



## 2. The Environment Surrounding JBIC and Its Challenges

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# 1. Energy and Natural Resources Finance Group

## ● Message from the Global Head of the Group



As Japan depends on overseas sources for most of its natural resources, the stable procurement of energy resources such as oil and natural gas, and mineral resources from overseas, is indispensable for maintaining and strengthening the stable lives of Japanese citizens and the country's industrial infrastructure. The Energy and Natural Resources Finance Group is responsible for promoting the development and acquisition of overseas natural resources which are essential for Japan as well as for maintaining and improving the international competitiveness of the steel, non-ferrous metals, and paper industries that turn these resources into materials.

Recent years have seen the international community actively promote initiatives for energy transition and the realization of a decarbonized society, and these efforts are now gathering pace in anticipation of the post-COVID-19 era. Among these initiatives, hydrogen is gaining spotlight as a carbon-free energy source, and JBIC has added "hydrogen" as an eligible essential resource for natural resources financing while working to develop an international hydrogen supply chain.

JBIC will contribute to securing a stable supply of natural resources essential for Japan as well as to energy transition and the realization of a decarbonized society by providing long-term funding supplementing private-sector funds and focusing on new initiatives such as hydrogen alongside its existing measures.

### **NISHITANI Tsuyoshi**

Managing Executive Officer  
Global Head of Energy and Natural Resources Finance Group

## Business Environment and Key Challenges

Global energy supply and demand balance is affected by macroeconomic trends and various other factors. The recent rapid deceleration of the global economy accompanying the spread of COVID-19 is leading to sluggish global demand for energy and a decline in prices. Looking at crude oil in particular, a coordinated production cut agreement scheduled from April 2020 was postponed at the OPEC Plus meeting on March 6, 2020, sending crude oil prices into a nosedive. Even after a production cut agreement was subsequently reached, crude oil prices remained weak. Turning to energy supply and demand, although demand contracted sharply in the April-June quarter of 2020, it is expected to bounce back moderately thanks to the easing of urban lockdowns implemented in response to COVID-19 as well as to an anticipated resumption of economic activities. On the supply side as well, medium- to long-term production levels are expected to continue based on the assumption that prices will recover to appropriate levels.

Given this market environment, under the Paris Agreement adopted at the 21st Session of the Conference of the Parties (COP21) to the United Nations Framework Convention on Climate Change, all participating countries are obliged to submit greenhouse gas reduction targets, reflecting growing attention on energy sources that generate less CO<sub>2</sub> amid heightened concerns over

global warming.

One such energy source is natural gas. Regarding LNG, which is a means of transporting natural gas, large-scale LNG projects have started in the U.S. and Australia while attention is being focused on Africa, including Mozambique, as a new supply region as the diversification of LNG suppliers progresses. On the demand side, besides China and India, other Asian countries are commencing or increasing LNG imports. While observing global trends in LNG supply and demand, including the trends in Asia, strategic initiatives will be needed to ensure a system for a stable supply of LNG to Japan over the medium- to long-term, and such initiatives include actively supporting projects that assure the diversification of price mechanisms or the flexibility of LNG sales contracts through the relaxation of destination clauses as well as businesses that create demand for LNG.

Another area of focus is new energy sources that include hydrogen. In December 2017, the government of Japan formulated the Basic Hydrogen Strategy as it presented hydrogen as a new energy option. Additionally, the Strategic Roadmap for Hydrogen and Fuel Cells by the government of Japan sets the goal of "developing international hydrogen supply chains" and emphasizes initiatives for securing hydrogen energy toward the realization of a global decarbonized society. In North



America and Europe as well as in Japan, governments are preparing to actively support the building of hydrogen supply chains and there is a growing need for proactive support for the hydrogen-related international initiatives of Japanese companies.

As for mineral resources, which are used for various purposes in Japanese industries, it is increasingly necessary to secure a stable supply of the resources amid growing demand in emerging countries as well as increasing needs for the transition to a decarbonized society and next-generation industries. With regards to iron ore, it is important to secure high-quality ore, in addition to securing the necessary quantities. Furthermore, it is an important challenge to mine high-quality copper ore under current worsening mining conditions such as the development of

mining areas which are located in remote, high altitude ranges and deeper underground. Although demand for mineral resources has languished and their prices have tumbled owing to the spread of COVID-19, the demand is expected to recover on the back of a resumption of economic activities, and needs for various mineral resources will also likely expand along with a transformation to new lifestyles; the global supply-demand balance for mineral resources is thus expected to shift. Under such circumstances, in order to secure a stable supply of resources to Japan, it is highly necessary to support Japanese companies not only in acquiring interests in and long-term off-take agreements of energy and mineral resources, but also in making additional investments including infrastructure for resource development and support in existing mine operations.

## JBIC's Activities

In FY2019, JBIC performed the following activities to secure a stable supply of energy and mineral resources from overseas.

### Oil and Natural Gas

The government of Japan sets a goal of increasing its self-development ratio of oil and natural gas to 40% or more by 2030 in the Strategic Energy Plan approved by the Cabinet on July 3, 2018. To this end, JBIC provides financial support for securing a stable supply of energy to Japan as well as for increasing Japan's self-development ratio of energy.

JBIC concluded a loan agreement with Japan Arctic LNG B.V., a Dutch entity established by Mitsui & Co., Ltd. (Mitsui) jointly with the Japan Oil, Gas and Metals National Corporation (JOGMEC), to provide a portion of the funds needed to acquire a 10% stake in a Russian LNG project. Under this project, Mitsui plans to offtake LNG and thereby contribute to the stable supply of LNG, which is a vital resource for Japan. In addition, the LNG produced by this project is scheduled to be shipped through the Northern Sea Route and sold both in markets in Asia and Europe, two major areas for LNG demand, and this project will thus contribute to establishing an LNG value chain in Asia.

Also, JBIC participated in the LNG Producer-Consumer Conference 2019, which is held annually to bring together both LNG producers and consumers in Japan. At the conference, JBIC mentioned that the year marked the 50th anniversary of the start of Japan's LNG imports and



Japan Arctic LNG (image courtesy of PAO NOVATEK (Conceptual drawing of completed natural gas liquefaction facility))

that as Japan's policy-based financial institution JBIC has supported LNG projects involving Japanese companies for more than 40 years and has thereby contributed to the development of the LNG market. Additionally, JBIC announced that to further develop the LNG market it will support the entire gas value chain, engage in discussions with host country governments, private-sector businesses, and financial institutions, and build bankable schemes.

### Mineral Resources

The government of Japan formulated the Strategy for Securing Natural Resources in June 2012 based on the Guidelines for Securing Natural Resources (approved by the Cabinet on March 28, 2008). This strategy aims to make strategic efforts to secure mineral resources by maximizing the use of public-private resources based on the recognition that securing a stable supply of low-cost mineral resources is necessary for Japan's high added-value and sophisticated manufacturing technology that is expected to create national wealth. Also, the government of Japan has set a goal of increasing its self-sufficiency ratio for base metals, including iron and copper, to 80% or more by 2030 in the Strategic Energy Plan. In response to this, JBIC provides financial support for securing a stable supply of mineral resources to Japan.

Japan relies on imports for all of its copper concentrates, a raw material for copper metals, and securing a long-term, stable supply of copper resources is an immediate issue. Copper is used for various applications that include electrical wiring, electrical and electronic equipment, automobiles and construction materials. Global demand for copper is expected to continue expanding on the back of growing demand for infrastructure in emerging countries and increasing ownership and use of hybrid and electric vehicles.

Under these conditions, JBIC concluded a loan agreement with Compañía Minera Teck Quebrada Blanca S.A., a Chilean company invested in by two Japanese companies, to finance expansion of the Quebrada Blanca copper mine project. This project supports the additional development of the copper mine in which Japanese companies hold interests and secure long-term stable supplies of copper concentrates.



Quebrada Blanca Copper Mine

JBIC has also approved a loan to finance the funds necessary for Nippon Steel Corporation (Nippon Steel) to acquire Essar Steel India Limited (Essar) to support the overseas business deployment of Japanese steel companies. Essar is the fourth largest steel company in India and this acquisition will enable Nippon Steel to capture growing steel demand in India in the medium- to long-term.

### Strengthening Ties with Resource Countries and Major Global Resource Companies

JBIC continues to hold consultations and dialogues with the governments and governmental agencies of resource countries as well as with major global resource companies in order to encourage Japanese companies to acquire interests in and develop resources in those countries.

#### Russia

Utilizing the opportunity of Russian President Vladimir Putin's participation in the G20 Summit in Osaka in June 2019, JBIC established an export credit line with State Development Corporation VEB.RF, a Russian government-affiliated financial institution. In Russia, there are expected to be numerous business opportunities, mainly for projects that contribute to improving the standard of living for that country's citizens, primarily in the Russian Far East region, which is in geographical proximity to Japan. Based on this export credit line, at the Eastern Economic Forum in Vladivostok held in September 2019, JBIC concluded a loan agreement for the purchase of equipment from Hokkaido Corporation for a greenhouse vegetable cultivation project carried out by the Russian corporation Sayuri LLC in the Republic of Sakha.

In June 2019, JBIC established an export credit line with SUEK, a leading Russian energy company, to provide funds necessary for purchasing mining machinery manufactured by Komatsu Ltd.

Also, JBIC signed in September 2019 a Cooperation Agreement with PAO NOVATEK (NOVATEK), a leading Russian natural gas production and sales company, and Mitsui O.S.K. Lines, Ltd. for promoting LNG transshipment base projects in the Arctic region. To the present, JBIC has been promoting cooperation in resource and energy fields in Russia by concluding a loan agreement for the Yamal LNG Project being led by NOVATEK and engaging in ongoing dialogue with the government of Russia.

These initiatives are positioned within the cooperation sectors of "Energy," "Promoting industrial diversification and enhancing productivity in Russia," and "Developing industries and export bases in the Far East" under the "Eight-point Cooperation Plan" proposed by Japanese Prime Minister ABE Shinzo to Russian President Vladimir Putin during the Japan-Russia Summit in May 2016. This

will contribute to the deepening of Japan-Russia economic ties promoted by the government of Japan.

#### Saudi Arabia

Saudi Arabia is an energy superpower boasting the world's largest oil reserves, production, and export volumes, and it is Japan's biggest supplier of crude oil.

JBIC in March 2020 signed a loan agreement to provide funds necessary for the continuation of a methanol manufacturing and sales business being jointly undertaken by Japan Saudi Arabia Methanol Company, Inc., whose largest shareholder is Mitsubishi Gas Chemical Company, Inc., and Saudi Basic Industries Corporation (SABIC). A portion of the methanol produced at this project is sold in Japan and thus contributes to the diversification of methanol procurement sources for Japan, which relies entirely on imports for its methanol. This loan is intended to contribute to maintaining methanol production bases where Japanese companies are participating as well as to the promotion of downstream energy fields in Saudi Arabia.

#### African countries

Taking the opportunity of the seventh Tokyo International Conference on African Development (TICAD 7) held in Yokohama, in August 2019, JBIC further strengthened relations with African countries and development finance institutions and exchanged opinions on the possibility of providing specific financing. JBIC also signed memorandums of understanding on business cooperation with the West African Development Bank and the Development Bank of Southern Africa respectively to promote participation by Japanese companies in businesses in Africa.

In addition, JBIC has launched the JBIC Facility for African Investment and Trade Enhancement 3 (FAITH 3). Under FAITH 3, a total of \$4.5 billion in support for Africa is expected during the three-year period from 2019 to 2021 and this will further strengthen support for investments by Japanese companies in Africa, including for resource development projects, and will contribute to enhancing societies and the environment in Africa.

#### Future Business Strategy

In the natural resources sector, of which market environment is approaching a big turning point, there is concern about a tightening supply and demand balance of resources in the medium to long-term. As resource countries are faced with national financial difficulties, they expect foreign companies to promote investment



Signing ceremony with the West African Development Bank

in resources. On the other hand, there is growing uncertainty such as an increase in geopolitical risks. Under these circumstances, capitalizing on its status as Japan's policy-based financial institution, JBIC will contribute to securing the stable supply of natural resources to Japan by proactively supporting Japanese companies which plan to acquire interests in and develop resources overseas.

### Structuring Financing Schemes to Respond to the Changing LNG Market

Global supply and demand balance of LNG is forecasted to remain loosened for the time being. Also, there is uncertainty over the outlook for LNG demand due to the mix of energy sources in the future and the deregulation of electricity and gas markets. In light of these situations, Japanese utility companies diversify their supply sources of LNG, seeking flexibility and liquidity in the LNG market such as diversification in pricing mechanism and removal of destination clauses from LNG contracts. Under this environment, the government of Japan published the Strategy for LNG Market Development in May 2016, highlighting the creation of the LNG market with high liquidity. The Strategic Energy Plan and the New International Resource Strategy (March 2020) also emphasize the continuing effort to create high liquidity in the LNG market. Against these backdrops, Japanese utility companies have started new businesses to spur LNG demand in Asian countries. JBIC will consider providing financial support not only to upstream investments and LNG projects by Japanese companies, but also to their new businesses to boost LNG demand in Asia.

### Building an Energy Value Chain and Securing New Resources and Energy Sources

To promote resource projects in response to the new market environment, it is important to make investment in growth areas and new fields. In particular, JBIC will support infrastructure development projects, including construction of Gas-to-Power<sup>1</sup> and LNG receiving terminals in order to ensure energy security mainly for the entire Asian region. In addition to conventional resources such as oil, natural gas, and mineral resources, JBIC will also support the activities of Japanese companies for securing strategic materials for innovation and new energy sources including hydrogen to transform into a decarbonized society. In particular, with regard to hydrogen, based on the January 2020 Cabinet Order for Partial Revision to the Enforcement Order of the Japan Bank for International Cooperation Act, JBIC's eligible sectors were expanded to provide support through export loans and overseas investment loans in projects involving the production, transportation, supply, and utilization of hydrogen in developed countries. Also, JBIC has newly added hydrogen as an important resource, which enables the application of energy and natural resources finance to the acquisition of interests, development and importing of hydrogen. Looking ahead, the Fourth Industrial Revolution driven by robotics and AI, as well as innovation derived from next generation vehicles, are expected to spur a realignment of the global manufacturing industry and a transformation of the industrial structure. Under such circumstances, JBIC will consider financing projects for increasing productivity through the use of, for example, cloud services for data

and automated mining operations, as well as projects for securing new strategic resources and stable supply chain required to support innovation.

### Strengthening Strategies on Frontier Markets

To diversify resource supply sources, JBIC will proactively provide financing to natural resource development projects particularly in Africa and the South Asia region that involve Japanese companies for acquiring interests in and offtake of natural resources. These regions are viewed as "The Last Frontiers" as the regions are expected to be a source of natural resources, particularly oil, natural gas, and minerals.

Resource development projects especially in Africa contribute not only to job creation and acquisition of foreign currencies by the host countries, but also to the promotion of related infrastructure and industrial development which drives sustainable growth of Africa. JBIC will support Japanese companies in expanding their business to Africa, including resource development, by proactively taking risk in projects as well as collaborating with international organizations and third countries.

The key to strengthening the relationship with resource countries lies not only in the cooperation in resource development projects, but also in the establishment of comprehensive and sustained partnerships while meeting the needs of these countries in relation to various fields such as: infrastructure development, industrial sophistication, job creation, technology transfer, and reduced environmental burden through the use of renewable energy and energy saving technology. JBIC will maintain and strengthen the multi-layered and positive relationships with the governments of resource countries by making comprehensive efforts to support projects in infrastructure development and manufacturing sectors of the resource countries.

1. Development and operation power generation facilities and gas-related facilities as single units.



## 2. Infrastructure and Environment Finance Group

### ● Message from the Global Head of the Group



COVID-19 is having an impact on all infrastructure sectors worldwide such as by causing a steep decline in the use of public transportation along with restrictions on mobility. Alternatively, the establishment of new infrastructure, including in digital and healthcare sectors, to respond to COVID-19 is expected to gather pace worldwide and there continues to be enormous needs for financing such infrastructure development. Furthermore, to respond to the SDGs (Sustainable Development Goals) and the Paris Agreement for achieving a sustainable world, there is a need for creating novel innovations in the energy and environmental fields, realizing socially implementable costs for these innovations, and making those available around the world. To do so, further mobilization of private funds is essential.

In view of these circumstances, the Infrastructure and Environment Finance Group will work to support the businesses of Japanese companies in various fields and regions, including in environmental fields and frontier market regions, by collaborating with government agencies, international organizations, and private financial institutions in countries worldwide.

#### TANIMOTO Masayuki

Managing Executive Officer

Global Head of Infrastructure and Environment Finance Group

### Business Environment and Key Challenges

In keeping with JBIC's Medium-term Business Plan (FY2018–FY2020) formulated in June 2018, the Infrastructure and Environment Finance Group regards the following fields as key challenges and will focus on supporting the businesses of Japanese companies in areas such as environmental projects and projects in frontier markets.

#### (1) Growth areas, new fields

“Society 5.0” is being promoted with the aim of incorporating

cutting-edge technologies into industry and daily life in society to spur economic development and solve social issues. Against this background, even in the overseas deployment of infrastructure systems, digital technologies and ICT are expected to be utilized in response to social issues and to the needs of emerging countries. It is important to regard the overseas development of infrastructure in a form that contributes to society as a business opportunity.

This includes charging and discharging of electric vehicles (EVs), supplying energy stably based on power demand forecasts, achieving local production of energy consumed locally, shifting energy supply between regions, and optimizing energy savings at home using supply forecasts.

Moreover, in emerging countries, economic and social foundations are currently being strengthened, and domestic infrastructure development and infrastructure development to strengthen connectivity within and between regions are expected to be promoted. Amid these anticipated plentiful business opportunities, the overseas business deployment of Japanese companies is expected to further advance. In particular, support for frontier market regions such as the Mekong region, South Asia, and Africa is also a sector on which the government of Japan is focusing,



A car logistics terminal operation project in Turkey



Gulf PD Natural Gas-Fired Combined Cycle Power Plant Project

as symbolized by the Free and Open Indo-Pacific and the Tokyo International Conference on African Development (TICAD), and there are expectations that public-private partnerships will jointly cultivate businesses.

## (2) Infrastructure projects that are highly important on the policy front

The “Export Strategy for Infrastructure System” revised in July 2020 emphasizes the importance of encouraging Japanese companies with technological strengths and knowledge to go overseas markets not only by exporting equipment, but also by obtaining more orders for infrastructure as systems including design, construction, operation, and management of infrastructure as well as increasing investments in local businesses.

Also, to prevail against increasingly fierce international competition, the importance of initiatives by the government of Japan and government agencies in addition to private company-led independent efforts

## JBIC’s Activities

The Infrastructure and Environment Finance Group performed the following activities in FY2019:

### (1) Initiatives for low-carbonization and global environmental preservation

JBIC provided a loan for the Taza onshore wind power generation project in Morocco. The government of Morocco aims to raise the ratio of renewable energy to 52% of total capacity generated by 2030 to reduce the environmental burden and, at the same time, respond to growing demand for electric power. Against the backdrop of these policies of the government of Morocco, Mitsui & Co., Ltd. and a French renewable energy company established a project company that constructs and operates an onshore wind power generation plant with a total generation capacity of 87.21MW to be located in Taza in the northern area of Morocco. This company will

is being emphasized. JBIC is also working to strengthen its structure for supporting Japanese companies, such as by expanding the scope of its support.

At the G20 Osaka Summit convened in June 2019, the G20 Principles for Quality Infrastructure Investment were agreed upon and the importance of considering the principles of transparency, openness, and sustainability in infrastructure projects was emphasized. The government of Japan will promote the development of a business environment that boosts infrastructure orders of Japanese companies and contribute to the promotion of the SDGs.

### (3) Low-carbonization and global environmental preservation

The Paris Agreement, an international framework for cooperative action on climate change was adopted in June 2015. Following this, Paris Agreement Work Programme, a guideline for implementing the Paris Agreement, was developed in December 2018. Subsequently, negotiations on the implementation guidelines of Article 6 (market mechanism) of the Paris Agreement, which had been ongoing, were held in December 2019. Against these backdrops, there is rising demand for low-carbon or carbon-free infrastructure across the entire world, including in developing countries. In addition, as the effects of global and large-scale climate change can now be observed, environmental issues are attracting more attention than ever before, including in developing countries. Besides demand for high-quality drinking and industrial water due to the progress of rapid urbanization and that for infrastructure for treating increasing volume of waste, there is a need for the international development of energy infrastructure and urban transportation infrastructure that contributes to the reduction of CO<sub>2</sub> emissions.

sell the generated electricity to Morocco’s public electricity and water company for 20 years following the completion of construction.

Meanwhile, JBIC set up a credit line with Joint Stock Commercial Bank for Foreign Trade of Vietnam (Vietcombank) to support a renewable energy projects in Vietnam. The government of Vietnam has also set the target of increasing the ratio of renewable energy to power generation capacity to 21% by 2030 under its revised Seventh Power Development Plan. To support the attainment of this target, it utilized the financing tools under Global action for Reconciling Economic growth and ENvironmental preservation (GREEN) operations.

In addition, JBIC provided support for projects that contribute to global environmental preservation, such as by setting up a credit line with Corporación Andina de Fomento and supporting a natural gas-fired combined





Signing ceremony with Vietcombank

cycle power plant project in Thailand.

### (2) Initiatives for frontier markets

Besides the previously described projects in Morocco and Vietnam, JBIC provided support through export finance to Bangladesh Chemical Industries Corporation (BCIC), a state-run entity of Bangladesh. In Bangladesh, the production of agricultural products such as rice and jute is flourishing thanks to the blessings of the Ganges River. Although agriculture is one of its main industries, Bangladesh relies on imports for two-thirds of the fertilizer used for its crops. The government of Bangladesh and BCIC decided to introduce the fertilizer plant manufactured by Mitsubishi Heavy Industries, Ltd. to promote domestic production of fertilizer and JBIC provided the funds to support the purchase of the entire fertilizer plant.



Freight railway project in Brazil

### (3) Initiatives for infrastructure projects that are highly important on the policy front

In June 2019, JBIC provided a loan that will support a freight railway project in Brazil.

This project supports the domestic freight railway business undertaken by Mitsui & Co., Ltd. together with Vale S.A., a Brazilian resources company, and contributes to the improvement of transportation infrastructure in Brazil.

JBIC also provided support for a natural gas-fired power generation and desalination project in Qatar and for a car logistics terminal operation project in Turkey.

### (4) Collaboration with other countries and institutions

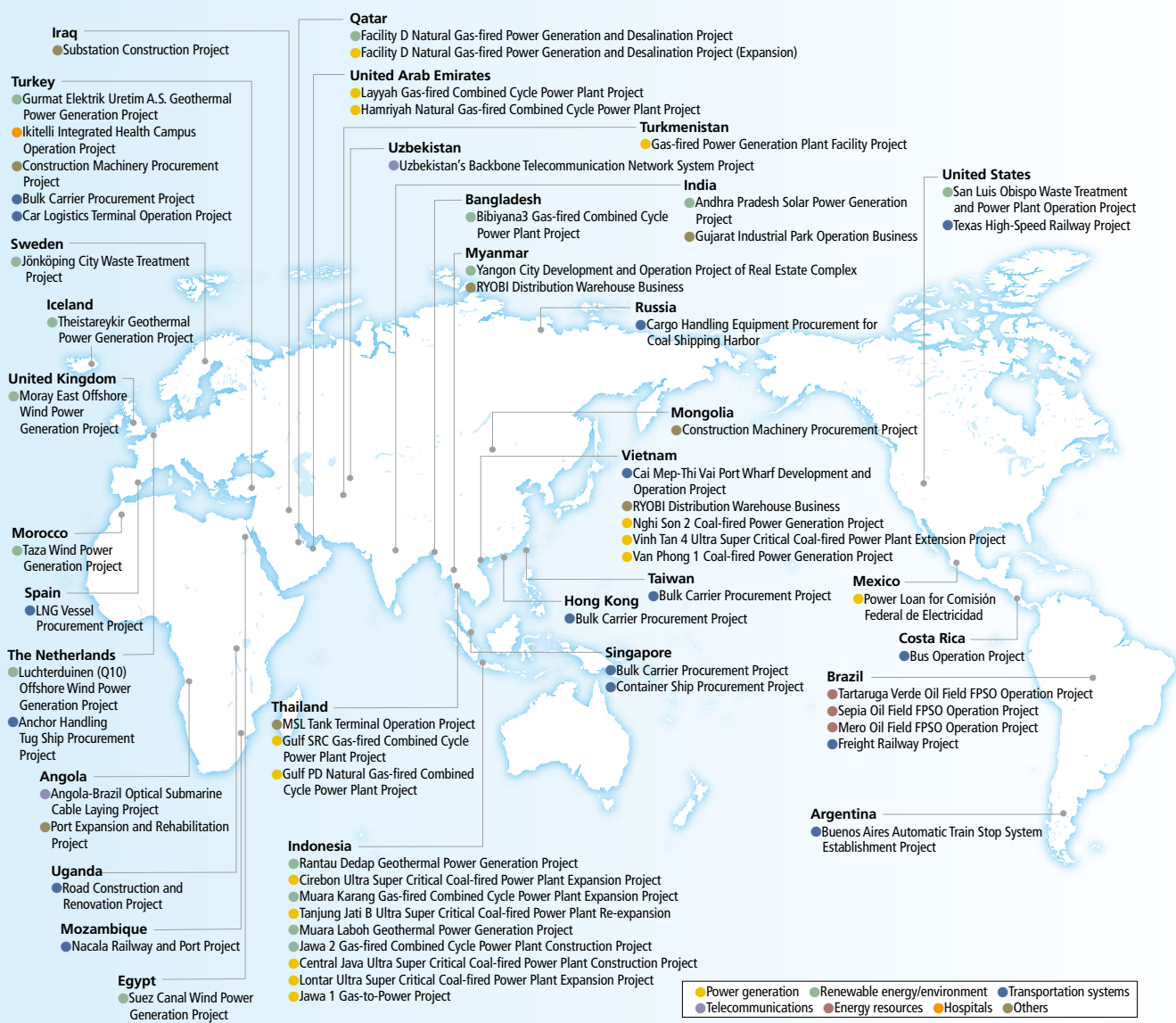
JBIC is making efforts to identify potential projects and reduce risks to realize and accelerate infrastructure projects by leveraging its strengths as a policy-based financial institution, building relationships with governments of other countries, and collaborating with other institutions.

As for collaboration with other countries, JBIC has undertaken activities that utilize our network of sovereign counties, including regularly holding policy dialogues with the governments of Indonesia and Mexico as well as workshops on waste treatment and power generation projects for officials of the government of Oman. Through these activities, JBIC works to support the business deployment of Japanese companies by ascertaining the needs of partner countries and providing knowledge. Regarding initiatives for frontier markets, JBIC will strengthen collaboration with public financial institutions of other countries such as the Export Credit Bank of Turkey, Export-Import Bank of India, and Indonesia Eximbank and will establish a support structure for businesses that Japanese companies and companies from other countries undertake in third countries while also working to support the identification of potential projects.

As for collaboration with other organizations, based on Japan-U.S.-Australia Trilateral Infrastructure Partnership for strengthening relations in line with the Free and Open Indo-Pacific vision, JBIC agreed on a joint declaration with the Overseas Private Investment Corporation (OPIC (name at the time)) of the U.S. and the Department of Foreign Affairs and Trade (DFAT) and the Export Finance and Insurance Corporation (Efic (name at the time)), both of Australia, in accordance with the G20 Principles for Quality Infrastructure Investment agreed upon at the G20 Osaka Summit. In addition, Japan, the U.S. and Australia are collaborating in dispatching delegations to Papua New Guinea and Indonesia in advancing initiatives to contribute to the economic development of each country and region.



### Recent Major Overseas Infrastructure Projects (Loans, equity participations, and guarantees in the last five years)



Note: "Renewable energy/environment" includes solar power, wind power, geothermal power, hydraulic power, power generation from waste, energy conservation, and other projects related to global environmental conservation. As of the end of March 2020

As for initiatives related to "growth areas, new fields," after building a relationship with the European Investment Bank (EIB) last year, JBIC signed a memorandum of understanding on business cooperation with the European Bank for Reconstruction and Development (EBRD). By sharing knowledge related to finance for innovation and deepening understanding, JBIC will strengthen its ability to respond to projects that utilize new technologies.



Policy dialogue with the government of Indonesia

# 3. Industry Finance Group

## ● Message from the Global Head of the Group



The Industry Finance Group is composed of four departments and branches namely the Corporate Finance Department, Finance Office for SMEs, Marine and Aviation Finance Department and Osaka Branch. The Industry Finance Group makes efforts to maintain and improve the international competitiveness of Japanese industry by capitalizing on its various financial instruments for responding to the strategies and needs of Japanese companies in expanding overseas.

Amid U.S.-China trade issues that have persisted since the latter half of 2018 and a slowdown in emerging economies, growth of the world economy has declined sharply since the beginning of 2020 due to the spread of COVID-19 and the economic activities of numerous Japanese companies are facing harsh circumstances. Taking the current situation into consideration, the Industry Finance Group will flexibly and agilely support Japanese companies affected by COVID-19 in FY2020. In keeping with the Third Medium-term Business Plan (FY2018–FY2020), which is now in its final year, the Industry Finance Group will continue to actively support Japanese companies and to maintain and improve the international competitiveness of Japanese industry. In order to achieve these objectives, we will take the following actions: i) take strategic action to promote innovation, ii) support Japanese companies in expanding into frontier markets, iii) support overseas M&As, and iv) enhance its risk-taking capability.

**ISOBE Koichi**  
 Managing Executive Officer  
 Global Head of Industry Finance Group

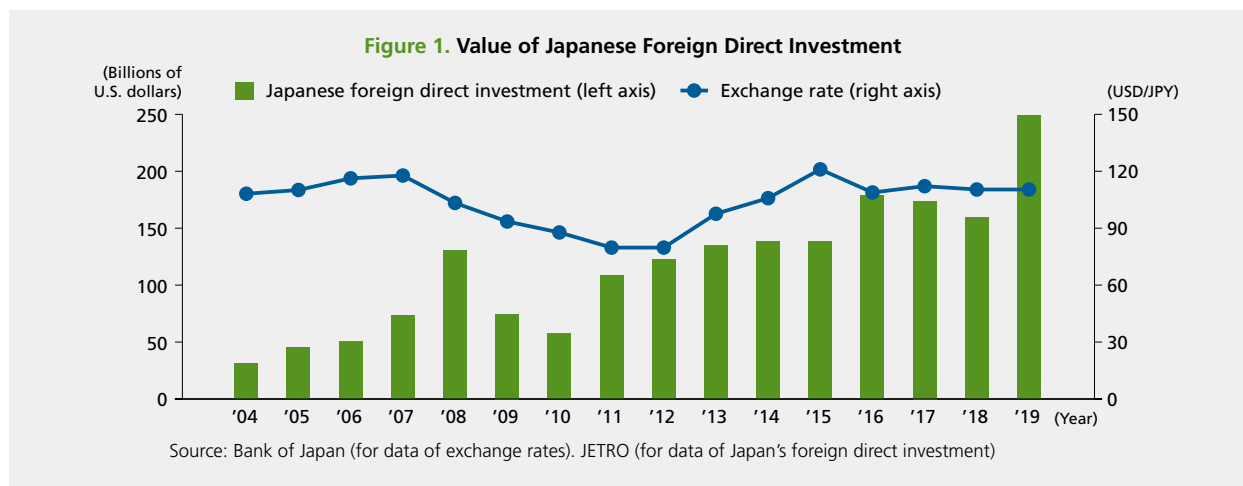
## Business Environment and Key Challenges

### Overseas Business Deployment of Strong Japanese Industries

Despite the slowdown sparked by the global financial crisis in 2008, foreign direct investment by Japanese companies returned to a level exceeding \$100 billion in 2011. Thereafter, it remained firm, reaching \$248.7 billion in 2019 (Figure 1).

Foreign direct investment by Japanese companies,

which remains stable, particularly overseas M&A activity has grown rapidly since 2009 thanks to a stronger yen. This trend continues despite subsequent currency movements. Since surpassing 500 deals in 2012, the number of overseas M&A deals has been steadily increasing and reached a record high 826 deals in 2019. Looking at the value of these M&A deals, the value of M&A deals decreased compared with 2018, when the largest-ever M&A deal by a Japanese

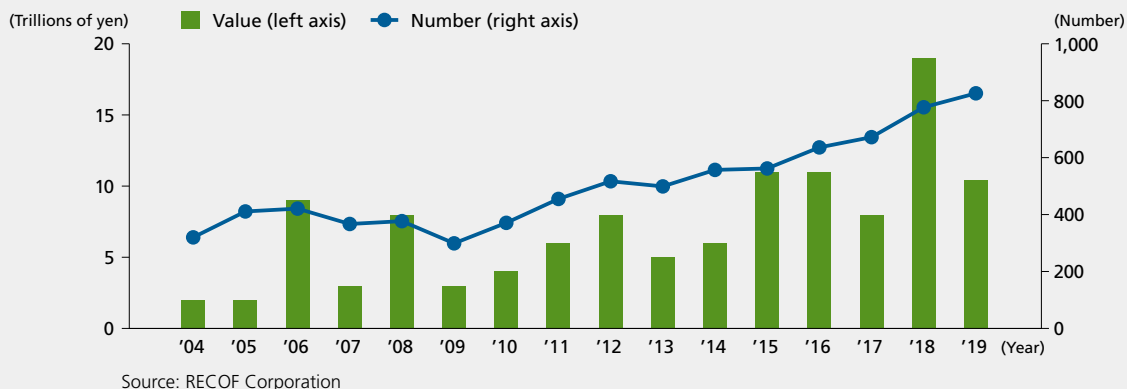




company was recorded. Of the top 20 M&A deals in terms of value during 2019, 13 deals were overseas M&As, with the total amount exceeding ¥10 trillion (Figure 2). Japanese companies have proactively conducted overseas M&As to acquire technologies to survive in international competition as well as develop new markets replacing the shrinking domestic markets. This indicates that the use of M&A continues to be an important strategy for Japanese companies to expand abroad.

In order to put the Japanese economy back on a growth trajectory amid structural issues such as a shrinking population and an aging society with a falling birthrate and to create a much more affluent society, it is indispensable to increase the productivity of the entire economy and strengthen earning power. To this end, it is increasingly necessary to proactively encourage Japanese companies to enter overseas markets for seeking new business opportunities.

**Figure 2. Changes in the Value and Number of Overseas M&A by Japanese Companies**



**Value of Japan's Exports Turns Downward**

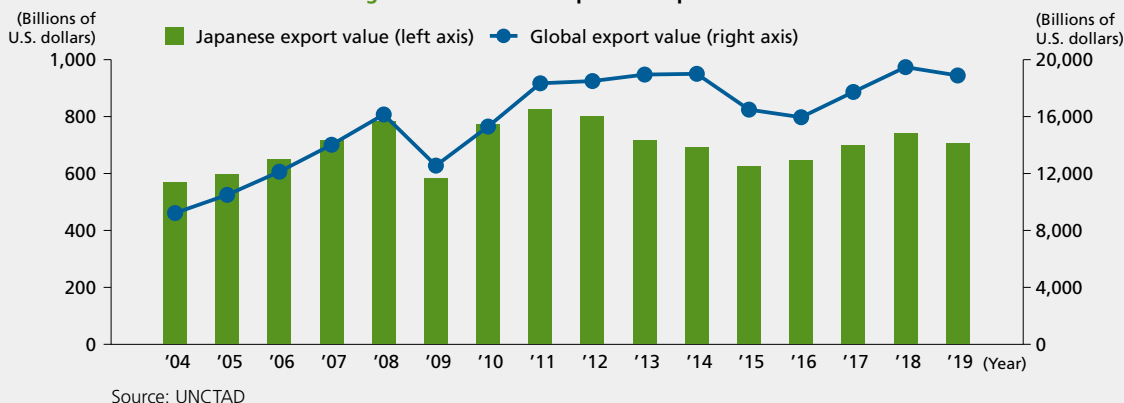
The value of global export transactions rebounded in 2017, the first positive growth in three years, thanks to accelerating growth of the world economy and soaring resource prices. Subsequently, despite favorable growth in global exports that continued from 2017 up to the middle of 2018, global exports decelerated from the second half of 2018, impacted by trade problems, such as U.S.-China trade frictions and a slowdown of emerging country economies. As a result, the value of exports in 2019 amounted to \$18 trillion, down from \$19 trillion in 2018, marking the first decline in three years.

The value of Japan's export transactions was affected by a lull in demand for automobile-related goods in developed countries and for information-related products in Asian emerging countries, which were driving forces of growth up to the middle of 2018, as well as the slowdown of the world economy. Accordingly, the value of Japan's

export transactions in 2019 amounted to \$705.5 billion, marking the first decrease in four years similar to the decline in value of global export transactions (Figure 3).

There were expectations that a favorable turnaround in the IT cycle and progress with trade problems would spur a pickup after a bottoming out at the end of 2019. Since the start of 2020, however, the spread of COVID-19 has led to a sharp decline in the global economy and it appears that considerable time will be needed for a rebound in exports to Europe and the U.S., where there is particular concern about lagging economic recoveries. A downside risk to Japan's export shares in global markets still remains due to the uncertain direction of the global economy and the expanding export shares of emerging countries. Amid the diversification of overseas sales channels of Japanese companies which intend to increase their export shares in the world, evaluation of creditworthiness of importers in foreign countries and uncertainties about their business

**Figure 3. Global and Japanese Export Value**



transactions are becoming major concerns for Japanese companies. To ensure that they can cope with business risk in an appropriate manner, JBIC is required to participate in projects from the early stage of the project development process and to supply funding for projects with relatively high-risk profiles by capitalizing on its various financial tools.

### Overseas Business Deployment of Mid-tier Enterprises and SMEs

Japanese mid-tier enterprises and SMEs are accelerating their move to seek business opportunities outside Japan by meeting demand in overseas markets as well as responding to the needs of major Japanese manufacturers for local procurement of parts and equipment. JBIC annually surveys Japanese manufacturers regarding their medium-term prospects for overseas operations in its survey called "Survey Report on Overseas Business Operations by Japanese Manufacturing Companies." In the FY2019 survey, 97.0% of mid-tier enterprises and SMEs which responded to the survey stated that they will "maintain

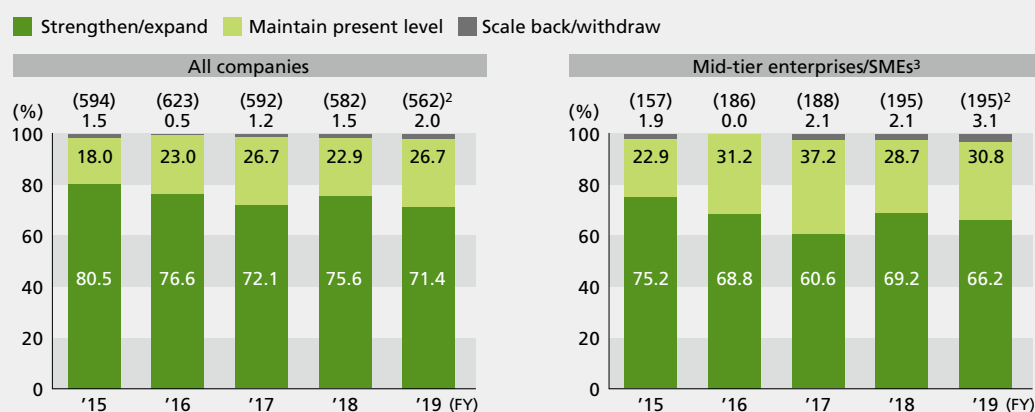
present level" or "strengthen/ expand" their overseas business operations. This suggests that their willingness to conduct overseas operations remains high (Figure 4).

Diversification has been seen in the fields of business invested by Japanese mid-tier enterprises and SMEs, their investment destinations, and funding needs.

Meanwhile, compared with larger companies, mid-tier enterprises and SMEs might face greater constraints on various fronts, such as fund raising and the collection of information about overseas investment. Due to this, it is important that JBIC provides further detailed support to mid-tier enterprises and SMEs, while strengthening partnerships with regional financial institutions which serve as a major financing source for those companies.

Furthermore, from the start of 2020 the global spread of COVID-19 has dealt a severe blow to the overseas businesses of mid-tier enterprises and SMEs and these circumstances require timely and appropriate financial support.

Figure 4. Medium-term Prospects (Next Three Years, or So) for Overseas Operations<sup>1</sup>



Notes 1. "Overseas Operations" is defined as production, sales, and R&D activities at overseas bases, as well as the outsourcing of manufacturing and procurement overseas.

2. The numbers in the parentheses above the bar graphs indicate the numbers of responses.

3. Mid-tier enterprises/SMEs are companies whose paid-in capital is less than ¥1 billion.

Source: Results of the JBIC FY2019 Survey Report on Overseas Business Operations by Japanese Manufacturing Companies

## JBIC's Activities

### Supporting Overseas Business Expansion Using Various Financial Instruments

In the Third Medium-term Business Plan (FY2018–FY2020), JBIC has designated support for the overseas M&As by Japanese companies as one of the priority areas to focus on. In FY2019, JBIC continued to flexibly provide long-term financing for Japanese companies to carry out M&A activities in various fields, including steel, automobiles, leasing, industrial gas, and foods.

Apart from support for M&A transactions, JBIC supported the real estate complex development project in Myanmar consisting of a hotel, long-term stay hotels, offices, and commercial facilities. JBIC also provided support for an ESCO project that utilizes renewable energy and a project for the manufacturing of sheet

glass that is essential for solar power generation. These projects contribute to strengthening the international competitiveness of Japanese companies in the field of global environmental preservation.

Additionally, JBIC provided loans in various local currencies such as Thai baht, Chinese yuan, and Indonesian rupiah in order to further encourage Japanese companies to expand abroad.

### Supporting the Exports of Japanese Companies

JBIC also actively supports the exports of Japanese companies. In FY2019, JBIC supported the export of equipment to Malaysia's largest integrated complex consisting of a refinery and ethylene, propylene, and other petrochemical plants. In this project, JBIC contributed





Mixed use development project in Myanmar (Yankin)

to the smooth structuring of project financing with its abundant experience and knowledge of project financing by participating in the project development from the early stages of discussions with public institutions of other countries. This project contributes to maintaining and improving the international competitiveness of Japanese industry by creating business opportunities for Japanese companies in the field of petroleum refining and petrochemicals in Malaysia.

As for the export of ships, JBIC contributed to maintaining and improving the international competitiveness of Japan's shipbuilding sector by supporting the export of ships manufactured by Japanese shipbuilders. This also plays a significant role in the development of the Japanese regional economy where mid-tier enterprises and SMEs are engaged in manufacturing materials and components for building ships.

### Supporting Overseas Business Deployment of Mid-tier Enterprises and SMEs

Since FY2012, JBIC has enhanced its capability to assist Japanese mid-tier enterprises and SMEs in expanding abroad through its business units dedicated to this purpose at its Head Office and Osaka Branch. In FY2019, the number of loans, equity participations and guarantees to mid-tier enterprises and SMEs totaled 82. JBIC encouraged mid-tier enterprises and SMEs to expand to overseas markets through its direct loans in U.S. dollars and local currencies such as Thai baht or the credit lines (TSLs) at Japanese regional financial institutions by providing them with long-term loans in foreign currencies. In FY2019, JBIC strengthened cooperation with regional financial institutions, such as by forming co-financing with 23 regional financial institutions, including six regional financial institutions involved in forming co-financing for the first time.

JBIC also proactively responded to the local currency needs of the overseas subsidiaries of Japanese mid-tier enterprises and SMEs by providing loans in local currencies such as Thai baht and Chinese yuan in addition to U.S. dollars and Euro.

Besides support in raising funds, JBIC held seminars

and consultation meetings across Japan to provide various information from its overseas representative offices such as on overseas investment environment.

### Responding to the Diverse Needs of and Crises Faced by Japanese Companies

The international economic conditions surrounding Japan, such as political conditions in each country and economic trend in emerging countries, are constantly changing. During 2020 in particular, the spread of COVID-19 has been having an enormous impact on the global economy since the start of the year. While accurately responding to these changes, to trends in the global economy, and to the funding needs of Japanese companies, JBIC continues to provide support to maintain and improve the international competitiveness of Japanese industry.

Taking the impact of COVID-19 on the Japanese economy and industry into consideration, the Industry Finance Group will provide prompt support for the crises faced by numerous Japanese companies large and small, including mid-tier enterprises and SMEs. Capitalizing on various financial instruments, the Industry Finance Group will provide further support to Japanese companies which plan to expand overseas. We will also strive to explore and create new business opportunities for Japanese companies that can lead to Japan's sustainable growth particularly in growth areas and new fields, as defined by JBIC's Third Medium-term Business Plan (FY2018–FY2020), and will continue to play a role in connecting Japan to the world by enhancing its risk-taking capability to finance various projects while responding to the needs of customers in a timely and accurate manner.



An integrated complex consisting of a refinery and petrochemical plants



Container ship  
(Note) A ship of virtually the same size as the one being financed

# 4. Equity Finance Group

## ● Message from the Global Head of the Group



Since the establishment of the Equity Finance Group in October 2016, JBIC has been working to strengthen its equity financing operations. One of the growth strategies of the government of Japan aims to benefit from overseas growth markets. To achieve the government's growth strategy, it is becoming increasingly significant to supply funding through strengthening risk-taking capability. In light of this, JBIC has enhanced its capability in the area of equity financing, such as by establishing JBIC IG Partners (JBIC IG) to provide advisory services regarding overseas investment funds. JBIC has also financed overseas M&A transactions by Japanese companies in the form of equity participation.

One of the basic policies in JBIC's Third Medium-term Business Plan (FY2018–FY2020) announced in 2018 is to enhance its risk-taking capability by capitalizing on its strength and characteristics as a policy-based financial institution. The Medium-term Business Plan also designates "growth areas, new fields" and "M&A" as priority areas to focus on. JBIC supplies funding to investments in those high priority fields by means of equity financing.

In this fiscal year, which is the final year of the Medium-term Business Plan, we will continue to proactively support Japanese companies in expanding overseas through our equity financing capacity.

### FUJINO Shinji

Managing Executive Officer  
Global Head of Equity Finance Group

## Business Environment and Key Challenges

### Expansion into Growth Areas, New Fields, and Support for Overseas M&A

The overseas expansion by Japanese companies has recently shown a notable move towards utilizing overseas M&A as a way to obtain new technologies and technical know-how to promote innovation, and to acquire and capture markets overseas.

Japanese industries are going through a major structural shift to the Fourth Industrial Revolution driven by innovation in technology such as IoT and AI. To realize the Fourth Industrial Revolution, it is important for companies to promote innovation. Under the "Action Plan of the Growth Strategy" approved by the Cabinet on July 17, 2020, a measure by the government of Japan, there are expectations particularly for the provision of new funds to start-up companies that will spur innovation and for the promotion of collaboration between existing companies and start-up companies. Looking at global markets, as evidenced by the emergence of IT platformers in the U.S. and China, competition across different industries and that for acquiring the market with new innovative technologies is expected to intensify further. Under such circumstances, Japanese industries are pushing ahead with strategic efforts such as corporate partnership and technological collaboration towards promoting innovation.

M&A activities by Japanese companies aimed at acquiring overseas markets and meeting their demand become more important because of Japan's structural

issues such as a decreasing birthrate and an aging population as well as a shrinking labor force. Amid intense competition for acquiring overseas markets, overseas M&A activity is one of the important strategies adopted by Japanese companies for accelerating growth. Under such conditions, overseas M&A activities by Japanese companies in 2019 reached a record high of 826 deals. It is important to continue to supply funds in response to the needs of Japanese companies for M&A.

While appropriately focusing on major changes in the environment such as the rebuilding of supply chains and the shift to online and remote social activities due to the spread of COVID-19, JBIC will support Japanese companies in conducting M&A activities in growth areas, new fields, in the form of equity participation as well as fund investment through JBIC IG Partners.



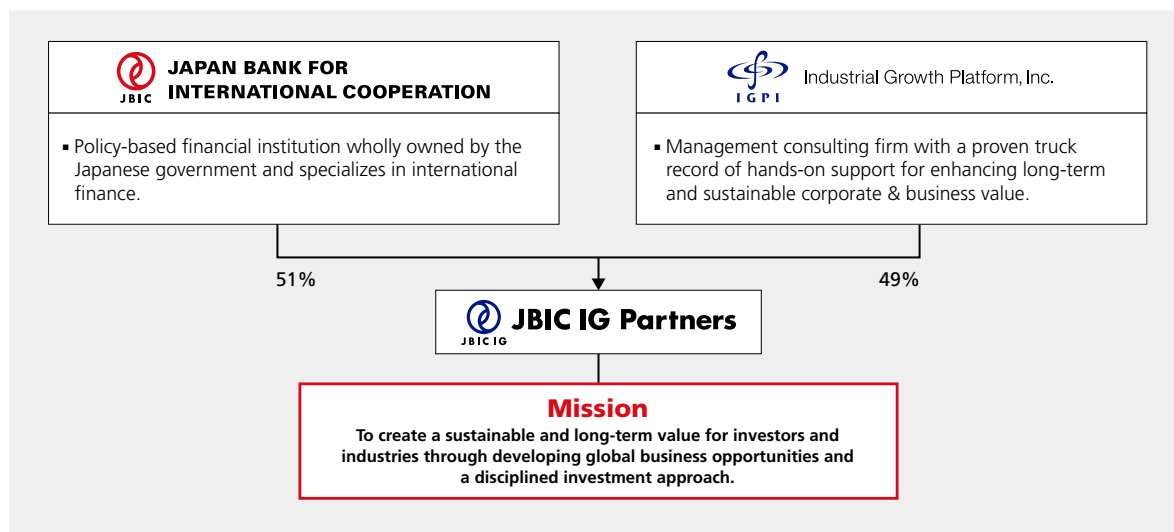
### Overview of JBIC IG Partners (JBIC IG)

JBIC IG is an investment advisory firm established in June 2017, by JBIC and Industrial Growth Platform, Inc. (IGPI). JBIC IG applies the respective strengths of JBIC and IGPI as follows: JBIC has knowledge and experience of financing international projects as Japan's policy-based financial institution; IGPI has the knowledge of

investment business and broad experience in providing companies with hands-on support for long-term, sustainable growth in corporate and business value. JBIC IG aims to create long-term, sustainable value for Japanese investors and industries through the development of global business opportunities and a disciplined investment approach.

### About JBIC IG Partners

JBIC IG Partners is an investment advisory firm established by JBIC and IGPI.



### Business Model of JBIC IG

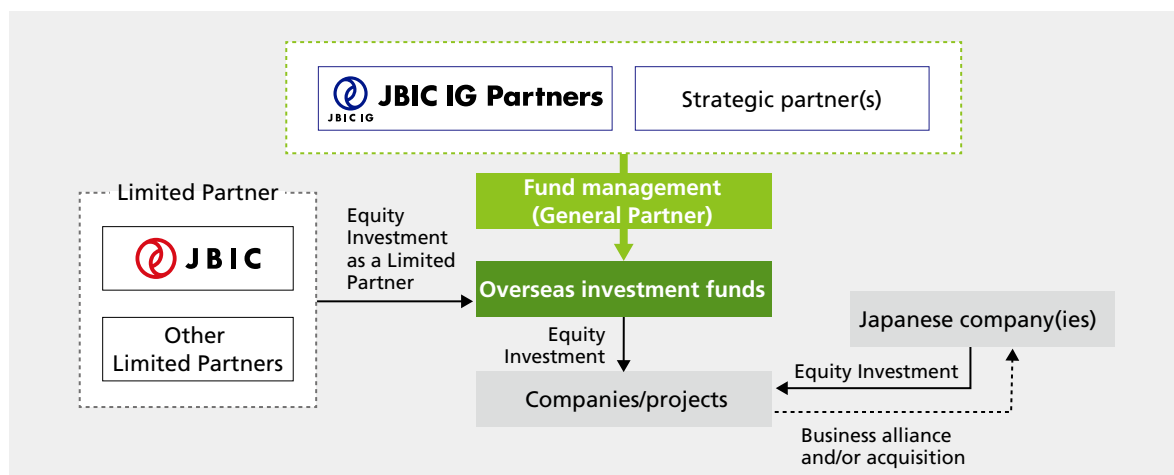
JBIC IG composes overseas funds by partnering with foreign sovereign wealth funds (SWF) and international investors, through investment advisory services to overseas funds.

As its first effort, in September 2017, JBIC IG entered into a co-investment framework agreement with the Russian Direct Investment Fund. In January 2019, JBIC IG established a venture capital fund with AS

BaltCap, the largest fund manager in the Baltic region. By the end of June 2020, JBIC IG executed a total of 15 investments in these two funds. Additionally, JBIC IG is undertaking activities to bring together and promote business collaboration between investee companies in these funds and Japanese companies. JBIC IG will continue to provide added value to Japanese industry through the creation of new investment funds.

### Overview of JBIC IG Partners' Investment Structure

JBIC makes equity investments in overseas companies through investment in funds that JBIC IG Partners launched in collaboration with overseas partners.



## JBIC's Activities

### Strengthening JBIC's Capability of Equity Financing

#### Promoting Open Innovation by Japanese Companies

To support strategic efforts by Japanese companies to promote innovation, JBIC concluded an agreement for equity participation in Vertex Master Fund (SG) II LP (the Fund), based in Singapore to invest in venture capital funds around the world, including the U.S., China, Southeast Asia, India, and Israel. Vertex Master Fund II (GP) Pte. Ltd., which is a subsidiary of Singaporean fund manager Vertex Venture Holdings Ltd. (Vertex), has established and is managing this fund of funds.

The Fund intends to assist Japanese companies in expanding the overseas business operations by offering them business opportunities with the portfolio companies of each investee fund. The equity participation by JBIC in the Fund is expected to contribute, through the service provided by the Fund, to maintaining and strengthening the international competitiveness of Japanese companies.

#### Support for Building Energy Value Chain through Equity Financing

JBIC together with Osaka Gas Co., Ltd. (Osaka Gas) made a joint investment in AGP International Holdings Pte. Ltd. (AG&P) in Singapore. AG&P is an engineering and construction company founded in 1900. Since 2015, the company has been making equity investments into small- and medium-scale LNG terminals as well as in city gas distribution projects, predominantly in India, thereby making a foray into midstream and downstream businesses related to LNG. Osaka Gas intends to gain a foothold and further expanding its overseas business by participating in new LNG terminal and city gas projects in South Asia and other regions, where the company does not have a presence, and by utilizing its knowledge and experience cultivated through domestic business to promote cooperation with AG&P.

Based on the policies of the government of Japan, including the "Strategic Energy Plan" approved by the Cabinet in July 2018, it is considered that expansion of the LNG market in Asia contributes not only to the expansion of the overseas business foundation of the Japanese energy industry, but also to the securement of stable supply of LNG to Japan. The investment from Osaka Gas and JBIC will be used for midstream and downstream businesses

related to LNG in South Asia and other regions, which AG&P plans to expand. As Japan's policy-based financial institution, JBIC will continue to contribute to these types of policies.

#### Support for ESG Investment through Equity Financing

JBIC in September 2019 made an additional investment in the Japan ASEAN Women Empowerment Fund (the Fund) investing in microfinance institutions (MFIs) in ASEAN countries and others. The Fund was launched in 2016 to support female entrepreneurs in those countries, and has supported approximately 290,000 female micro entrepreneurs by financing 30 MFIs across 7 countries. In September 2016, JBIC invested in the Fund along with Sumitomo Life Insurance Company (Sumitomo Life Insurance) and other Japanese institutional investors.

Sumitomo Life Insurance has an interest in the field of microfinance with the aim of diversifying its medium- and long-term revenue base and achieving a sustainable growth of its corporate value, and actively pursues ESG investment. Through the investment in the Fund, Sumitomo Life Insurance expects to obtain the relevant knowledge and information. Providing continued support for their strategy, the investment of JBIC in the Fund is expected to help Japanese companies maintain and increase their international competitiveness.



Signing ceremony with AG&P