

INTERVIEW

Project Financing for the Shipping Business of Four LNG Tankers

Transporting LNG produced in the U.S. to Japan and other countries

Interview with then Deputy Director Hiroyuki Suzuki and Kana Koda, Division 1, Oil and Gas Finance Department, Energy and Natural Resources Finance Group



Deputy Director Suzuki



Ms. Koda

Project Financing for Procurement of LNG Tanker

JBIC signed in September 2015 loan agreements in project financing for procuring four LNG tankers. All four loans are cofinanced with private financial institutions.

1. Two loan agreements with an SPC funded 50% each by Chubu Electric and NYK LINE (cofinanced with Sumitomo Mitsui Banking Corporation and The Bank of Tokyo-Mitsubishi UFJ, Ltd.)
Borrower: TRANS PACIFIC SHIPPING 6 LTD., a Bahamas entity
JBIC portion: up to JPY12,949 million
Total cofinancing amount: JPY18,499 million
Borrower: TRANS PACIFIC SHIPPING 7 LTD., a Bahamas entity
JBIC portion: up to JPY13,077 million
Total cofinancing amount: JPY18,682 million

2. Two loan agreements with an SPC funded 50% each by Chubu Electric and Mitsui O.S.K. Lines (cofinanced with The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Sumitomo Mitsui Banking Corporation)
Borrower: TRANS PACIFIC SHIPPING 5 LTD., a Bahamas entity
JBIC portion: up to JPY12,894 million
Total cofinancing amount: JPY18,713 million
Borrower: TRANS PACIFIC SHIPPING 8 LTD., a Bahamas entity
JBIC portion: up to JPY13,062 million
Total cofinancing amount: JPY18,863 million

Supporting diversification of LNG supply sources and pricing system

The Freeport LNG Project is to construct the first train of an LNG plant in Freeport, Texas in the U.S. by FLNG Liquefaction, LLC (FLIQ), a U.S. company, owned by Chubu Electric, Osaka Gas Co., Ltd. (Osaka Gas), and Freeport LNG Expansion, L.P. (a U.S. company), and produce LNG using natural gas, including shale gas in the U.S.. JBIC signed PF loan agreement, amounting up to USD2.6 billion (JBIC portion) with FLIQ in October 2014.

Mr. Suzuki explains: "All of the LNG produced from the first train by FLIQ (scheduled annual production: 4.64 million tons/year) will be for Chubu Electric and Osaka Gas. Ever since the Great East Japan Earthquake, it has become a key task for Japan to secure a stable LNG supply and reduce the energy procurement cost. LNG from the Freeport LNG Project is priced based on the U.S. natural gas market (Henry Hub) and contributes for the diversification of the LNG supply sources and price formula for Japan.

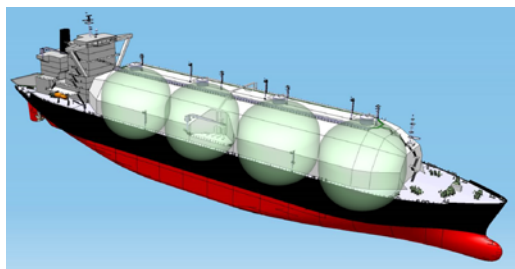
These loans support the shipping business of transporting LNG purchased by Chubu Electric from the Freeport LNG Project. JBIC has been supporting over many years the efforts made by Japanese companies to enhance their LNG value chain business (system spanning from natural gas upstream development, LNG plant construction, operation, and transportation), so we have a wealth of experience in supporting with LNG shipping business."

Flexible Business Development in collaboration with Power Company and Shipping Company

Mr. Suzuki says: "This project is unique in supporting (1) the securing of a long-term and stable LNG supply which is the key fuel for power generation and (2) the reduction of LNG procurement cost, with close cooperation between an electric power company and shipping companies. In order to realize both, responding appropriately to fluctuations of power demand and LNG prices is vital. This LNG shipping project will also support Japanese companies' LNG marketing business, with the partnership of the electric power company and shipping companies. Although 4 transactions had multiple stakeholders and the key factors such as construction periods varied, we executed the risk evaluation and the risk allocation properly within the expected limited schedule."

Ms. Koda, who only joined JBIC in April 2015, also played a part in forming the project.

"I was happy to be assigned to such an important project at the first year in JBIC while it was challenging for me. With instructions from my supervisor, I managed to



The Japan Bank for International Cooperation (JBIC) signed in September 2015 two project financing (PF) loan agreements with special purpose companies (SPC) funded 50% each by CHUBU Electric Power Co., Inc. (Chubu Electric) and Nippon Yusen Kabushiki Kaisha (NYK LINE). On the same day, JBIC signed two other PF loan agreements with SPCs funded 50% each by Chubu Electric and Mitsui O.S.K. Lines, Ltd.

The loans will finance the shipping business of four liquefied natural gas (LNG) tankers, which are to be used mainly for transporting LNG produced by the U.S. Freeport LNG Project, in which Chubu Electric participates.



proceed negotiation and documentation process together with other departments. In order to develop the negotiations with the sponsors, it was expected to understand the knowledge of technical issues regarding LNG tankers. Each transaction has slight differences such as in structure, price, or completion date, although all are large-scale LNG tankers called 'Post-Panamax' which are customized to fit the new Panama Canal whose expansion is soon to be completed. As I needed to accurately reflect those differences in the tight schedule, I was under pressure in preparing contracts and documents. However, I learned a lot from this experience. I was very relieved when the agreements were concluded and signed without any troubles."

Becoming a Successful Example for Ship Procurement and Operation with B2B Partnership

The four agreements were formally signed simultaneously on September 30, 2015.

Mr. Suzuki looks back, "Our past experience and know-how of supporting LNG shipping business led to the signing of agreements within a short time. Another major factor that led us to this success was that our team had a good understanding of the LNG value chain business structure of Chubu Electric, since JBIC participates as one of the core lenders for the Freeport LNG Project.

"Chubu Electric is developing a comprehensive alliance with Tokyo Electric Power Company, Inc. for efficient fuel procurement, and this particular case is expected as one of the significant efforts under the alliance. The scales merit is one of the key factors in energy business. Therefore, power companies, as well as gas and oil companies, accelerate their efforts for the efficient procurement and operation of LNG tankers, collaborating with other sector companies, such as shipping companies and trading houses. I became more aware of the need to support such new businesses when tackling this PF. JBIC will continue to contribute to promoting the development and acquisition of energy resources, by using its various financial expertise, including the risk allocation and the structuring financial products."

Lastly, Ms. Koda commented, "This project gave me a valuable opportunity to experience the actual operation from the initial stage of negotiating the agreement to its conclusion. The experience taught me that one agreement is closely connected to various jobs that involve many stakeholders, and also the importance of having a full grasp of the essence of the business before making a proposal." Looking to the future, she said, "I hope I will contribute with my own value added proposals proactively in the next project."