

LPG Supply + BOT Terminal LPG Refrigerated East Java

RFI workshop



8th June 2016

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Bangkitkan Energi Negeri
Sinergi dalam Rantai Suplai

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Agenda for RFI workshop

Wednesday, June 8

Time	Topic	Description of topic
07:30	Opening	Background of the LPG BOT project; rationale and importance for Pertamina
08:00	LPG supply	Overview of the LPG supply and demand
08:30	Commercial I	Overview of project lifetime for BOT contract
09:00	Commercial II	Overview of pricing structure and consignment option
09:30	Risk, Legal and Tax	Overview of project's risk, legal and tax aspects
10:00	--Break--	
10:15	Terminal Operations and Maintenance	Overview of LPG spec., operations and maintenance of terminals, storage and distribution facility
11:15	General Q&A I	Q&A for other questions
12:00	--Break--	
13:30	Commercial III	Overview of land acquisition
14:00	General Q&A II	Q&A for other questions
15:00	Closing	

Today's presenters



NINA SULISTYOWATI

Vice President of
Strategic Planning &
Business Development
Marketing Directorate



HERU SETIAWAN

Vice President of
Corporate Strategic
Planning
Finance Directorate



HASTO WIBOWO

Vice President of
Crude & Product Trading
& Commercial
Integrated Supply Chain



HERMAWAN

Vice President of Assets
Strategy, Investment &
Divestment



SURYA TRI HARTO

Business Development
Manager
Marketing Directorate



RAINIER GULTOM

Domestic Gas Jr. Officer
Tariff Standardization
Marketing Directorate



AHMAD SUBARKAH

Senior Legal Counsel
Procurement
Legal & Compliance



AFAN AFTORY

Tax Planning & Advisory
Manager
Finance Directorate

Objective of today's workshop

- **Explanation of the LPG East Java BOT project and the information provided in the RFI**
- **Exchange of ideas to help develop, build, own, operate and transfer the asset**
- **Early engagement of interested parties**

▪ Introduction

- LPG supply and demand
- Commercial – Project lifetime
- Commercial – Consignment options and pricing structure
- Legal, Risk and Tax
- Operations and technical of LPG terminal
- Commercial – Land acquisition

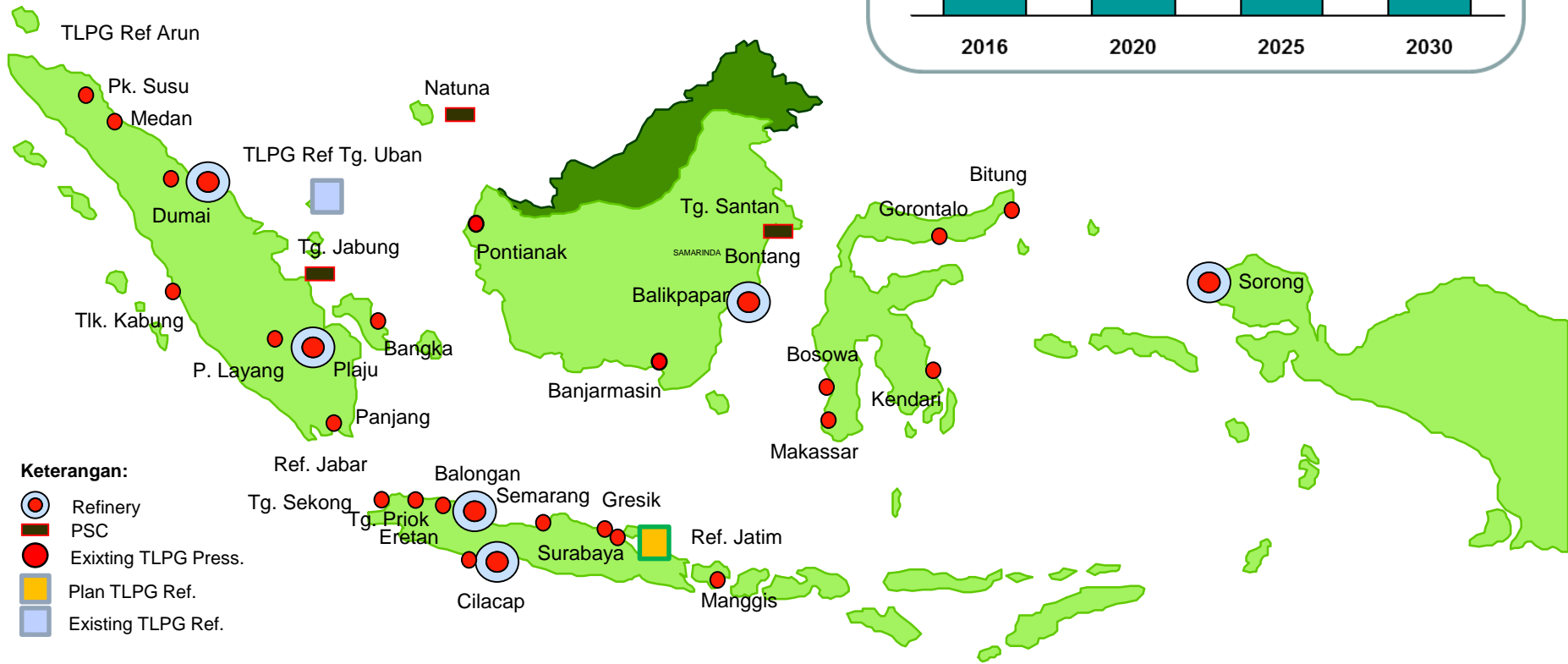
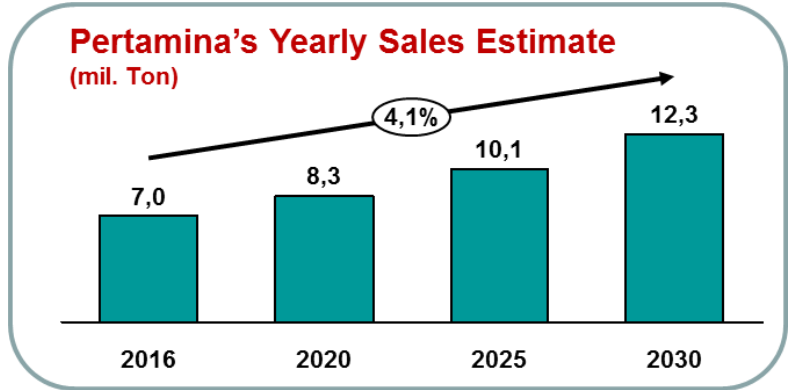
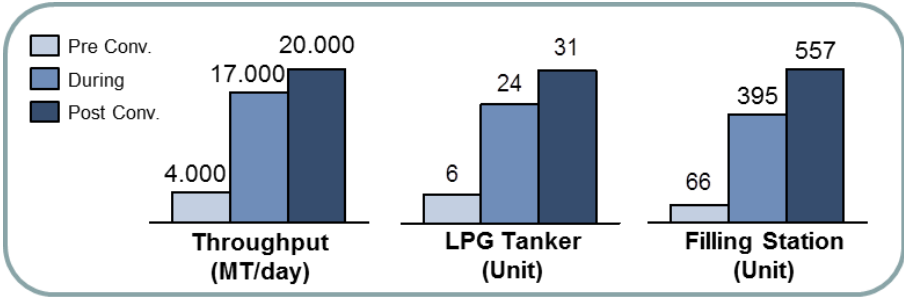
PERTAMINA

Indonesia Integrated Energy State Owned Company

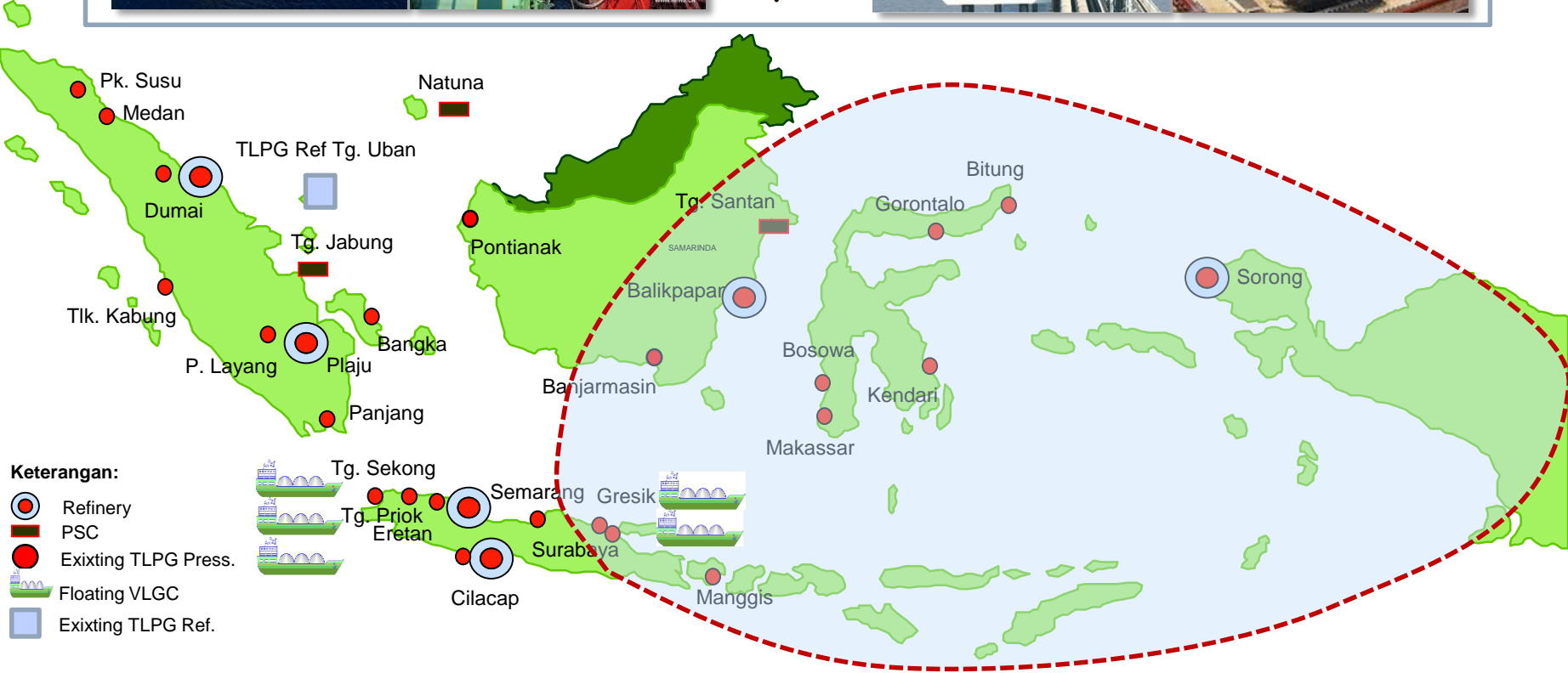
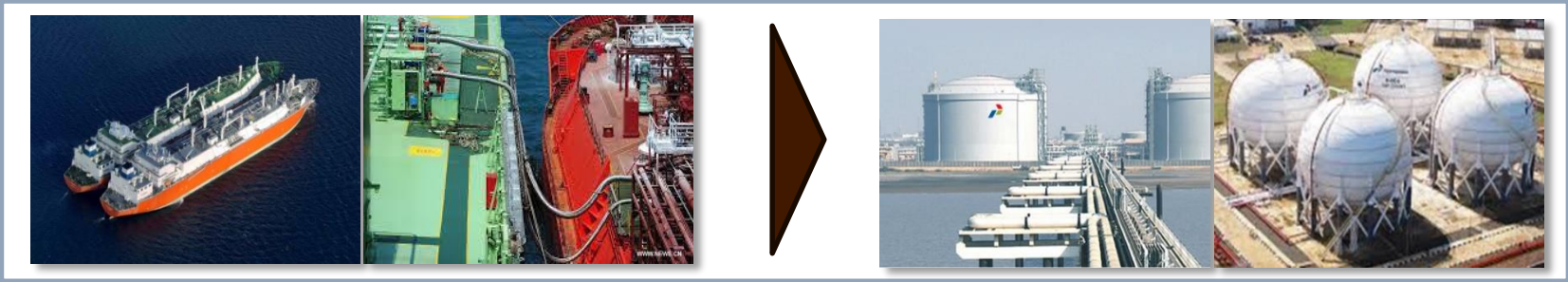


- **Pertamina manages an integrated operation both upstream and downstream, domestic and overseas, through its subsidiaries as a strategic operational arm length.**
- **Ranked 130 in Fortune Global 500 Year 2015 with revenues of \$70.6 billion.**

Following success of Kerosene to LPG conversion program, demand of LPG and its infrastructure increases rapidly



Considering operational & safety aspects, LPG Refrigerated Terminal at East Java will replace 2 floating VLGC to serve Eastern Indonesia at around 153.000 MT/month



Pertamina very keen to monetize long term supply of LPG with transfer of ownership and operatorship of LPG Terminal in East Java



PERTAMINA

Long term commitment for demand to be supplied to East Java Terminal

Long term contract

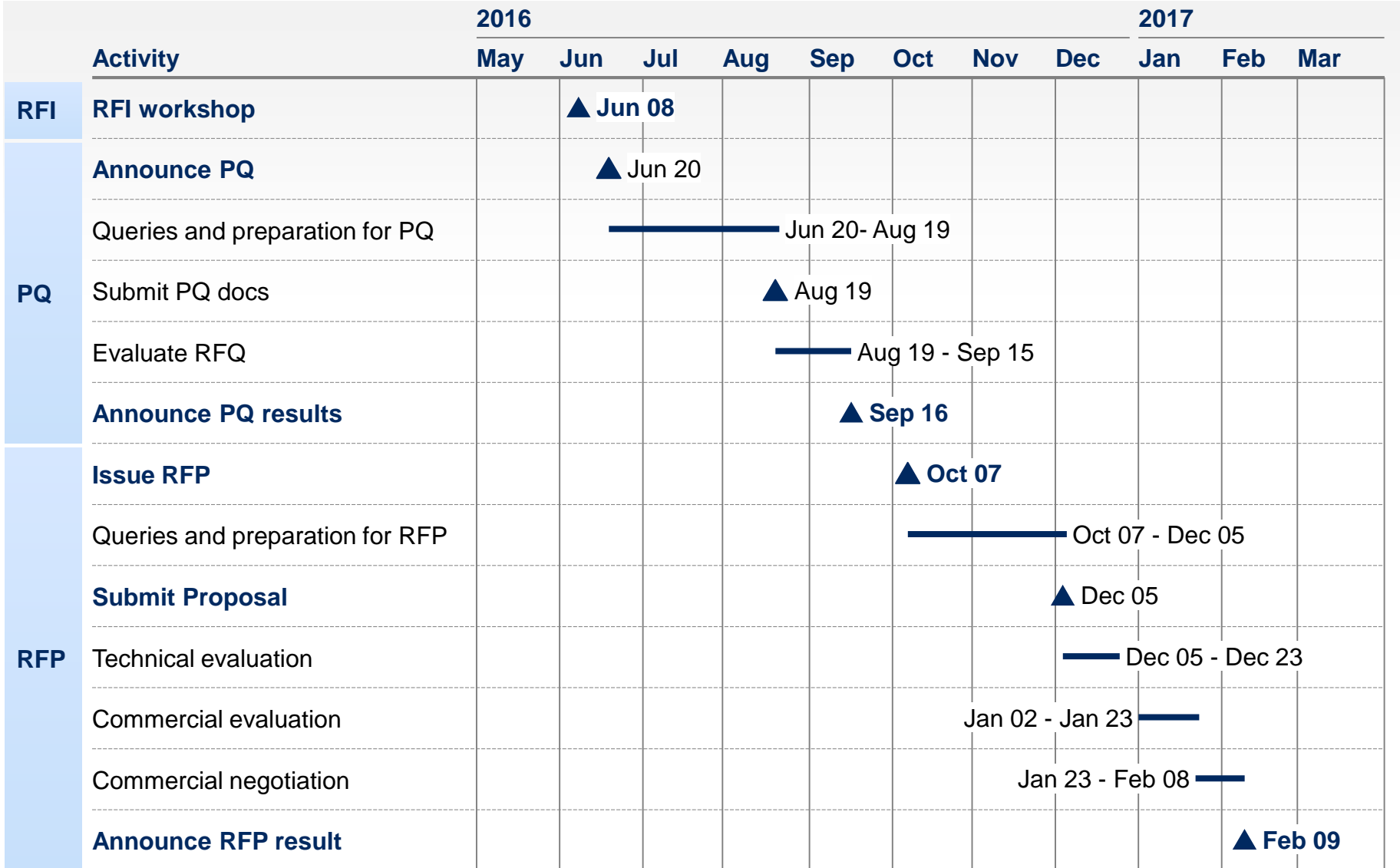


Cargo & Terminal



Long term commitment to supply LPG and operate LPG Refrigerated Terminal in East Java

Overall project timeline: expect to award BOT contract by mid Feb 2017

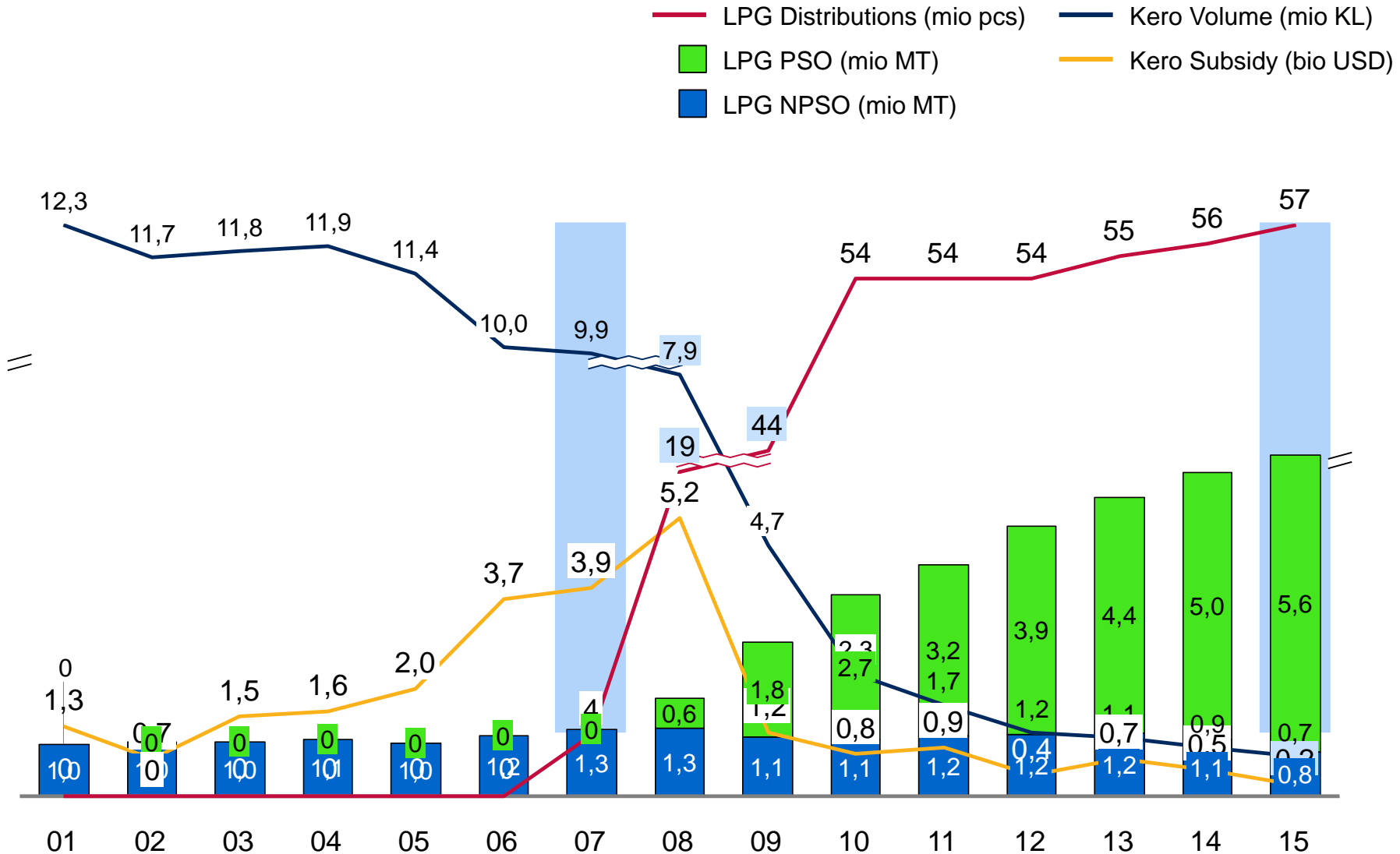


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Switching Journey

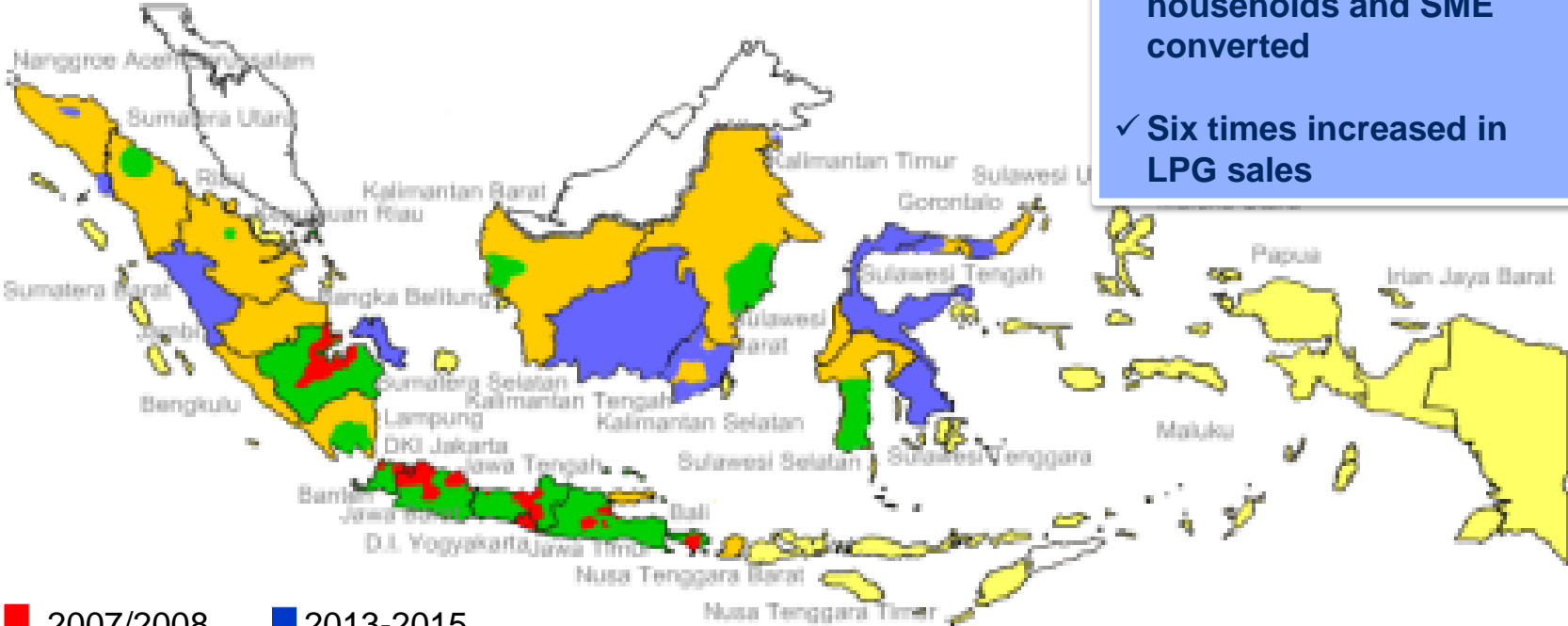
LPG as The Exceptional Energy



Pertamina's Kerosene to LPG conversion program has been acknowledged as the fastest energy conversion program in the world

Since 2007

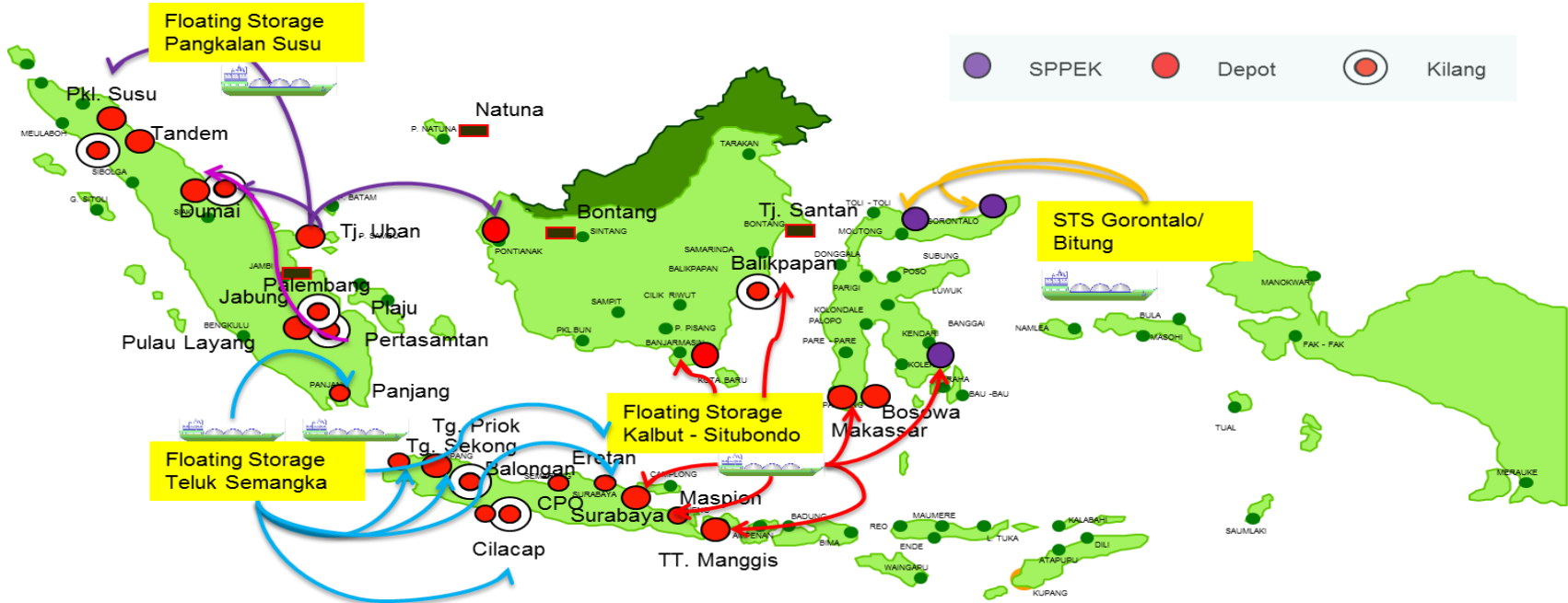
- ✓ More than 57 million households and SME converted
- ✓ Six times increased in LPG sales



- 2007/2008
- 2009
- 2010/2011
- 2013-2015
- Will be converted after 2018

Direct consequences on LPG infrastructure

LPG complicated supply system



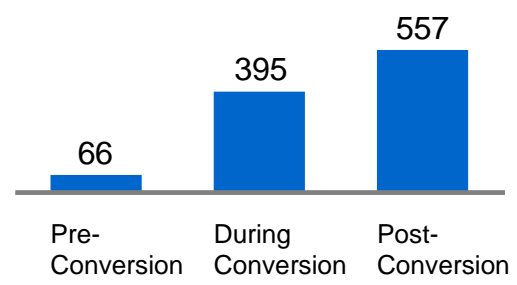
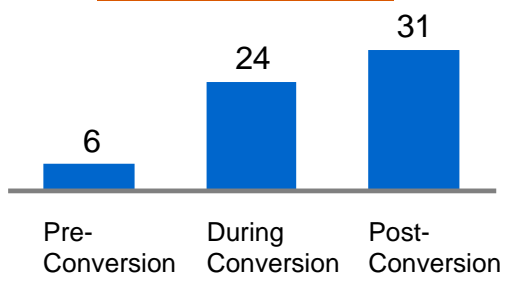
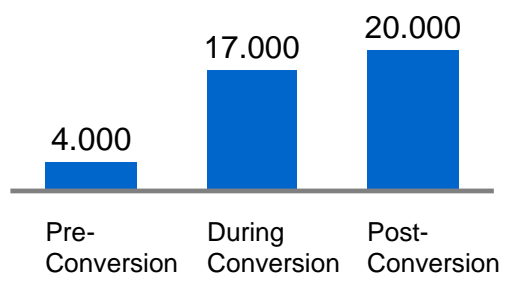
Thruput (MT/day)



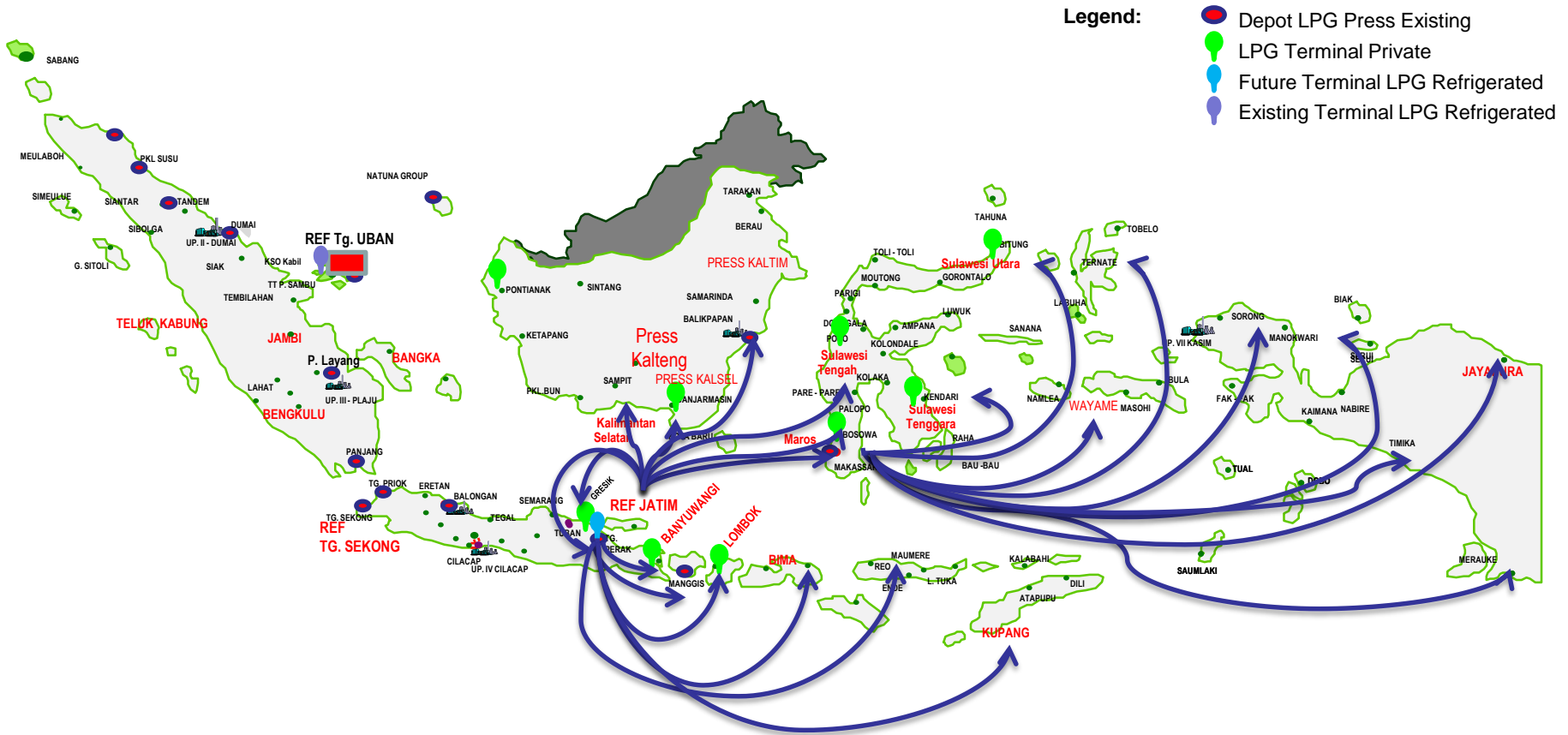
LPG Vessels



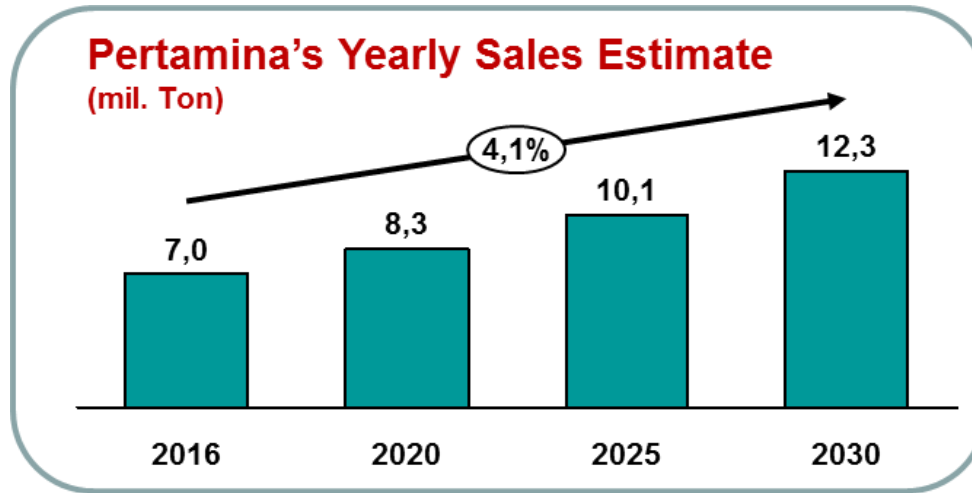
Filling Station



Year 2020 – 2030 LPG supply from East Java LPG Refrigerated Terminal



Indonesia LPG Demand 2016 – 2030



LPG Demand Supplied by East Java LPG Refrigerated Terminal:

- Annual demand of **LPG** from East Java Ref. Terminal in 2020 is ~2 million MT with a potential 3 - 5% annual increase.
- The annual demand shall be met by supplier(s) for minimum of 10 years.

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Project scheme: LPG long term supply for 10 years and BOT contract for 10/15/20 years



Long term contract



Cargo & Terminal



Activities

2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040
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Tender



Construction



LPG Supply

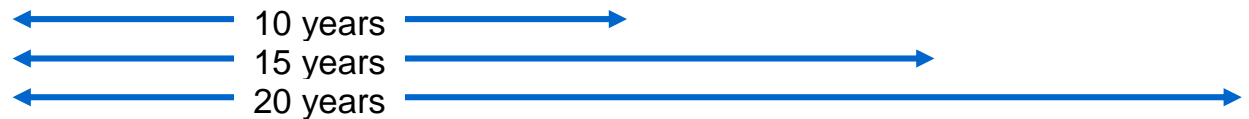


- Exclusive for Pertamina
- Supply to LPG Ref. Terminal
- Max 10 years after operation commencing in year 2020

- ▲ COD
- ▲ End of LPG supply contract
- ▲ End of BOT contract



Terminal LPG



- Exclusive for Pertamina
- Applicant(s) can propose BOT tenure up to 20 years
 - In the case of 10 year BOT, LPG supply contract and BOT contract will be co-terminus
 - In the case of 15/20 year BOT, LPG supply contract and BOT contract will not be co-terminus.
- After BOT contract duration, Ownership and Operatorship of LPG Terminal shall be handed over to Pertamina at set salvage value to be determined by Pertamina.



Contents

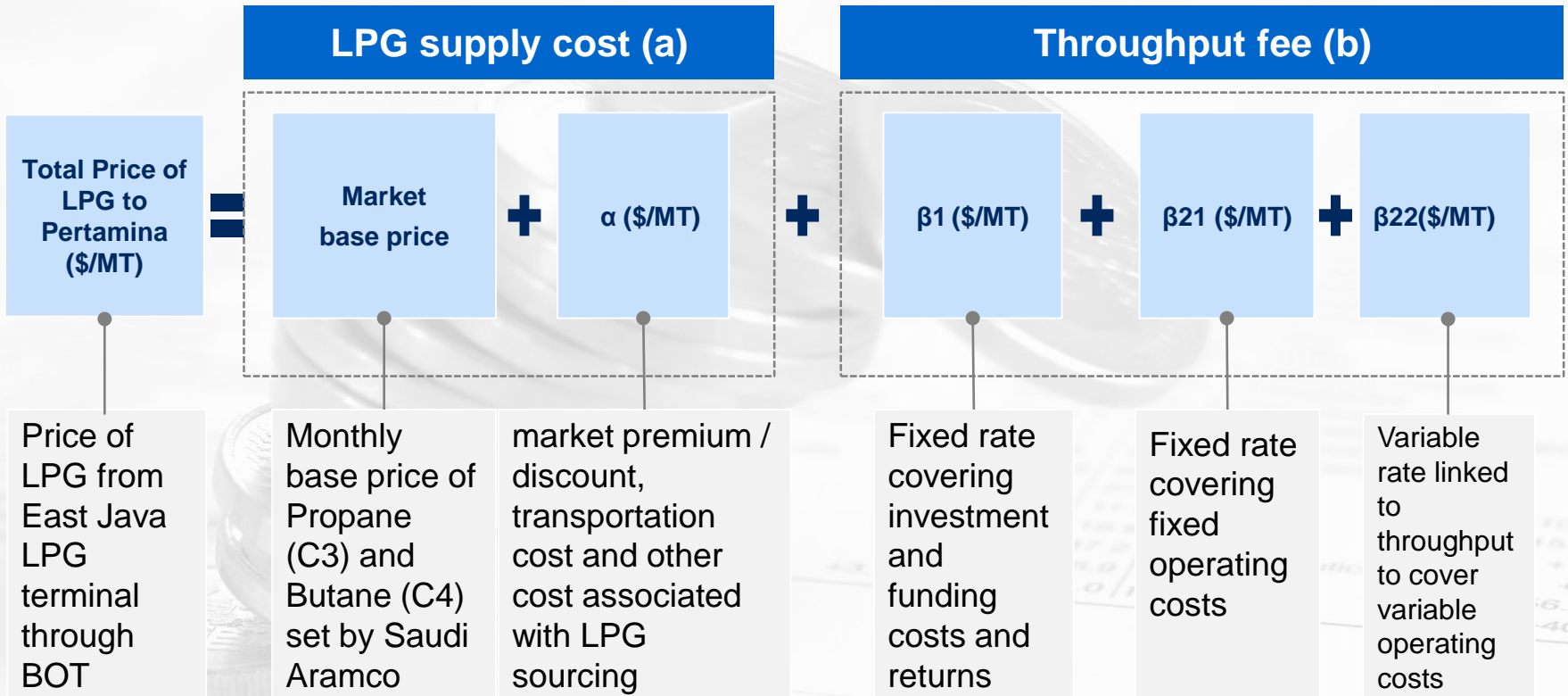
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Consignment Options : Supplier Held (SHI) vs Supplier Managed (SMI)

Clause	Supplier Held Inventory	Supplier Managed Inventory
Ownership	Supplier	PERTAMINA
Management of Inventory	Supplier	Supplier
Basis of Delivery	FOB East Java terminal	FOB International loading port (in case using PERTAMINA's vessel), and CFR East Java terminal (in case using supplier's vessel)
Transfer of Title	East Java terminal	International loading port
Responsibility	Supplier shall undertake all of the import business processes until the cargo entitlement is transferred to offtaker at East Java Terminal, such as but not limited to manage import permits, custom clearance, etc.	<ul style="list-style-type: none"> -Based on incoterm 2010 for FOB & CFR -Supplier sources the cargo, and PERTAMINA as importer -PERTAMINA shall be responsible for Import permits and custom clearance
Market Base Price	Based on month of back loading at East Java Terminal	Based on month of delivery at discharging port of East Java Terminal

Commercial – Pricing Structure

Pricing formula for LPG to be delivered to Pertamina



C3/C4 ratio : 40-60% / 60-40% (Butane rich is more likely in the future)

The LPG Supply Tenure is fixed 10 years. The review of alpha may consider prevailing market conditions. If there is no agreement, then the lowest α during the period of the agreement shall be applied for the relevant year.

BOT Tenure is open more than 15 years. Further details about throughput fee are going to be explained by Finance team.

minimum throughput to be defined by Pertamina

Commercial – Frequently Asked Clauses

Clause	Description
LPG Volume	<ul style="list-style-type: none"> Annual throughput of 2 Million MT of LPG is to be supplied for over 10 years during the life time of the BOT contract with a potential 3-5% increase every year
LPG Price	<ul style="list-style-type: none"> α (\$/mt) based on market price C3/C4 price indexed to CP Aramco
Throughput Fee	<ul style="list-style-type: none"> β (\$/mt) shall include components for capital cost and operating cost recovery
Consignment Management	<ul style="list-style-type: none"> PERTAMINA prefer to uses Supplier Held Stock (SHS) scheme, means the ownership and management of the LPG shall be with the Supplier and transfer of title of LPG occur at East Java Terminal
O&M & Shipping	<ul style="list-style-type: none"> Supplier may consider to prioritise PERTAMINA subsidiaries maintenance services and shipping
Penalty	<ul style="list-style-type: none"> There shall be penalty including but not limited to failure to achieve the required Commercial Operation Date, supply shortfall in terms of quantity, quality and delay in delivery, inventory under safety stock in accordance with provisions set in RFP
Losses	<ul style="list-style-type: none"> Losses tolerance for R1 (between B/L figure and ship figure after loading) at East Java Terminal should be limited to (max. 0.05%)
Financing Pledge	<ul style="list-style-type: none"> Supplier shall release the financing's pledge of all the asset of LPG Terminal 1 year before the end of the BOT tenure (if supplier uses Project financing to build LPG Terminal)

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I The State Owned Enterprise (SOE) Minister Decree No.13/MBU/09/2014 Chapter III Point II.5 about Partner's obligation

If built in PERTAMINA Land, PERTAMINA as SOE :

1. a sinking fund by the Applicant(s).
The fund should amount to the capex value of the Project divided by Project life time, i.e. 10 years/15 years)
2. Provide annual or certain period compensation to PERTAMINA;
3. Insurance;
4. Submit periodical report on condition and/or of building reconstruction, facility and/or infrastructure;
5. Maintain the buildings, facility and/or infrastructure;
6. Transfer the Fixed Asset that was used along with the buildings, facilities and infrastructure which is located in the utilised Fixed Asset to SOE in full functionality, disassemble the Fixed Asset that must be dismantled and guarantee free from any lawsuits and the rights of third party at the end of contract).

Definition of Sinking Fund

Guarantee in form of sinking fund during the contract in **an escrow account** adjusted with the cooperation period (**100% of investment value divided by cooperation period**).

Sinking fund as performance guarantee of **maintenance, reconstruction, and/ or transfer of Fixed Asset** as the object of cooperation, thus the transfer of Fixed Asset to SOE in **a full functionality**.

II Qualification of Applicant(s)

- a. Applicant(s) are either domestic or foreign business entities, including Joint Venture, Consortium, SOE.
- b. LPG Supplier in the Applicant(s) shall be part of DMUT list. If not, shall apply to be pre-qualified so as to be able to get added to the DMUT list.
- c. Sign the Letter of Undertaking.
- d. Have professional qualification, technical capability and managerial based on particular experience, manpower, capital, equipment and sufficient facilities.
- e. Legally, it has ability to sign a contract (letter of Agreement / Letter of order).
- f. Sign Statement Letter on a stamp.

For Foreign companies, qualification is principally same as domestic companies. For documents qualification issued by Indonesian Government (such as Trade Business License, Business Registry, Tax Registration Number) will be replaced by similar legal documents issued in the home country. If the documents are not in English, they must be completed with translation from Sworn Translator.

- a. Applicant(s) shall provide document of the **updated Consortium Agreement**.
- b. Consortium agreement is made by Notary which covers each work division, authorities and responsibilities of consortium members according to the Scope of Work/ Bill of Quantity from PERTAMINA.
- c. Consortium agreement must cover following points:
 - Minimum Cooperation period is during work completion period plus maintenance period.
 - Mention the name of Consortium Leader and the name of members.
 - Detail of work division and responsibilities based on the competency and experience of each party.
 - Jointly and severally liability

IV Breach of Contract

Disruption to construction or operation of the Terminal during the BOT tenure for reason other than force majeure shall have penalties that shall be detailed after RFI phase of the tender.

If the Applicant(s) fails to construct the Terminal on time as mentioned in RFP, PERTAMINA has the right to take over the construction and terminate the contract.

Project risks

Clause	Notes
5.6.1 Details of all the possible risks involving the LPG supply and Build-Operate-Transfer of the LPG Terminal for 10 years/15 years/20 years shall be detailed out with risk mitigation steps as well in RFP	<p>Pertamina want to ensure it's Partner aware and manage their own risks.</p> <p>Applicant(s) should asses their own risk using Pertamina Risk Register Template</p>
5.6.2 The Risk identification and analysis should be done using Pertamina Standards	<p>Awarded Applicant(s) should implement their mitigation plan for every risk that identified.</p>
5.6.3 The Risk Mitigation Implementation shall be reported to Pertamina	<p>Awarded Applicant(s) should report (with evidence) the implementation of the mitigation plan periodically</p>

Tax implications of Build-Operate-Transfer project

BUILD

Build : Set up facilities and develop infrastructure & building

OPERATE

OPERATE : Manage, maintenance, enhancement and product support

TRANSFER : Transfer Assets and Handover Operation

TRANSFER

Build the LPG PLANT on the land owned by Land owner



- BOT Scheme has no tax implication at the beginning as identified no prior transfer asset.
- Normal Tax Implied on VAT (10%) and PPh art 4(2) Construction Services for the party who build the object : (2%-4%) refer to certification Contractor

OPERATE the LPG PLANT by operator



- Normal Tax Implied on PPh art 23 (2%) and VAT (10%) for LPG Plant services
- Other tax implied based on the activity of operator such as importing goods (import duty), and other commercial activities (corporate Income Tax)

TRANSFER the LPG PLANT Operator to Land-owner



- Tax Implied on Asset Transfer :
 - a. PPh 25% on Transfer Asset on market price or Taxable Price, whichever higher (tax regulated 5% payment on transaction and 20% at the end of year fiscal;
 - b. Transfer right of property (BPHTB) 5% on Taxable price;
 - c. VAT 10% on Market Price

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Composition and Specification of LPG

According to SK DirJen Migas No. 26525K/10/DJM.T/2009 31 December 2009

PRODUCT PROPERTIES of PROPANE (MSDS)

TEMPERATURE	:	<u>-42</u>	°C
OPS. PRESSURE	:	<u>12</u>	Kg/Cm ²
VAPOUR PRESSURE at 100 F	:	<u>13.3</u>	Kg/Cm ²
DENSITY 15 C	:	<u>0.51</u>	Kg/Ltr

PRODUCT PROPERTIES of BUTANE (MSDS)

TEMPERATURE	:	<u>-4</u>	°C
OPS. PRESSURE	:	<u>4</u>	Kg/Cm ²
VAPOUR PRESSURE at 100 F	:	<u>4.1</u>	Kg/Cm ²
DENSITY 15 C	:	<u>0.58</u>	Kg/Ltr

PRODUCT PROPERTIES MIX LPG di STORAGE (As Design Reference)

TEMPERATURE	:	<u>1</u>	°C (MIN)	65 °C (MAX)
OPS. PRESSURE	:	<u>8</u>	Kg/Cm ²	
VAPOUR PRESSURE at 100 F	:	<u>11.2</u>	Kg/Cm ² (MAX)	

DENSITY	:	Reported	Kg/Ltr	According to SK DirJen Migas No. 26525K/10/DJM.T/2009 31 December 2009
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STANDARD DESIGN INSTALLATION

<input checked="" type="checkbox"/>	MIGAS GUIDELINE
<input checked="" type="checkbox"/>	MIGAS SKPI CERTIFICATE
<input checked="" type="checkbox"/>	NFPA 58

Technical aspects: proposed infrastructure required¹

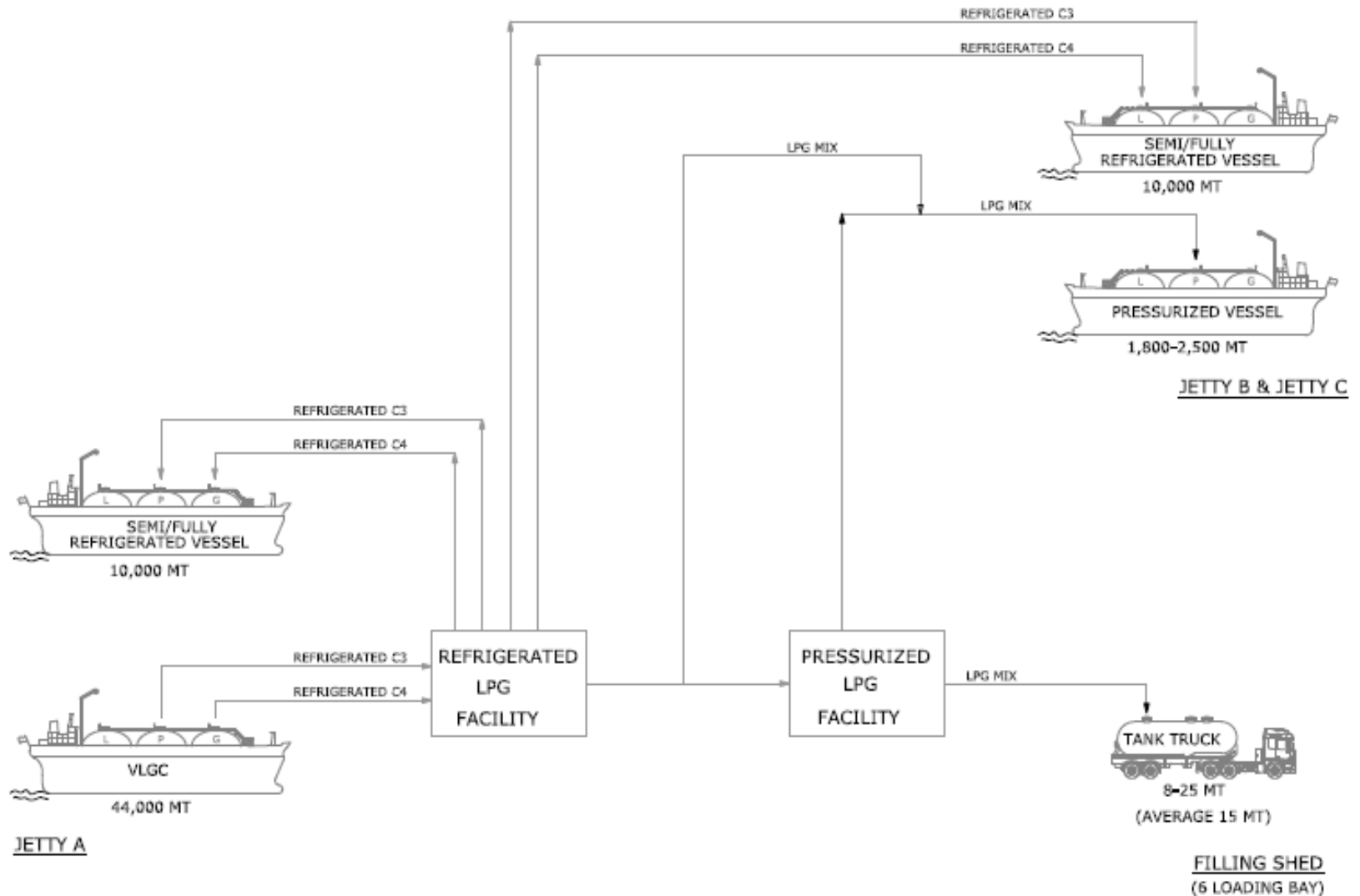
- **Jetty A** : cap. 25.000 – 65.000 DWT
 - VLGC : 44.000 MT
 - Fully/Semiref LPG : 10.000 MT
- **Jetty B** : cap. 6.500 – 25.000 DWT
 - Fully/Semiref LPG : 10.000 MT
 - Pressurized LPG : 1.800 – 2.500 MT
- **Jetty C** : cap. 3.500 – 25.000 DWT
 - Fully/Semiref LPG : 10.000 MT
 - Pressurized LPG : 550 – 2500 MT
- **Marine Loading Arm**, Gangway, Quick Release Hook
- **Propane & Butane Storage Tank** : cap. 2 x 44.000 MT
- **LPG Spherical Tank** : 3 x 2.500 MT
- **BOG Compressor** (BOG Recovery System)
- **Pumps** : Backloading, Transfer, Recirculation, Truck Filling
- **Heat Exchanger** : Propane Heater, Condenser
- Mass Flow Meter, Weight Bridge, Truck Loading Arm
- **Utilities** : Flare, Instrument Air, Nitrogen, Emergency Power Generator,
- **Fire Protection System** : Cooling/Fire Water Pump, Fire & Gas Detector
- Office Building, Control Room, Lab, Polyclinic, Fire Truck Shelter

¹ Alternative to proposed infrastructure based on appropriate engineering study or simulation is possible

Operations of the LPG Refrigerated Terminal

- **Receiving** : Propane & Butane
 - Jetty A (incl. Marine Loading Arm, Gangway, Quick Release Hook) : VLGC
 - Flow rate : 800 - 1.200 MT/hr
 - Custody Transfer Metering System (CTMS)
- **Storage** : Propane, Butane, Mixed LPG
 - Propane & Butane Storage Tank : cap. 2 x 44.000 MT
 - LPG Spherical/Pressurized Tank : 3 x 2.500 MT
 - TGS-guided Wave Radar Gauge
 - To maintain BOG: BOG Compressor & Recovery System
 - To cool down piping: Recirculation Pump
 - Propane & butane to LPG tank: Transfer Pump, Propane Heater, Inline Blending
- **Distribution** :
 - Jetty B : Propane & Butane to Fully/Semiref LPG, Mixed LPG to Press. Vessel
 - Jetty C : Propane & Butane to Fully/Semiref LPG, Mixed LPG to Press. Vessel
 - Truck Loading Bay : Mixed LPG to Skid tank
 - Propane & butane to Fully/Semiref Vessel : Backloading Pump, Custody Transfer Metering System (CTMS), Marine Loading Arm
 - Propane & butane to Press Vessel : Transfer Pump, Propane Heater, Inline Blending, Custody Transfer Metering System (CTMS), Marine Loading Arm
 - Mixed LPG to Skid Tank : Weigh Bridge linked to Flow Computer (TAS), Truck Filling Pump, Truck Loading Arm

Block Flow Diagram of LPG Distribution Process

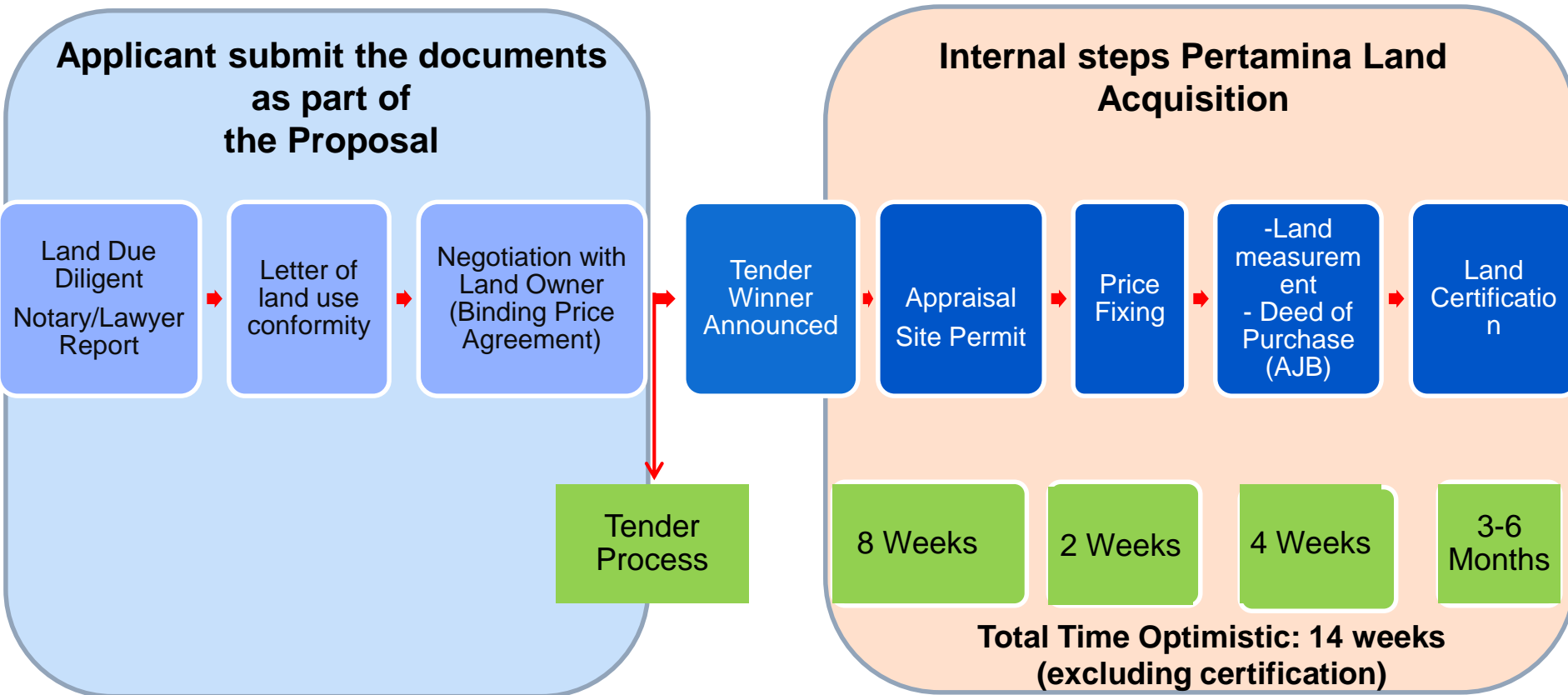


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Different schemes of Land and Asset ownership in RFI

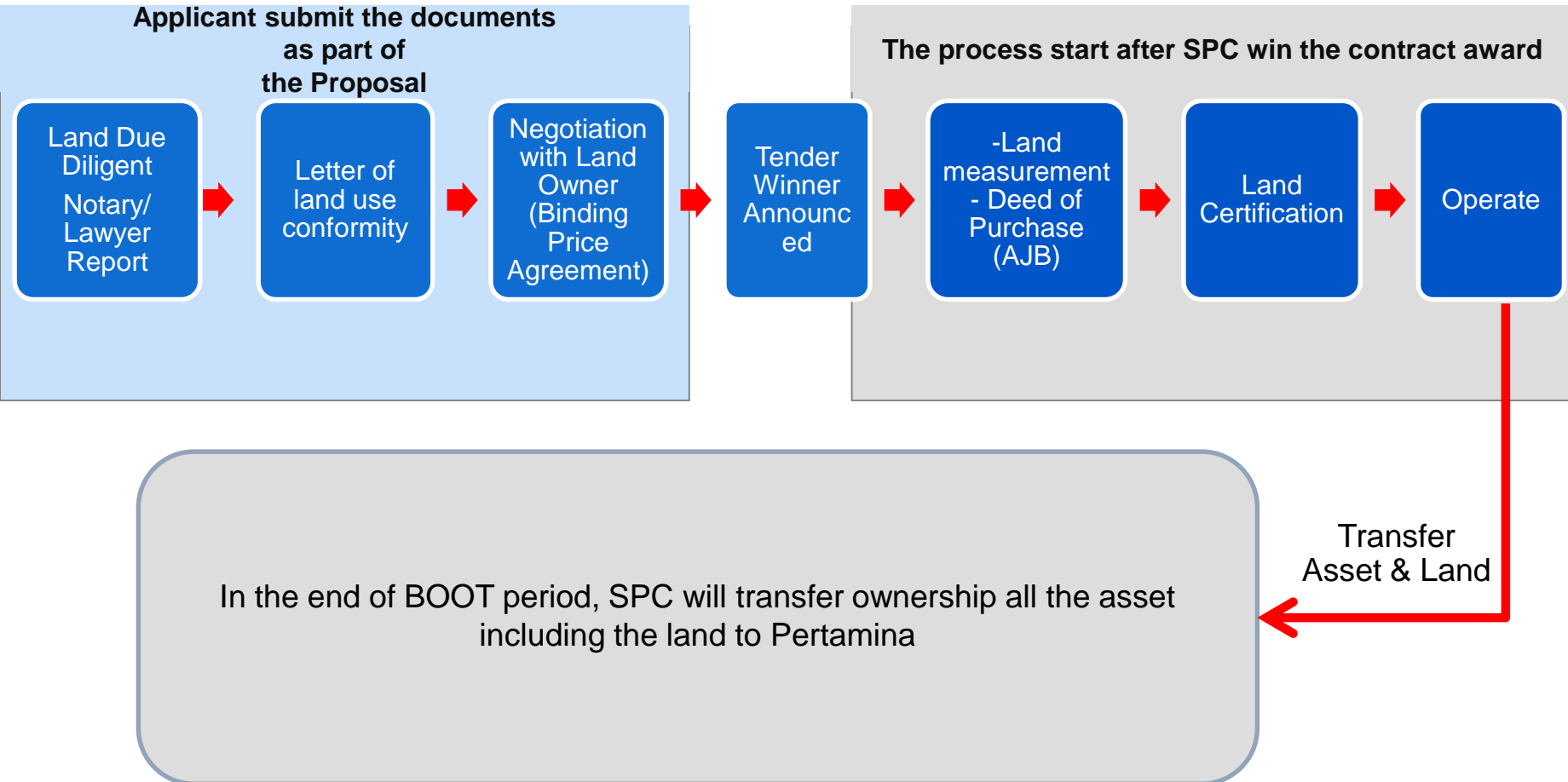
1 RFI Scheme Pertamina buy land directly from landowners (BOT)



Different schemes of Land and Asset ownership in RFI

Alternative Scheme :

- Land and Asset will be transferred by SPC to Pertamina in the end (Build Owned Operate Transfer / BOOT)



1 Terms & condition of Land scheme for BOT option (1/4)

1. Land due diligence (clean & clear status)
2. Site permit
3. Price
4. Taxes

1 Terms & condition of Land scheme for BOT option (2/4)

Item	Term & condition
Land due diligence (clean & clear status)	<ul style="list-style-type: none"> a) Applicant should submit the land due diligence report from Notary or Lawyer showing that there are: 1) no illegal occupant, 2) valid legal document, 3) no land dispute, 4) not pledged to the Bank. All information must be provided with supporting documents released by authorized party. b) The report should be submitted along with technical document as part of Proposal c) The proposed land status must not be Hak Guna Bangunan diatas Hak Pengelolaan d) Land that has been certified by National Land Agency will get the highest score in the technical evaluation e) These requirements in points a , b and c are mandatory and which do not meet will be disqualified
Price	<ul style="list-style-type: none"> a) Applicant should do negotiation directly to the land owner b) The result of negotiation must be made in a binding agreement and will be the transaction price between Pertamina and the Land Owner(s) as long as the agreed price is below or equal with the appraisal price. c) In term of the agreed price exceeds the appraisal price conducted by the independent appraisal consultant appointed by Pertamina, SPC must pay the difference of price expensiveness
Site permit	<ul style="list-style-type: none"> a) Applicant must obtain the letter of land use conformity from local goverment b) The letter should be submitted along with technical documents c) SPC on behalf of Pertamina should provide site permit (ijin lokasi) for LPG terminal with their own cost (post award winner announcement)

1 Terms & condition of Land scheme for BOT option (3/4)

Item	Term & condition
Transactions	<ul style="list-style-type: none">a) The deed of land purchase between Pertamina and land owners will be signed after site permit (ijin lokasi) is acquired by the SPC.b) In term of price expensiveness, SPC must pay the difference of price expensiveness to Pertamina whom then will pay in full amount to the land ownersc) Land certification cost will be Pertamina's responsibility
Taxes	<ul style="list-style-type: none">a) In term of price expensiveness, SPC must pay the difference of tax that occur to Pertamina whom then will pay in full amount to the Governmentb) The land owner(s) must pay their own tax obligation

1 Terms & condition of Land scheme for BOT option (4/4)

Business structure

BOT (Build Operate Transfer)

Partner builds property on Pertamina's land, operates the property for certain agreed period, then transfer the property to Pertamina at the end of agreement period.

Compensation for Pertamina as the Land owner

- **Fix Compensation :**
minimum : $3.33 \% \times \text{Asset's market value}$
→ market value is based on Independent appraisal calculation every 5 years
- **Variable Compensation :**
 $\text{Ratio Asset Value to Total Project Investment} \times \text{Current Year Profit}$
- **Transfer Project to Pertamina in the end of partnership period**

Object

- Fixed Assets in the form of land and/or buildings.
- Buildings and its facilities will be considered as collaboration object after the agreement period begins.



Time Period

- Stipulated on the agreement based on business calculation, laws and regulation.
- Can be extended with terms & conditions applied.

Partner's Responsibility

- Fixed contribution
- Profit sharing
- Property insurance
- Land & building tax
- Periodic report
- Property maintenance
- Property transfer
- Sinking Fund on Escrow Account (100% of CAPEX divided by agreement period)

2 Terms & condition of Land scheme for BOOT option (1/2)

1. Land Ownership
2. Transfer Price
3. Taxes

2 Terms & condition of Land scheme for BOOT option (2/2)

Item	Term & condition
Land Ownership	<ul style="list-style-type: none"> a) Applicant should submit the land due diligence report from Notary or Lawyer showing that there are: 1) no illegal occupant, 2) valid legal document, 3) no land dispute, 4) not pledged to the Bank. All information must be provided with supporting documents released by authorized party. b) The land status must not be Hak Guna Bangunan diatas Hak Pengelolaan c) The report in point a should be submitted along with technical document as part of Proposal and it is mandatory in the tender process and applicant that do not meet will be disqualified d) Template of land and asset transfer agreement will be provided by Pertamina in the RFP e) After winning the contract award, the land must be owned by SPC f) The land should be certified by National Land Agency g) The land must be clean and clear { 1) no illegal occupant, 2) valid legal document, 3) no land dispute, 4) not pledged to the Bank } when the land is transferred to Pertamina
Transfer Price	<ul style="list-style-type: none"> a) There is no salvage value to be paid by Pertamina b) All cost related to land and asset transfer must be already calculated in the LPG tariff that is proposed by Applicants
Taxes	<ul style="list-style-type: none"> a) Land transfer price will be used to determine the related taxes is calculated based on appraisal result in the end of BOOT term b) In the end of BOOT period, SPC will have to pay the transfer tax

Key questions from you

Questions

- 1 **Bundling**
- 2 **Currency**
- 3 **Salvage value**
- 4 **Pertamina's share**
- 5 **Consortium leader**
- 6 **Consortium members**
- 7 **Pertamina subsidiaries**
- 8 **Safety stock level**
- 9 **Losses**
- 10 **Presidential decree no.44**
- 11 **Technical design alternatives**

Answers

- 1 Project is bundled for LPG supply and terminal
- 2 Contract will be in USD; payment for component Beta will be in IDR (in compliance with Bank Indonesia regulation) and component alpha will be confirmed in RFP
- 3 The duration of terminal utilization will be 20 year BOT. The salvage value including land will be zero.
- 4 Pertamina will not be part of any consortium or SPC
- 5 In case of single bidder, it shall be LPG supplier. If it is a consortium, leadership may be any of its member
- 6 No restriction in number of members in consortium; members and major sub-contractors (e.g. EPC) must be exclusive to one (1) consortium; one consortium can propose more than one proposal for different location
- 7 Use of Pertamina subsidiaries is suggested, but not mandatory, and no guarantee for the performance will be provided
- 8 To be confirmed (possibly 3-4 days)
- 9 To be confirmed, but Pertamina's standard is 0.2%-0.3%
- 10 Presidential decree no.44 does not apply to this BOT project
- 11 Technical design alternatives are allowed if they are technically better than the proposed design in RFI

A close-up photograph of a hand holding a grey marker, writing the words "Thank you" in a cursive script on a white surface. The marker is positioned at the end of the word "you", and a soft shadow is cast to the right. The background is plain white.

Thank you