

How to: Finance a Petroleum Refinery

► The Opportunity

A mismatch between decades of under-investment and fast-rising national demand for refined product

Decades of under-investment in refining capacity has seen Egypt become a net importer of refined products. Of nine refineries in five primary locations across the nation, only three have been built since 1973, with the nation's second-largest facility dating back to 1913.

The Cairo Oil Refining Company (CORC) is the nation's largest refinery, located at the hub of Egypt's pipeline network. In operation since 1969, it has a refining capacity of 160,000 barrels of oil per day and is ideally situated to serve the needs of Greater Cairo and Upper Egypt.

Owing to its reliance on decades-old technology, CORC accounts for only 20% of the nation's total refining capacity and delivers 67% of its production as fuel oil.

With fast-rising demand for diesel and gasoline (petrol) outstripping supply, while the Government of Egypt is simultaneously gradually decreasing its sizeable fuel subsidy, Qalaa Holdings and its partners saw substantial room for a refining project that would ease reliance on imports and produce cleaner-burning fuels as one of the cornerstones of Egypt's energy security policy.

► The Solution

Egyptian Refining Company

In late 2006 Qalaa Holdings began planning the Egyptian Refining Company (ERC) and quickly earned the backing of the Egyptian General Petroleum Corporation (EGPC), the state-owned entity that effectively administers the industry under the supervision of the Ministry of Petroleum.

The idea was simple: EGPC via CORC would provide feedstock (straight run atmospheric residue) to ERC, which ERC would then refine into higher value products. All refined products would be sold to EGPC at international prices in US dollars, helping close the import gap. And with a business model that emphasized the production of Euro V diesel (a very low-sulfur product that is effectively the cleanest-burning diesel fuel in the world), the project would not only curb Egypt's reliance on petroleum imports, but would substantially reduce the nation's sulfur dioxide emissions.

► The Challenges

Translate broad-based public and private sector support into practical financial support

Since the early days of planning in 2006, the idea of a modern, greenfield petroleum refining upgrade and import-substitution project in Egypt has received enthusiastic support from both government and private sector players globally. Despite this support, achieving financial close proved to be a serious challenge and the project spent more than five years in development.

Throughout the project cycle, Qalaa Holdings had to overcome several obstacles successively. The global financial crisis put significant pressure on banks to retrench their operations, prompting Qalaa to seek funding from export credit agencies from Japan, Korea, and Europe.

The fact that Qalaa Holdings and ERC successfully kept the lender group and all other stakeholders engaged during this period is a testament to the economic strength of the project, its importance in addressing Egypt's increasing demand for refined products, and the stakeholders' long-term commitment to support Egypt's economic and political development.

► The Financing

Create an investment opportunity attractive to sophisticated global investors, allowing the company to transform a US\$ 4.4 billion project into a reality

From the outset, Qalaa Holdings knew it would need to call not just on its own financial resources, but on a deep network of international investors, banks and guarantors to transform a US\$ 4.4 billion project into a reality. This landmark investment attracted the support of top Egyptian, Gulf and international investors, global export credit agencies and development finance institutions.

The US\$ 1.3 billion equity component of the transaction, which reached final close on 14 June 2012, proved to be the biggest equity raising in Egypt since 2007 and the largest in the MENA region in 2012. Equity was provided by a broad spectrum of investors including EGPC, Qalaa Holdings, Qatar Petroleum International (QPI), investors from Egypt and the Gulf Cooperation Council countries, the International Finance Corporation, the Dutch development bank FMO, Germany's DEG, and the InfraMed Fund. Contributions were also made by Middle Eastern and African joint-investment funds. By 2018, ERC's equity package stood at US\$ 1.4 billion. In 2019, Qalaa Holdings completed its final funding round for ERC, amounting to US\$ 120 million, including a capital increase of US\$ 70 million and loans worth a total of US\$ 50 million reaching US\$1.5 billion in total equity packaging.

Compelling fundamentals, unwavering support from the government and the dedication of debt partners were key to the successful closing of the equity component of the deal (originally expected to be finalized in early 2011).

The US\$ 2.6 billion debt package was announced in August 2010. The package includes US\$ 2.35 billion of senior debt and US\$ 225 million of subordinated debt. Institutions participating in the senior debt package include the Japan Bank for International Cooperation (JBIC), Nippon Export and Investment Insurance (NEXI), the Export-Import Bank of Korea (KEXIM), the European Investment Bank (EIB) and the African Development Bank (AfDB). Mitsui & Co. (which is part of the contractor consortium building the refinery) and the African Development Bank are providing the subordinated debt financing. In 2018, an additional US\$ 300 million in senior debt was added, bringing the total package to US\$ 2.9 billion.

► Economic Benefits to Egypt

Reduced diesel imports help cut Egypt's annual subsidy bill, and provide US\$ 300 million in additional direct benefits to the state annually while boosting employment

- Fully-funded US\$ 4.4 billion refinery is Egypt's largest PPP infrastructure megaproject
- Import substitution project is producing c. 4.7 million tons of refined products and high-quality oil derivatives, representing more than 30-40% of Egypt's current imports.

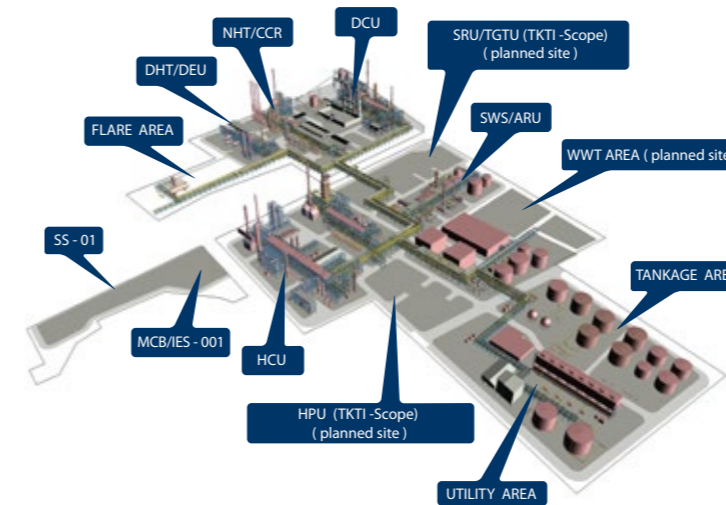
- An estimated US\$ 300 million in annual savings and revenues to state coffers.
- Over 1,000 permanent jobs and 15,000 jobs have been created during construction phase

► Environmental Benefits to Egypt

Improved air quality, production to global standards

- ERC is using cutting-edge technology to abide by the environmental standards stipulated by international financial institutions.
- ERC is preventing the release of 186,000 tons of sulfur dioxide annually, or c.29% of Egypt's present-day total.
- ERC is the first Egyptian refinery to produce European (EURO V) grade diesel and IATA worldwide specification jet fuel.
- ERC is producing reformat and naphtha, which EGPC will blend with existing stocks, increasing overall quality of products in Egypt.
- ERC is minimizing the overall environmental footprint of the site through environmental investments in the Petroleum Pipeline Company (PPC) and CORC.

► ERC Refinery Overall Site Plan



► Social Impact and Community Benefits

Based on a comprehensive environmental and social impact assessment study (ESIA), ERC has focused its community development program on four pillars:

1. Educational Support Program - "Mostaqbaly"

- ERC's "Mostaqbaly" program sponsors scholarships and educational grants for students and teachers. "Mostaqbaly" has sponsored 96 scholarships for teachers at the American University in Cairo. Two students pursuing master's degrees at institutions in the United Kingdom have also been sponsored by the program. ERC has also sponsored undergraduate education at top Egyptian universities for 81 students from local secondary schools and 26 student scholarships for vocational training at the Don Bosco. To date, 370,000 people have benefited from educational support.

2. Economic Opportunity and Income Raising Program - "Tamkeen" and "Mashrouy"

- Sponsored hundreds of small projects for youth and women, in addition to launching four employment centers that link 30,000 local youth to the job market.

3. Youth Volunteering and Capacity Building Program - "Reyada"

- Through Reyada, over 1,440 youth volunteers have received training in social work and management, and youth initiatives with 30 youth already managing volunteer teams and recruiting new volunteers.

4. Special Needs Support Program - "Takaful"

- In partnership with government institutions, local community development associations and social rehabilitation centers, ERC has sponsored three childcare centers serving more than 2,000 children and has provided assistance for 5,405 individuals with special needs.

► ERC is 100% complete

ERC began commercial operations in September 2019. ERC's Korean-made, 1,280 ton hydrocracker unit (HCU) is the largest piece of equipment that has ever entered an Egyptian port. The HCU is a critical component whose role is to increase the yield of light petroleum products that ERC will produce. The HCU upgrades low-quality heavy gas oils from the vacuum distillation tower and the coking units into high-quality, clean-burning jet fuel, diesel and gasoline.

As of February 2020, ERC had produced 2.58 million tons of refined products, including xxx tons of low sulfur European specs diesel, xxx tons of naphtha, xxx tons of high-octane gasoline, and xxx tons of jet fuel.

ERC has created 1,000 permanent jobs and 15,000 jobs during construction phase, 30% of whom were drawn from the local community. ERC has transferred industry knowledge to thousands of local workers who have received extensive on the job training from some of the world's leading experts in the field. Local staff worked alongside dozens of nationalities on site including Egyptians, Americans, South Koreans, and Australians with years of expertise in the refining and construction sectors.

The path from PPP to lasting benefits





Key Facts About ERC

Headquartered in	Cairo, Egypt
Total Production of Refined Products and high-quality oil derivatives (annually)	4.7 million tons
Production of Euro-V Standard Diesel (annually)	2.3 million tons
Jobs Created	15 thousand at peak construction, 1,000 permanent positions
Start of Operations	September 2019
Total Reduction in Egypt's SO ₂ Emissions*	29.1%
Total Reduction in Egypt's Diesel Imports*	30-40%
Value of Debt Package	US\$ 2.9 billion
Total Equity Invested	c. US\$ 1.5 billion
Qalaa Holdings' Effective Ownership	13.1%

* Percent reduction from present-day levels



Egyptian Refining Company is a subsidiary of Qalaa Holdings

qalaaholdings.com

Qalaa Holdings (S.A.E.)
1089 Corniche El-Nil
Four Seasons Nile Plaza Office Building
Garden • City Cairo • Egypt • 11519

Tel: +20 (2) 2791-4440
Fax: +20 (2) 2791-4448

Qalaa Holdings Algérie
1 Amar Souiki St.
El-Biar, Algiers 1600
Algeria

Tel: +213 (21) 92 96 98
Fax: +213 (21) 92 96 74

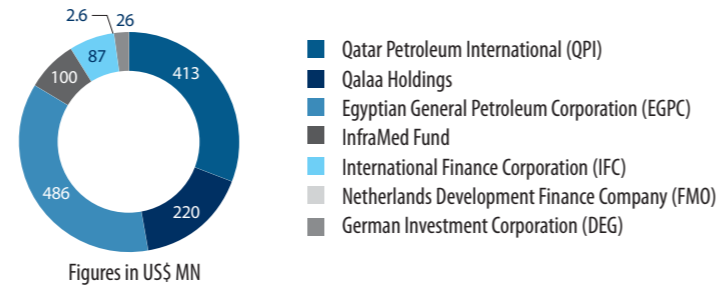
Qalaa Holdings East Africa
Railway Complex, Station
Road
Off Haile Selassie Avenue
(P.O. Box 62502 00200)
Nairobi, Kenya

Tel: +254 (0) 20 20 444 76-9

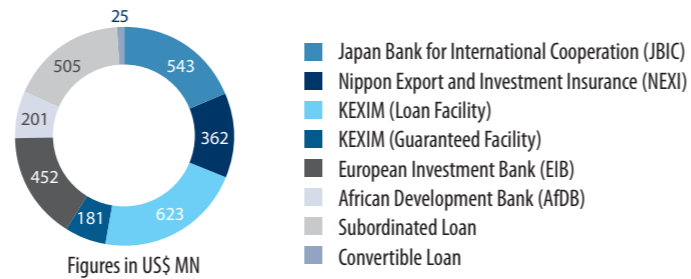
► The Backers

Partnerships with key development finance institutions and sophisticated international investors allowed Qalaa Holdings to raise c. US\$ 1.5 billion in equity and US\$ 2.9 billion in debt for the Egyptian Refining Company. These backers include:

c. US\$ 1.5 billion equity package with participation of:



c. US\$ 2.9 billion debt package, with participation of:



► Investing in Sustainability



About Egyptian Refining Co.

Egyptian Refining Company is a Qalaa Holdings' state-of-the-art US\$ 4.4 billion greenfield oil refinery in the Greater Cairo Area, which is producing more than 4.7 million tons of refined products per annum, including 860,000 tons of gasoline components, 2.3 million tons of Euro V diesel and 600,000 tons of jet fuel. ERC is the largest PPP megaproject that is contributing to Egypt's national growth in a manner that not only adds value to existing resources, but also brings in billions in foreign direct investment to develop an environmentally and socially responsible project.



About Qalaa Holdings

Qalaa Holdings (CCAP.CA on the Egyptian Stock Exchange) is an African leader in energy and infrastructure. Qalaa Holdings controls subsidiaries in industries including energy, cement, agri-foods, transportation and logistics, mining, and printing and packaging. For more information please visit www.qalaa.holdings.com.



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Egypt's largest PPP infrastructure megaproject

