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TAQA - Off-balance sheet financing for commodity inventories

confidential

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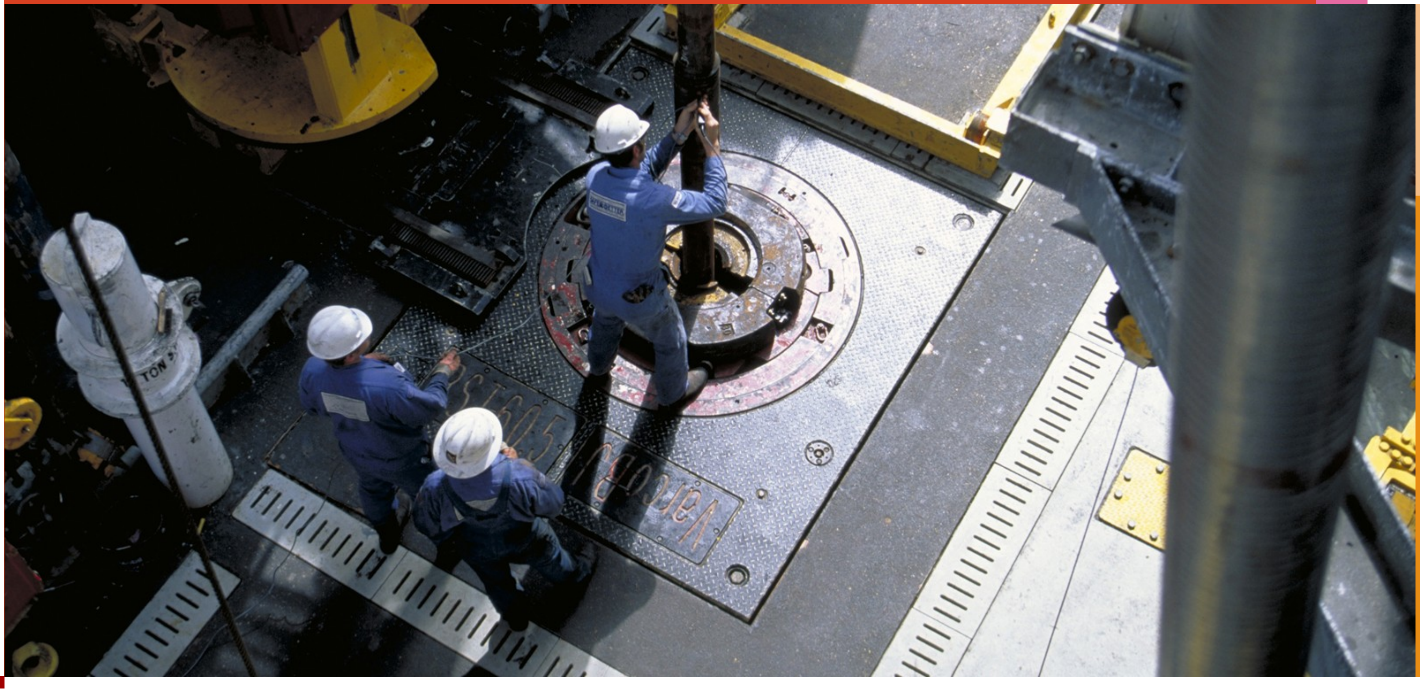
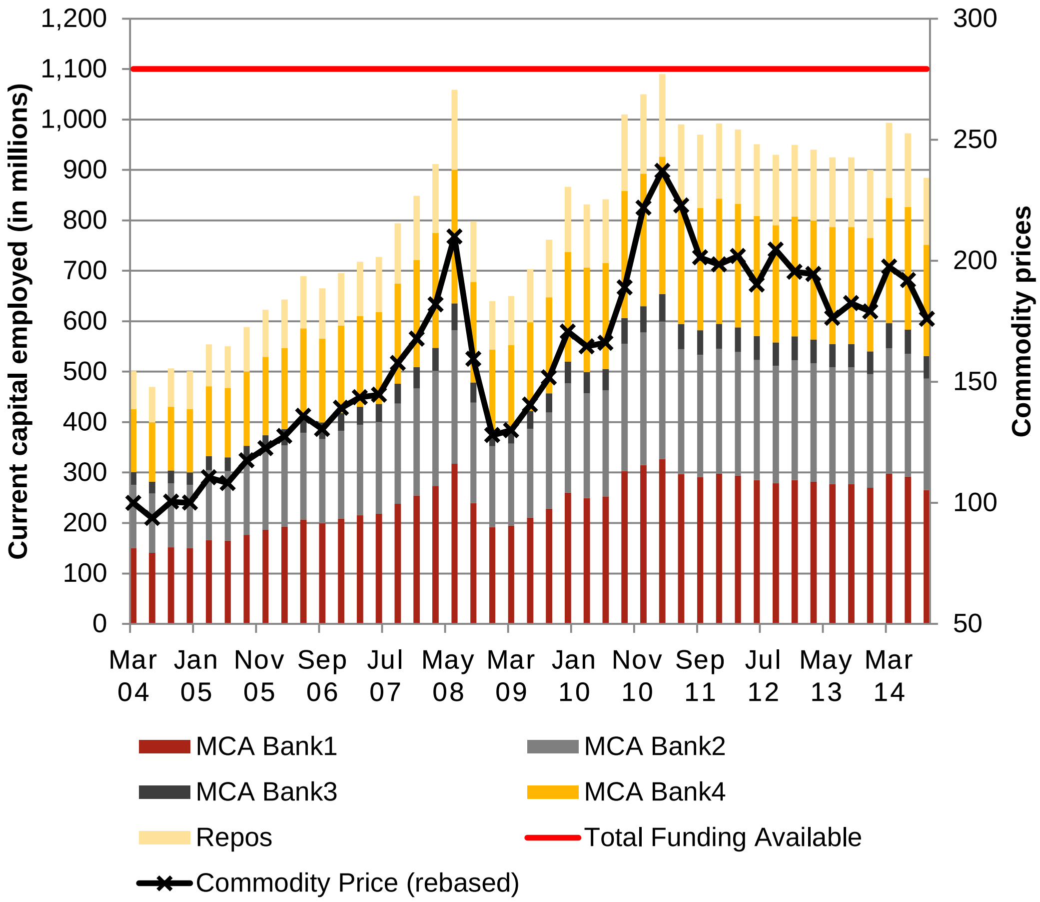
Overview of the structure and potential usages of "commodity financing"-transactions



Challenges for Financing of Commodity Trading and Procurement



Fluctuating working capital requirements:

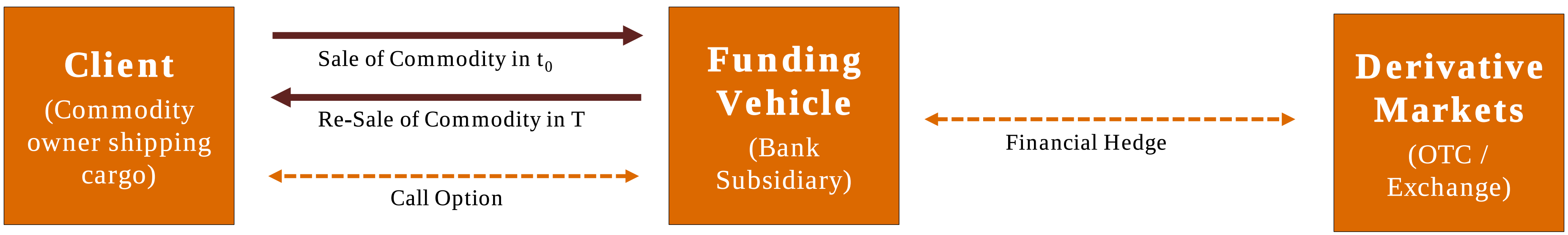
- Working capital requirements fluctuate strongly with (1) the volume of commodity shipments and (2) the level of commodity prices.
- In gas trading, there are strong seasonal pattern in working capital requirements.
- During periods of rising commodity prices, there is the risk that funding commitments in place will not be sufficient total working capital needs.

Use of different types of financing instruments:

- Different types of instruments including term loans, master credit agreements, repo facilities, letters of credit etc. are used to finance working capital in commodity trading.
- There are significant differences between different financing instruments in terms of their costs and flexibility. In particular, the most flexible sources of working capital are typically also the most expensive ones.
- Dedicated strategies are developed to optimize, the usage of available funding sources, i.e. to identify the optimal trade-off between minimization of funding costs and flexibility.

Structure of “Commodity Financing”-Transactions

Basic Structure of a “Commodity-Financing”-Transaction



(Physical) Sale and Repurchase between Client and Funding Vehicle

- The client (commodity owner shipping the cargo) sells the title to a physical cargo of commodities to a bank’s funding vehicle at the inception of the transaction. This special purpose vehicle can be designed to be off-balance sheet from the perspective of the bank funding the transaction.
- Upon arrival of the cargo at the defined delivery location, the funding vehicle or bank resells the title to the physical cargo to the client. As the funding vehicle does not enter into a firm obligation to resell the commodity for regulatory reasons, the client can enforce this resale by using the call-option written by the funding vehicle at the inception of the transaction.
- The “Commodity Financing”-Transaction only affects the financing of the cargo, i.e. the handling/organization of transportation are not affected by the transaction.

Financial Hedging by the Funding Vehicle

- The funding vehicle becomes the legal owner of the cargo and therefore is subject to the risk that the value of cargo fluctuates due to changing commodity prices.
- The funding vehicle uses financial instruments to hedge this price risk. Therefore, using “commodity financing”-transactions requires that there exists a liquid market for the underlying commodity (more likely for commodities of standard quality, cargo delivered at standard delivery locations etc.).

Requirements for Off-Balance Sheet Treatment according to IFRS

Preliminary Conclusions by audit firms

"Commodity Financing"-transactions may be treated as off-balance sheet financing if the structure of the transaction cumulatively meets the following requirements (see IFRS framework, para 49 (a) and para 89):

Future economic benefits

The future economic benefits of the commodity inventories accrue to the funding vehicle. This is the case when:

- The client exercises the call option and the inventories are exchanged for cash; or
- The funding vehicle sells the commodity in exchange for cash.
- Pricing of the transactions are at Fair value (no cost plus)

Control

The funding vehicle has control over the benefits that are expected to be generated from the commodity inventories. This is the case when:

- The funding vehicle is exposed price and counterparty risk relating to the commodity purchase;
- The funding vehicle has the ability to sell or pledge the commodity inventories;
- The funding vehicle bears the risk of damage or loss (or insures these risks);
- The funding vehicle bears the commodity storage costs and is in physical business
- The client cannot ship or transport the commodities

Value measure-able

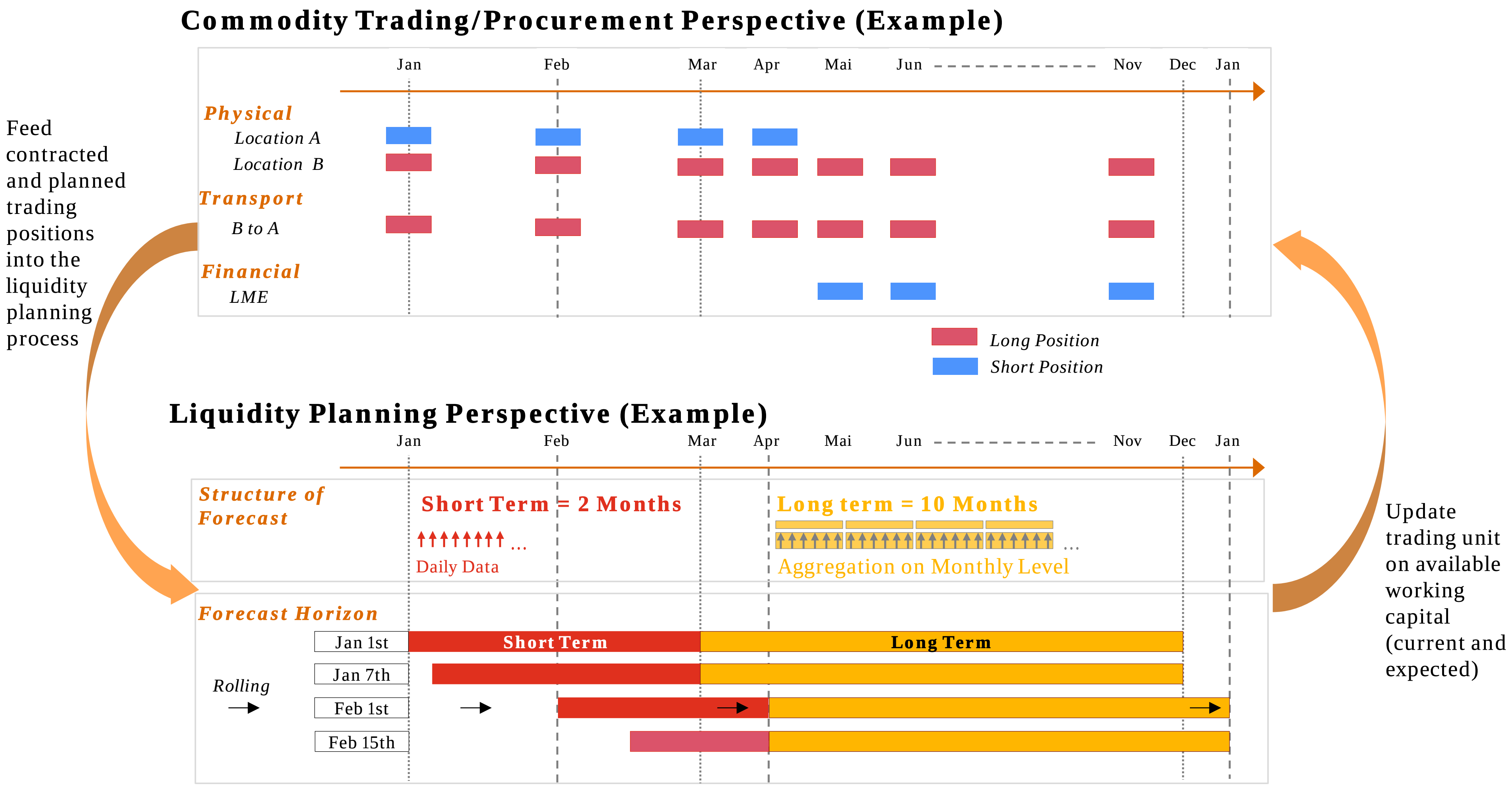
The costs or value of the assets transferred can be measured reliably. This requirement is generally fulfilled since there is a purchase price at which the commodity inventories are sold to the funding vehicle.

Derecognition

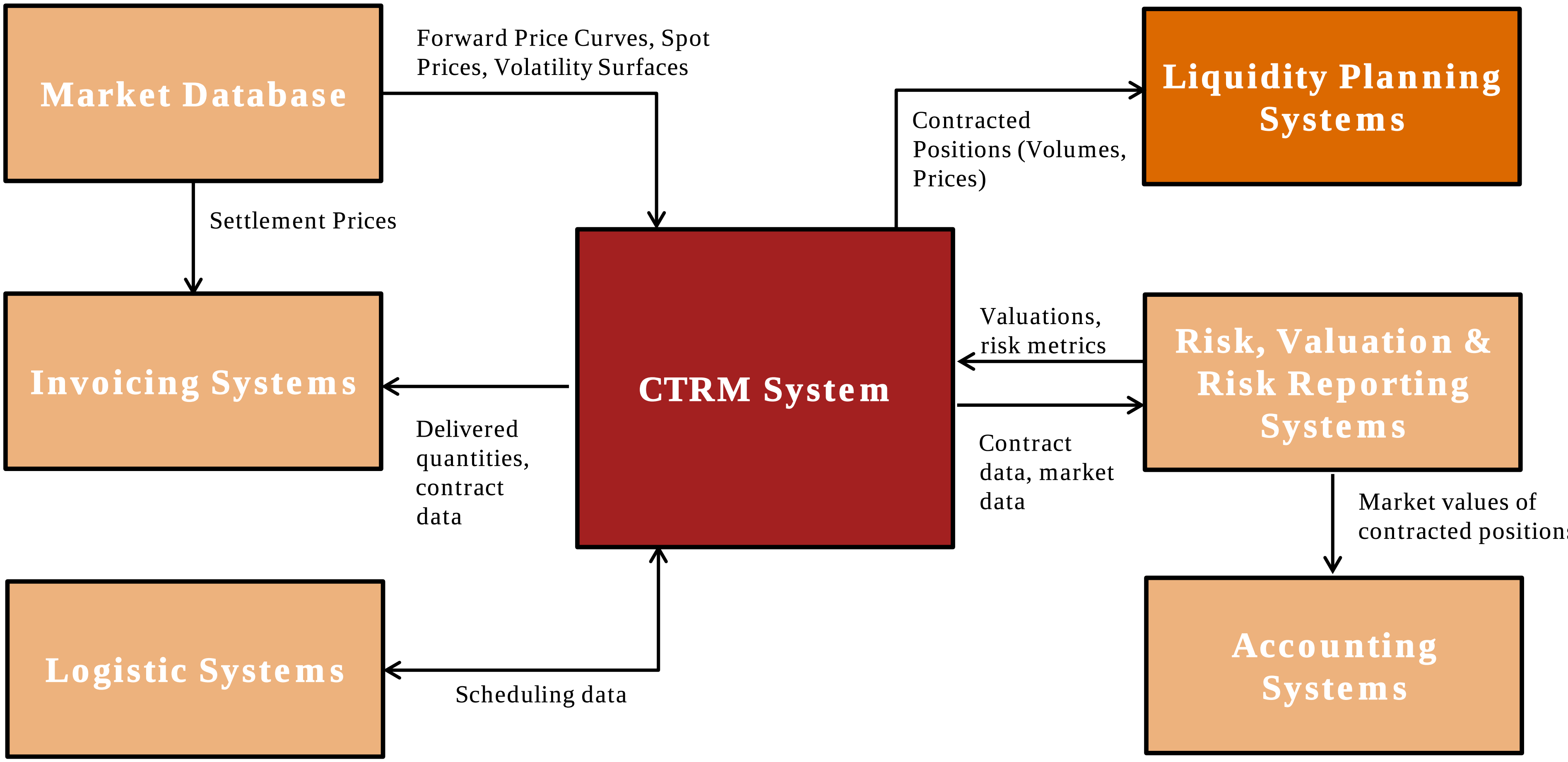
In addition to these accounting requirements, the required business processes need to be in place and need to be able to handle commodity financing transactions (-> also part of related audit procedures):

1. Liquidity planning processes
2. Interfaces between relevant IT systems

1 Aligning Business Processes at the Interface between Commodity Trading/Procurement and Liquidity Planning



Integrating Commodity Trading/Procurement Systems and Liquidity Planning Tools



Jeffrey Bollebakker

Director

Thomas R. Maltusstraat 5
Postbus 90357 1006 BJ
Amsterdam
p: +31 (0)88 792 5004
m: +31 (0)613 46 9462
J.bollebakker@nl.pwc.com

Résumé summary

Jeffrey is a Director within PricewaterhouseCoopers' (PwC) Treasury Advisory Services Practice based in The Netherlands (Amsterdam).

Jeffrey has more than 14 years of experience in treasury consulting and – audit and completed a variety of treasury projects for corporate treasuries and financial services institutions. Jeffrey has worked on multiple engagements across a broad range of subjects including treasury strategy, financial risk management Commodity Management, Treasury and Commodity System selection and Implementations, Regulations on financial Instruments such as MIFID and EMIR.

Expertise and experience

Jeffrey is responsible for Commodity Management and for the financial instrument accounting. Furthermore he is responsible for the regulatory changes relating to Financial Instruments.

Core expertise

- Commodity Management
- Risk Management and Accounting of Financial instruments
- System selections and Implementation

Relevant Project Experience

- Global Best Practice benchmark for BHP Billiton on Trading functionality relating to Deal life cycle, Risk Management, Governance & Controls and financial reporting.
- Several treasury and commodity system selection and implementations
- Financial instrument accounting at some large

Relevant training & education

Jeffrey holds a master in Accountancy & Control and a Chartered Accountant (RA) degree. In June 2010 he completed his Registered Treasurer degree (RT) Jeffrey regularly acts as a lecturer during domestic and international seminars and events. Jeffrey has been working in Miami for 2 years.

Thank you.

Back Up – US GAAP Considerations

US GAAP Accounting Considerations

- Under US GAAP it is difficult to structure an SPE vehicle for off balance sheet treatment for both the bank/CPC and the Client.
  - This will be especially problematic if the SPE only holds inventory sold by the Client, or the majority of assets held by the SPE is inventory sold by the Client.
- An obligation to buyback the inventory can exist under US GAAP.
- The key factors to avoid recording the inventory in a financing transaction under US GAAP are:
  - The bank/CPC must take on the risk of price fluctuations in the inventory during the holding period (i.e. both the purchase and sale of inventory by the bank /CPC must be at market).
  - The holding period by the bank/CPC must be sufficient enough to demonstrate price risk for the commodity being transferred to the bank/CPC.
  - The Client cannot be involved in any hedging activities that the bank/CPC transacts.
  - The use of an SPE specifically for Client inventory would likely cause the SPE to be consolidated by the Client.
- Under US GAAP the bank/CPC can have the ability to transfer the commodity to anohther party during the holding period as long as they are able to fulfill their obligations back to the client under the option or repurchase agreement.
- The transaction would likely not have to be considred for derivative implications if there is not a firm repurchase agreement and the transaction could potentially qualify for normal purchase, normal sales (NPNS) under US GAAP. If there is a firm repurchase agreement and the pricing is fixed, there could be derivative implications for any movements in fair value of the commodity if NPNS is not met.