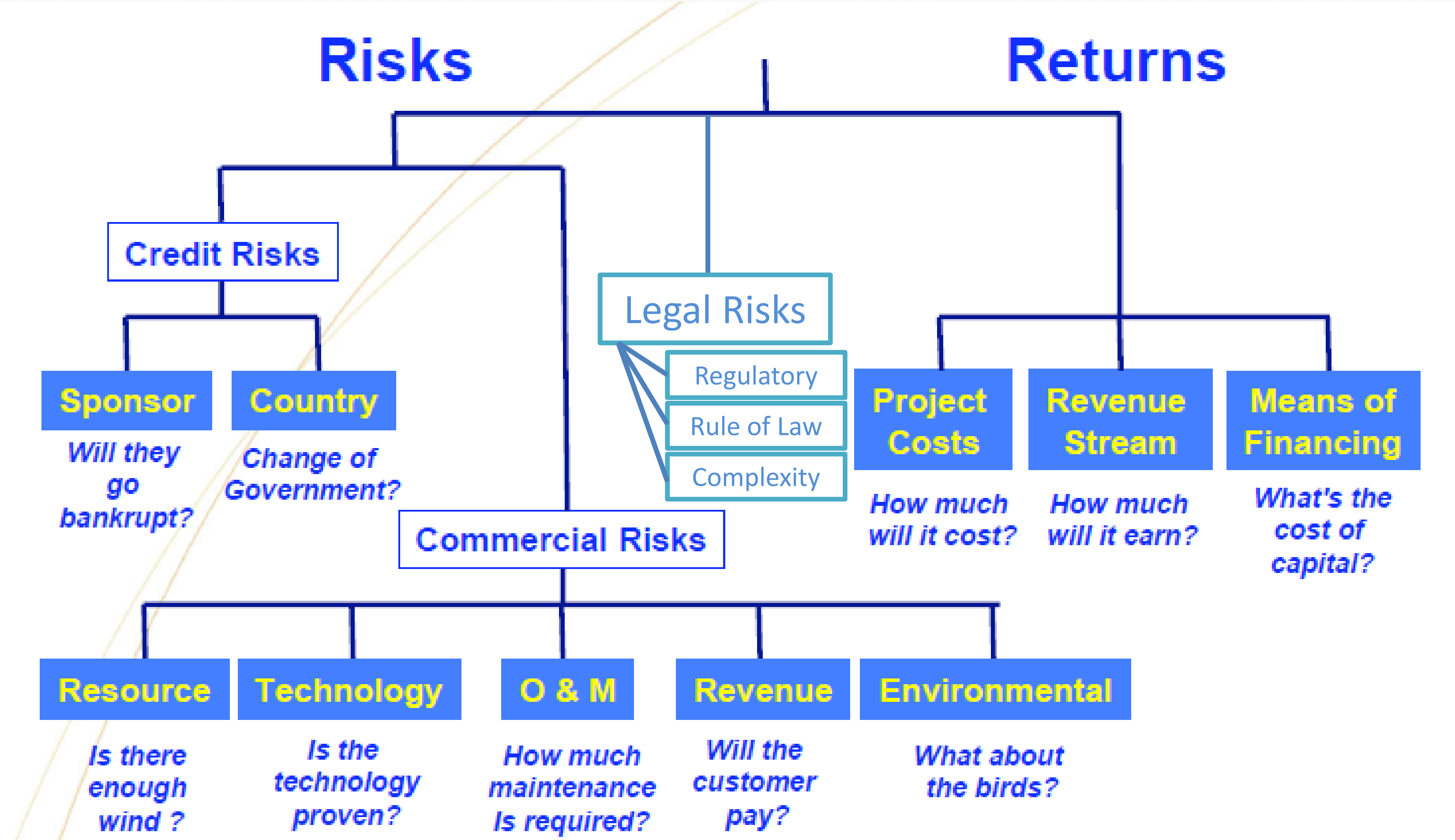
Project Finance Introduction

- Project finance, also known as limited-recourse or non-recourse finance, consists in financing very specific assets or projects, with the repayment coming ONLY from the cash-flow generated by that project or asset, without any claims (with some very specific exceptions) on the companies that develop these projects.
- Project finance, comes from a combination of both equity and debt. ***The split between equity (investor funding) and debt (lender funding) depends on the individual project and, most importantly, on the risk profile of each project.*** The higher the risk, the greater the share of equity will be required by the lending banks. The risk of an individual project is also decisive for the level of debt which a project can take on.
- The principle is simple: a bank finances a specific asset, and gets repaid only from the revenues generated by that asset, without recourse to the investors that own the project. It works well for project with well identified assets with high initial investment costs, and strong cash flows after that, like big infrastructure items (toll bridges, pipelines) and energy assets (oil fields, power plants).

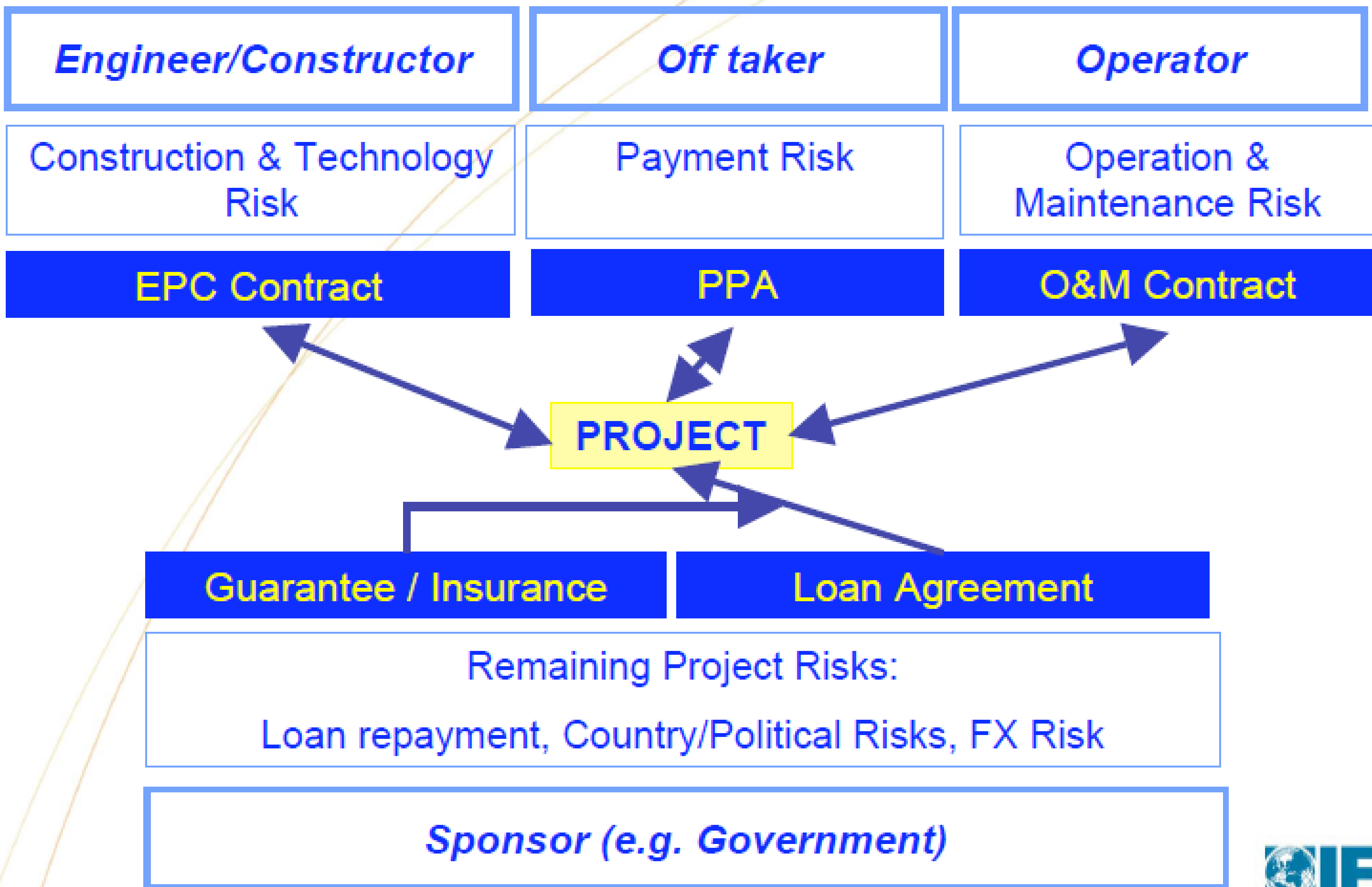
Project Finance Overview

- Project Finance Process
  - In development process, develop a set of contracts with construction companies, suppliers and off-takers
  - Once cash flows and contracts are defined, secure bank financing
  - Assure that the return to equity holders is in line with equity returns generally known to be required for investments.
- In project finance
  - The projected cash flows are reviewed by financial experts outside of the company with no vested interest in the project
  - The amount of gearing drives the return on the project and the gearing is in turn driven by lenders assessment of the cash flow
  - The rate of return in not subjectively adjusted for risk, it is the lenders – who have their own money at risk – who drive the investment
  - Specific risks can be evaluated and measured

Risks and Returns



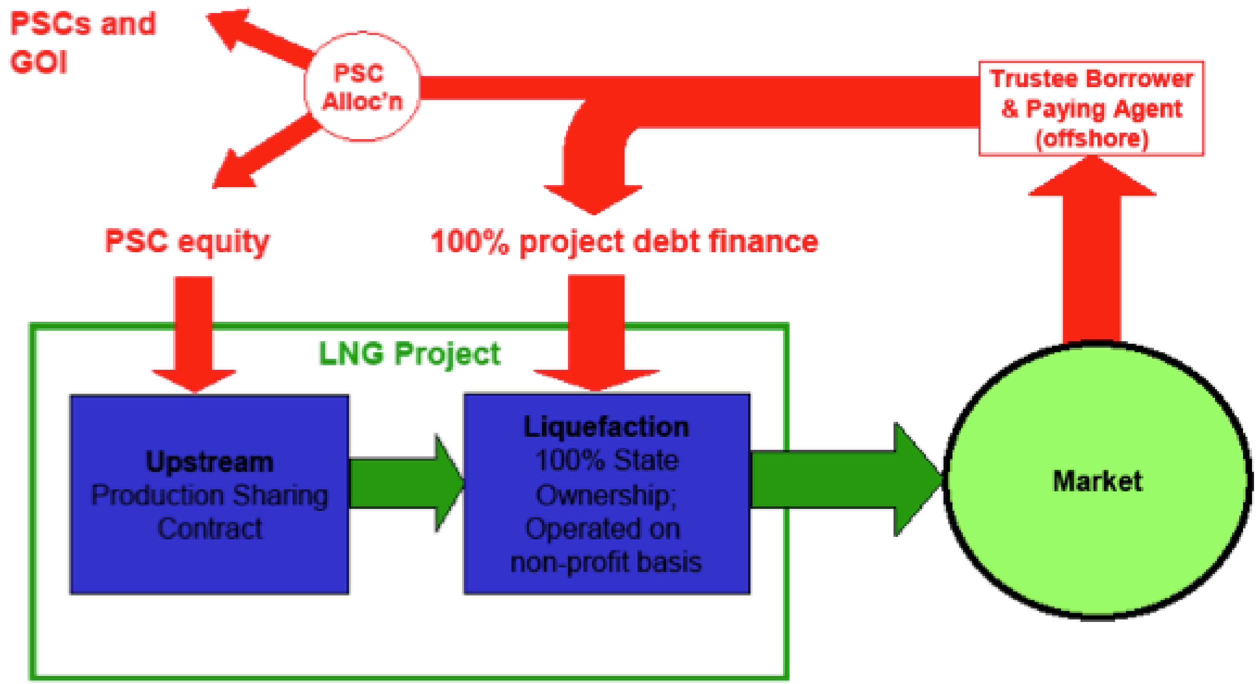
Structuring in Project Finance



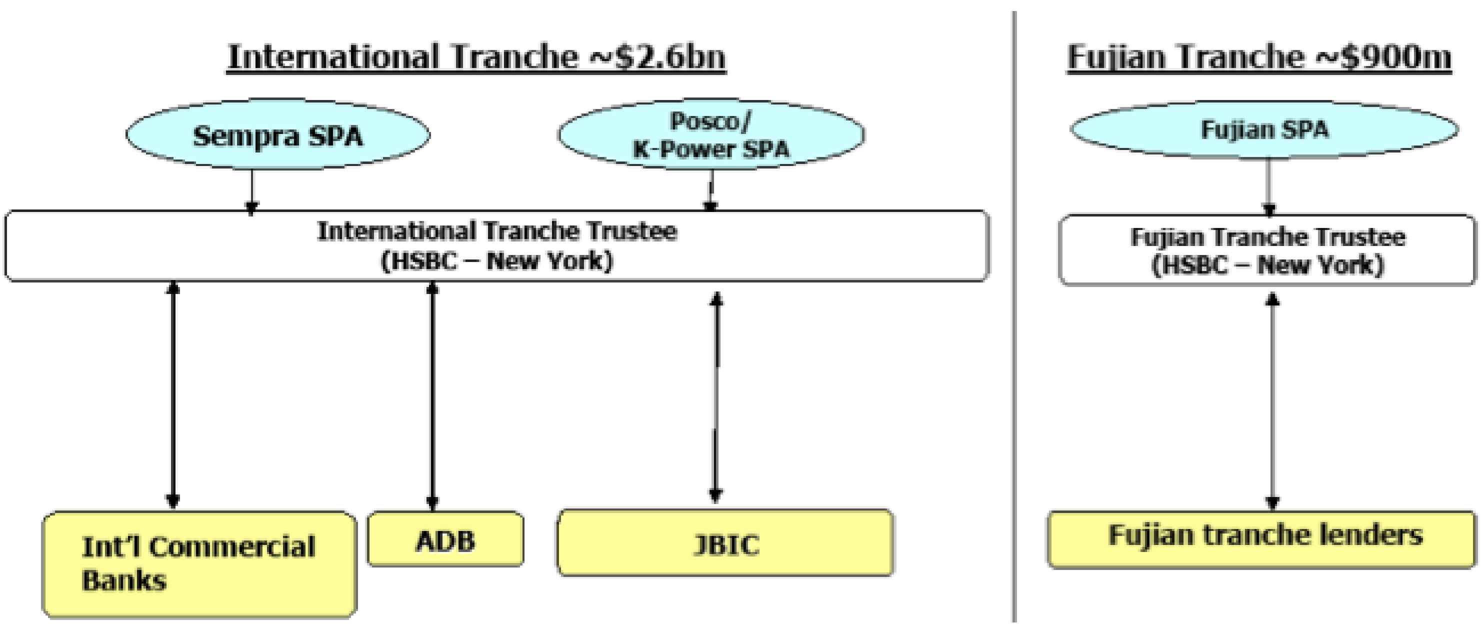
Financing Gas Infrastructure in Tangguh

- Greenfield development of natural gas fields in Irian Jaya Barat
- Gas to be processed into LNG and exported to PRC (CNOOC and Fujian Investment and Development Corp), South Korea (POSCO and K-Power), and U.S. (Sempra)
- Offshore gas production facility, onshore LNG facility, and pipelines
- Total project cost: $6.3 billion
- Sponsored by BP, CNOOC, Mitsubishi/INPEX, and other Japanese energy companies
- ADB provided a loan of $350 million, co-financed with Chinese commercial banks, international commercial banks, and JBIC
- ADB's participation served as reassurance: the project is structured, financed, implemented, and operated in line with international standards and best practices, in particular the environment and social impact mitigations

Tangguh Financing



Tangguh Debt Financing



Extract of trustee borrowing structure: contractual overview