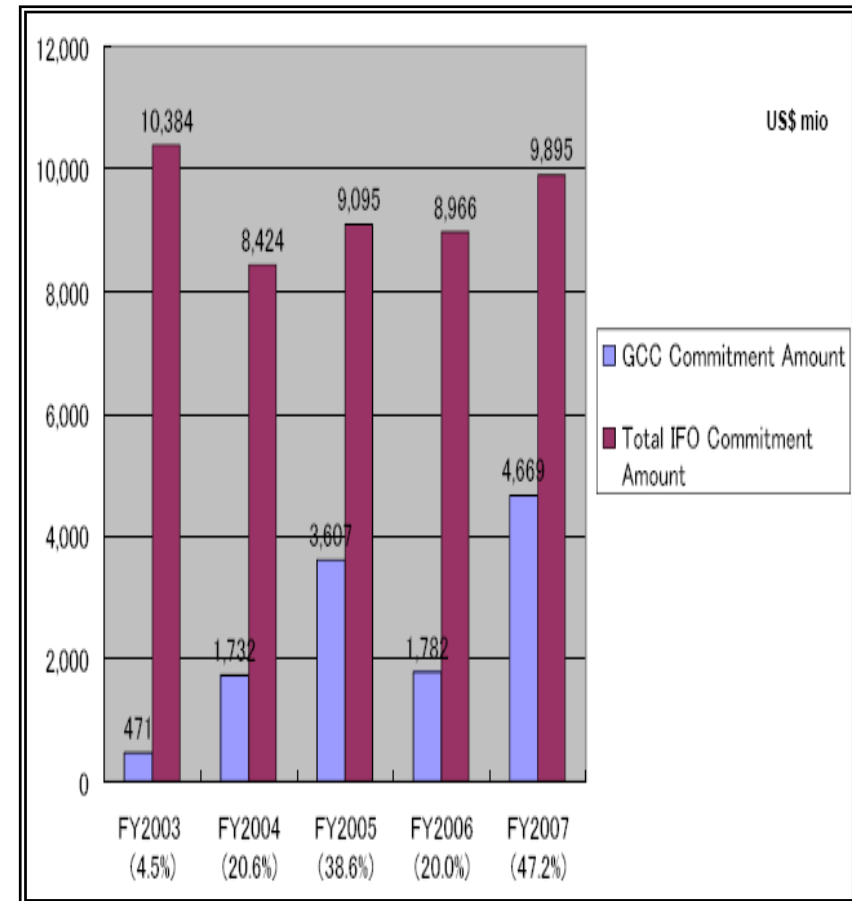


Source: Barclays Capital, Dealogic

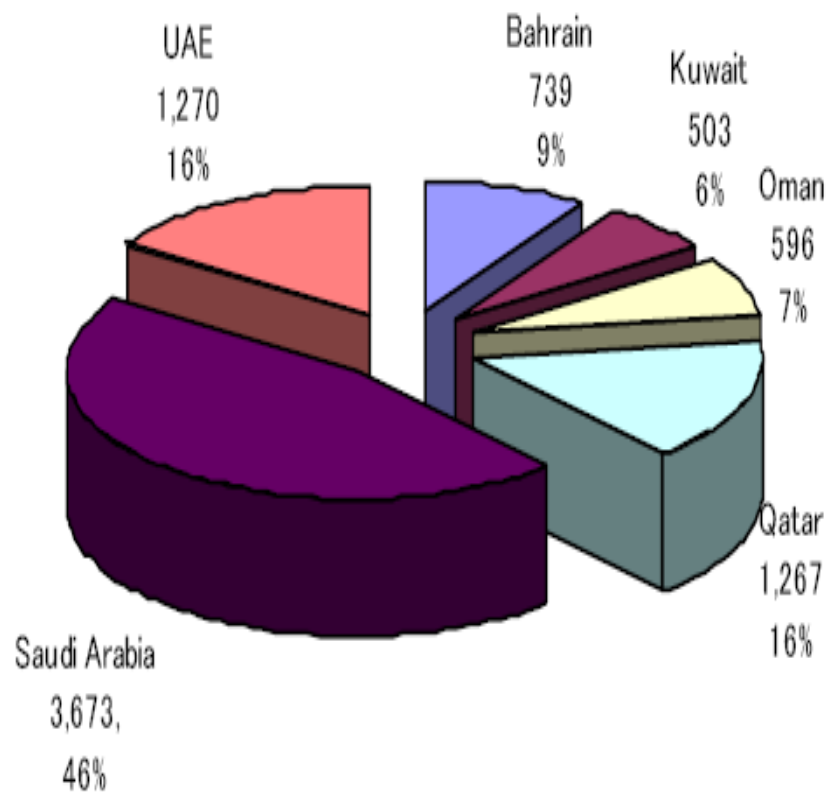
- GCC expected to hold lending levels flat
- Refinancing requirement is expected to constitute 65% of these loans

Increased Japanese Clout

Signing	Country	Project	Japanese Company	JBIC Amount (USD MM)
Dec 2003	Oman	Sohar Refinery	JGC	262
Apr 2005	UAE	Taweelah B IWPP	Marubeni	1243
Dec 2005	Qatar	Qatar Gas 3 LNG Project	Mitsui	1000
Mar 2006	KSA	Petro Rabigh	Sumitomo Chemical	2500
Apr 2006	Bahrain	Al Hidd IWPP	Sumitomo	593
May 2006	KSA	Sharq Expansion	Mitsubishi	1170
Dec 2007	UAE	Fujairah F2 IWPP	Marubeni	1336
Dec 2007	UAE	ADNOC	-	2100
Aug 2008	Qatar	Ras Raffan IWPP	Mitsui etc	1500
Sep 2008	Egypt	Offshore Gas Development	Toyota Tsusho	270



JBIC Exposure (In USD MM)



Development of Project Bond Market

- Substantial pools of capital have been accumulated in the region
- However capital pool are not domiciled in the region: located in Europe, US and other countries
- As the regional debt capital markets have not developed meaningfully
 - ❖ Limited fixed income investor base in the region primarily because
 - No long tenor local currency market
 - Typical bond distribution list for the Gulf is 95% banks
 - ❖ Banks forced DCM out of market
 - Willing to do 15-25 years tenors at aggressive pricing
 - Combine ancillary business from borrower and sponsors to meet return hurdles
 - ❖ DCM investor make non-relationship trades: No opportunity for ancillary income, so pricing needs to be higher
- A strong fixed income bid from public and private pools of capital would enhance the continued economic stability of the region
- Project Bond Market has an important role to play
 - ❖ Strong indication that its time has come
 - ❖ Very Important for Project Finance Market
 - ❖ Will help offset retrenchment of banks

Challenges – Financing Costs & Capacity

- ◆ The primary driver of financing strategy today is Capacity
- ◆ Larger investments mean all debt sources now important
- ◆ Commercial banks are insufficient for many mega projects
- ◆ Islamic tranches, Govt funds & ECAs increasingly critical
- ◆ Continued reliance on international debt capital
- ◆ Limited Underwriting

However

- ◆ Capital costs are dropping rapidly
- ◆ Government stimulus packages will drive investments and provide opportunities for Project Finance
- ◆ Security/ covenants package will tighten
- ◆ Look for flexibility in structures
- ◆ Project Finance will continue to see a flight to quality and will remain an attractive asset class

Thank You !