

CECE Economic Forum

17 October 2014, 9.30 am to 1pm
Crowne Plaza, Antwerp



CECE Congress 2014 - 15, 16, 17 October - Antwerp, Belgium



“How to survive in volatile and unpredictable markets”
Holger Apel, Global Head Basic Industries at KfW IPEX-Bank



CECE CONGRESS 2014
Antwerp, Belgium



»» CECE Economic Forum: How to survive in volatile and unpredictable markets?

Sector case on the mining sector and financing aspects

Antwerp, October 17th 2014

Holger Apel, Global Head Basic Industries at KfW IPEX-Bank

KfW IPEX-Bank

»» Who we are and what we do...

... a brief introduction to KfW IPEX-Bank

... Introduction in financing the mining sector

... Risks and mitigants in the mining sector

... Economic outlook, current markets trends in the mining sector

... Challenges of big mining companies and junior miners

... Specific criteria of mining finance at KfW IPEX-Bank

- »» We are part of a group with a wide range of functions
Supporting the export industry is a cornerstone of KfW's work

KfW

Promotion of the German economy

We promote Germany

- › Promotional programmes and loans for
 - › small and medium-sized enterprises
 - › retail customers
 - › municipalities

KfW

International financing

We support internationalisation

- › Tailor-made financing for international projects and exports
- › Support for and increase of the global competitiveness of German and European companies
- › Contribution to securing the production base of the German and European economies by financing raw material supplies and the development of economic and social infrastructure

KfW IPEX-Bank

We finance development

- › Private-sector investments in developing and transition countries

KfW DEG

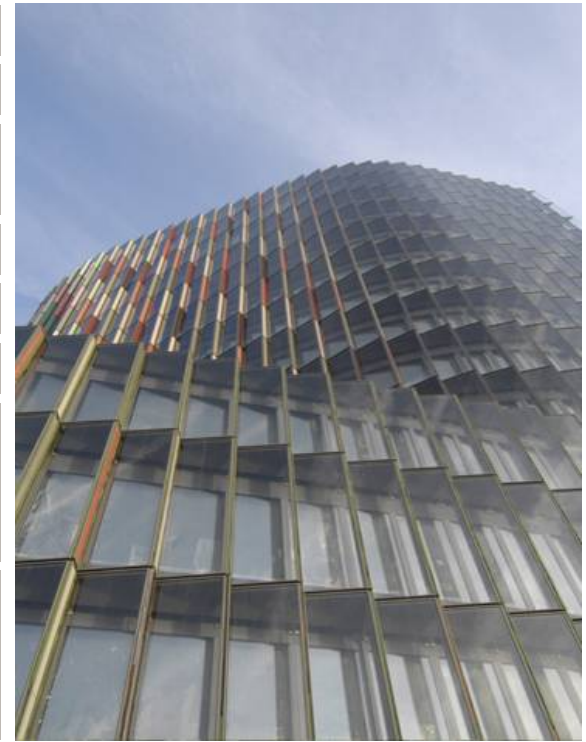
- › Intergovernmental Financial Cooperation with developing and transition countries under official development policy mandate

KfW

»» KfW IPEX-Bank - Our name speaks for itself

International Export and Project Finance from KfW

Name	KfW IPEX-Bank GmbH
Head office	Frankfurt am Main
Shareholders	KfW Group (100% subsidiary)
Rating	AA (S&P) / Aa3 (Moody's)
Business volume	approx. EUR 60 billion*
Employees	611*
Focus	Financing of exports, infrastructure projects and environmental and climate protection projects as well as securing the supply of raw materials
Mission	For more than 60 years: supporting the internationalisation and boosting the competitiveness of German and European export companies



* As of: 31 December 2013

»» Our worldwide presence helps you stay competitive

80 offices and locations with many years of regional expertise

- › We are present in the **key regions and markets** for German and European exporters.
- › We understand a relationship bank as one that works closely with and close to its customers to provide **optimal advice and support**.
- › Within the KfW Group we use our worldwide network and share **knowledge and experience** across national borders – for your benefit.



»» Our financings support major contemporary themes

Export industry - Infrastructure - Environmental and climate protection - Raw material supplies

Export industry

Expansion of petrochemical production in India



- › ECA-covered loan of USD 2 billion
- › One of the biggest Hermes-covered corporate finance transactions in history
- › Partly financed through the ERP Export Programme, fixed interest on CIRR basis
- › Supports more than 40 medium-sized German exporters

Infrastructure

New road network for the Isle of Wight in the United Kingdom



- › Renovation and maintenance of 800 km of roads, 756 km of footways, 29 km of cycleways, 239 bridges and buildings
- › Equipment of 12,000 street lights with low-energy bulbs
- › Total investment cost approx. GBP 141 million
- › Important investment in the infrastructure of the Isle of Wight

Environmental and climate protection

Construction of offshore wind farm in the German part of the North Sea



- › 288 MW capacity
- › Total investment cost approx. EUR 1.4 billion
- › Financing of German, Dutch and Belgian supplies
- › Commissioning planned for 2015

Securing raw material supplies

Expanding iron ore extraction capacity in Mauritania



- › Total financing of over USD 700 million
- › Complex structured financing
- › Secures long-term iron ore supplies and supports German exporters

»» Various phases of a mining project and typical sources of financing



Discovery



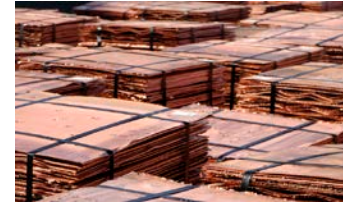
Development



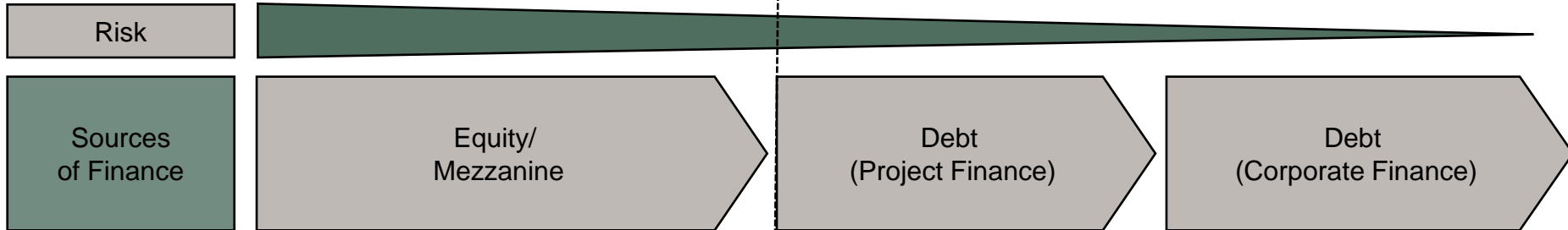
Feasibility Study & Permits



Construction



Production



›› Mining sector: Risk Categories and Mitigants (I)

Geological risks



- Extensive drilling programme
- JORC / NI 43-101 standards

Technology risks



- Independent Engineer
- EPC(M) contracts
- Proven technology

Completion risks



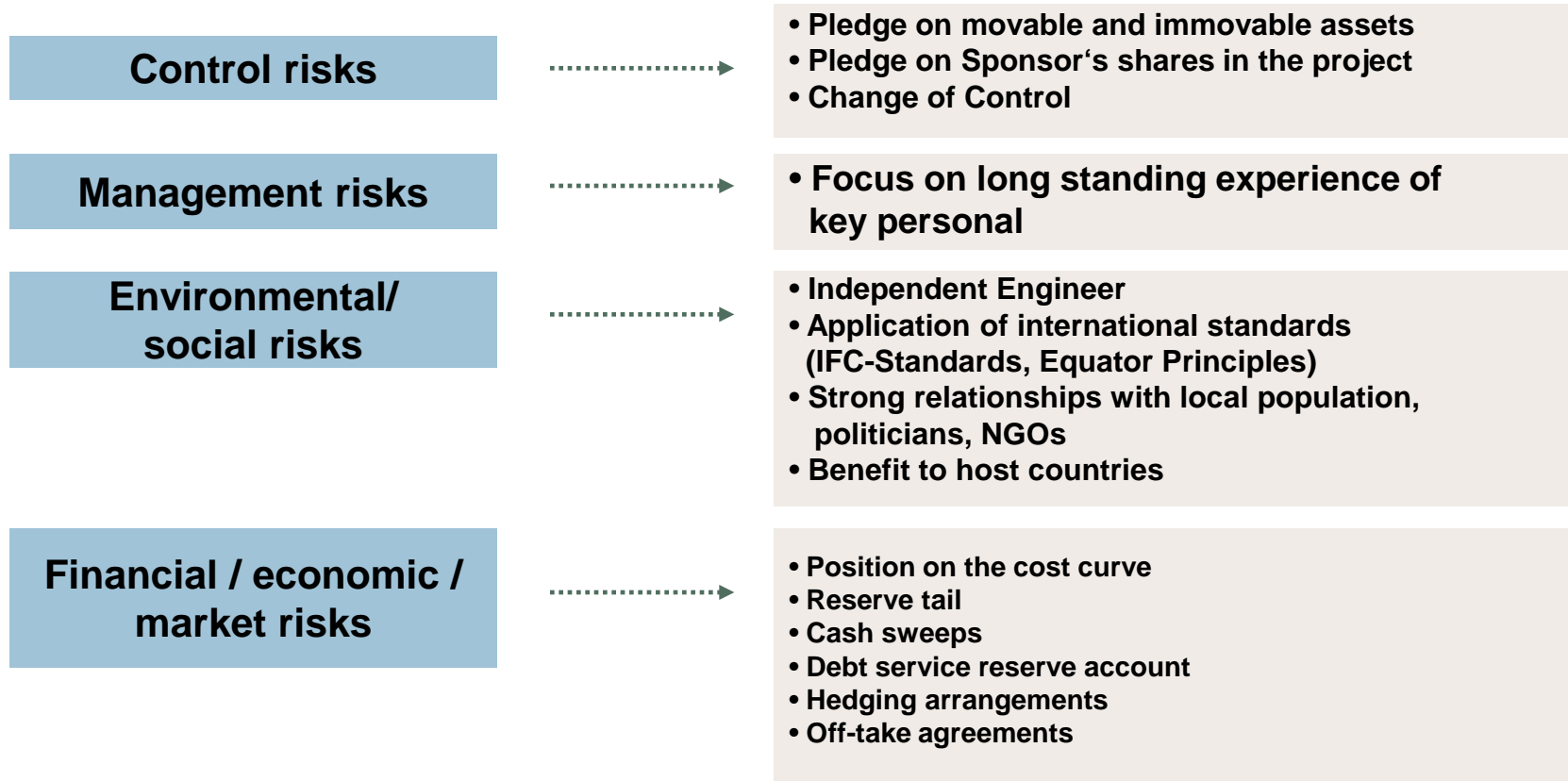
- Completion Guarantee(s) by Sponsor(s)
- Strategic Investors
- EPC(M) contracts
- Independent Engineer
- Cost overrun facilities / Contingencies

Political risks



- Sponsor(s)' relationship to host country
- Political risk insurance
- Account structure
- Participation of supranational banking institutions (IFC, EBRD, AfDB, DFIs) and ECAs

»» Mining Sector: Risk Categories and Mitigants (II)



››› Economic Outlook

› Global economic outlook

› Gross domestic product, constant prices: Growth rate in percent

Country Group Name	2014	2015	2016	2017
World	3,6	3,9	4,0	3,9
Euro area	1,2	1,5	1,5	1,5
Major advanced economies (G7)	2,2	2,3	2,3	2,3
Commonwealth of Independent States	2,3	3,1	3,2	3,1
Emerging and developing Asia	6,7	6,8	6,7	6,6
Latin America and the Caribbean	2,5	3,0	3,3	3,5
Middle East and North Africa	3,2	4,5	4,7	4,4
Sub-Saharan Africa	5,4	5,5	5,8	5,5

»» Economic outlook

› Selected countries

› Gross domestic product, constant prices: Growth rate in percent

Country	2014	2015	2016	2017
Australia	2,6	2,7	2,9	3,0
Brazil	1,8	2,7	3,0	3,1
Canada	2,3	2,4	2,4	2,2
Chile	3,6	4,1	4,2	4,5
Indonesia	5,4	5,8	6,0	6,0
Kazakhstan	5,7	6,1	5,7	5,5
Peru	5,5	5,8	5,8	5,8
Russia	1,3	2,3	2,5	2,5
South Africa	2,3	2,7	3,2	3,0
United States	2,8	3,0	3,0	2,9
Zambia	7,3	7,1	6,8	6,6

»» Current market trends in the mining sector

Current market trends

- › Higher investment costs
- › Operational cost pressure
- › Prices subject to low volatility, no clear outlook on future trend
currency volatilities
- › Rising environmental and social awareness
- › Resource nationalism
- › High energy costs and competing water demands

Impacts/consequences

- › Productivity improvement
- › Steady progress on capital management and optimizations
- › Capital dilemmas – allocation and access
- › Need for “environmental and social license to operate”
- › Sharing the benefits
- › Access to water and energy

››› Challenges for big mining companies and junior miners

- › Completion risks: Junior Miners seek for strategic partners e. g. from Asia (long-term offtakers) or the Middle East region.
- › Strategy: Big mining companies postpone or phase their projects (e.g. Roy Hill).
- › Economics: Big companies improve productivity and optimize company's cost structure, more selective in terms of realization of projects.
- › Sponsors/Partners: Equity ratio in total financing typically 30-50%, challenging for Junior Miners , raw material stream financing as an accretive tool to accelerate production (e.g. silver stream as by-product of base metals mining).
- › Location: More projects in difficult regions with higher investment costs due to climate, lack of infrastructure, difficult, both for junior miners and big companies.
- › Environmental/Social: Junior miners often do not have enough equity to cope with financial demands of community and environmental financial needs.
- ›  Hard times for junior mining companies!

››› Specific Criteria of Mining Finance at KfW IPEX-Bank

- › Project Stage: Project must have reached bankability stage („BFS“).
- › Products: base and industrial minerals, selective metals.
- › Strategic focus: German/European link through exports, imports or investors.
- › Economics: Focus on ore contents, cost curve, reserve tail, proven technology, customary off-take arrangements.
- › Sponsors/Partners: Equity ratio in total financing typically 30-50%, Junior Miners challenging, first-class EPC contractors.
- › Environmental/Social: KfW signed up to Equator Principles and EITI; Implementation of IFC-/Worldbank-Standards on environmental, health and safety issues.

»» We will be happy to assist you.

KfW IPEX-Bank GmbH

Palmengartenstrasse 5-9
60325 Frankfurt am Main

Telephone: +49 69 7431-8731

Telefax: +49 69 7431-2016

E-Mail: basic.industries@kfw.de

www.kfw-ipex-bank.de

KFW IPEX-Bank