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# MACQUARIE KOREA INFRASTRUCTURE FUND

Securitisation of the shareholder  
loan in Baekyang Tunnel Limited

January 2008





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# Contents

- Transaction highlights
- Securitisation structure
- Key terms of the bonds
- Impact on MKIF portfolio
- Transaction rationale
- Conclusion

## Appendices

1. Baekyang Tunnel Overview
2. Revised CA forecast revenues
3. Traffic performance



# Transaction highlights

## MKIF monetising its asset at a substantial gain while securing further upside potential

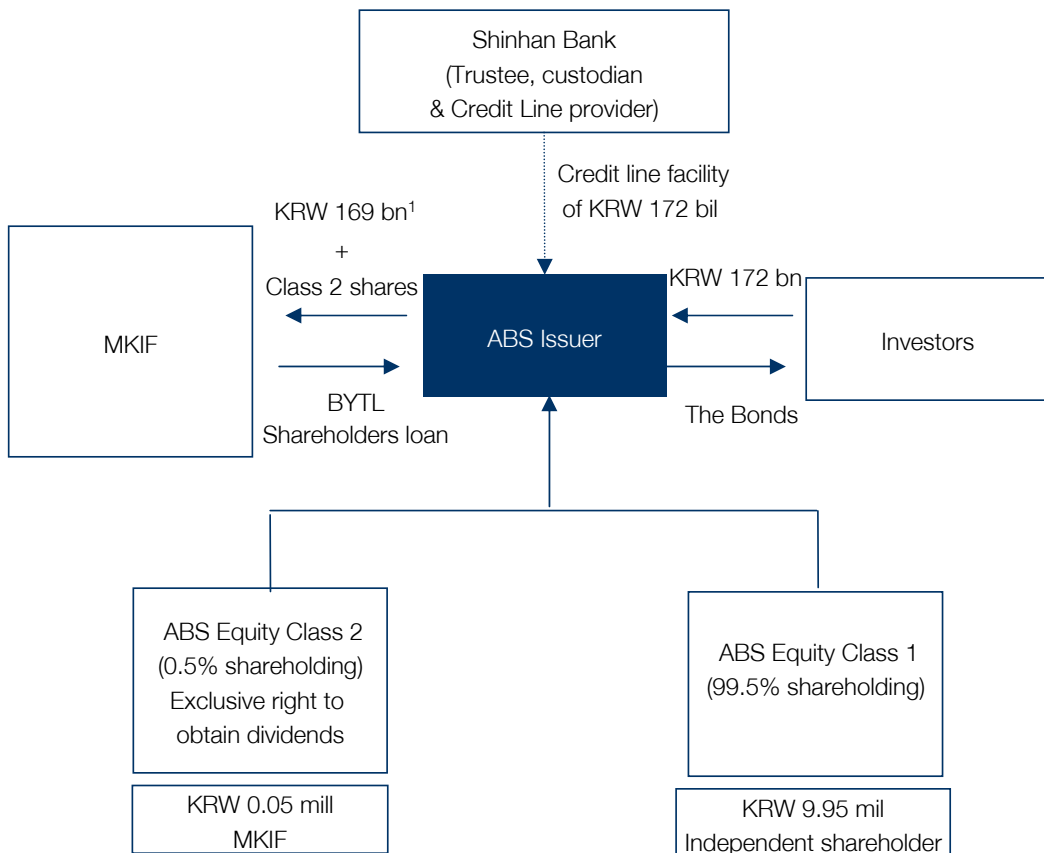
- MKIF securitised its shareholder loan provided to Baekyang Tunnel Limited (“BYTL”), representing 99.2% of the total secured senior debt provided to BYTL. (the “Transaction”)
- BYTL is the concessionaire with the 25-year government concession right to operate and maintain the Baekyang Tunnel
- The Transaction involves issuance of AAA-rated 16.25-yr bond with a face value of KRW 172 bil by a special purpose vehicle, BYT Securitisation Specialty Co., Ltd. (the “ABS Issuer”)
- The bonds have been priced at 90bps margin over the 10-yr Korean treasuries<sup>1</sup>, or 6.73%
- MKIF owns equity interest in the ABS Issuer to capture all residual cashflows from the performance of the Baekyang Tunnel
- MKIF remains 99.2% shareholder of BYTL
- Key financial benefits from the Transaction to include:
  - Total net cash proceeds to MKIF of approximately KRW 169 bil
  - Equity ownership of the ABS Issuer retaining future upside
  - KRW 24.4bil of accounting income to be recognised in 1Q 2008

<sup>1</sup>. As at 3 January 2008



# Securitization structure

Structure aims to maximize pricing while retaining control and upside potential of the underlying asset



- NICE and Korea Ratings providing “AA” domestic rating for the bonds based on:
  - Minimum Revenue Guarantee (MRG) cashflows based on 1.5% consumer price index escalation
  - MRG represents 90% of the Concession Agreement forecast revenues<sup>2</sup>
- “AAA” rating of the Bonds achieved through KRW 172 bil credit wrap provided by Shinhan Bank
- MKIF to receive net cash proceeds of KRW 169 bil plus all of the Class 2 shares of the ABS Issuer
- All residual cashflows of the ABS Issuer distributed to Class 2 shares only

*Achieved 30~40 bps pricing advantage over similarly rated ABS issues in the public placement market*

<sup>1</sup>: Net of transaction-related costs

<sup>2</sup>: Based on the Revised Concession Agreement revenue forecasts as contained in Appendix 2



# Key terms of the bonds

A call option allowing BYTL to refinance at better terms

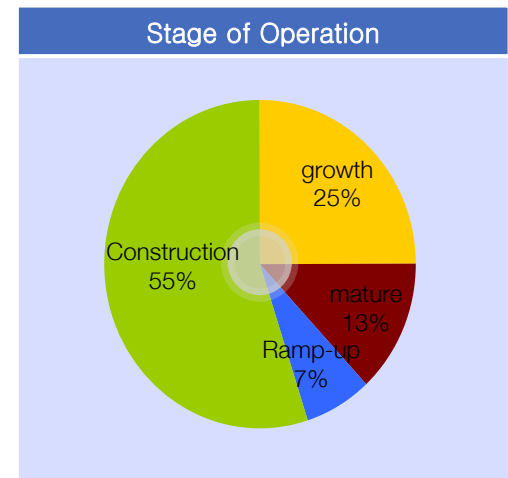
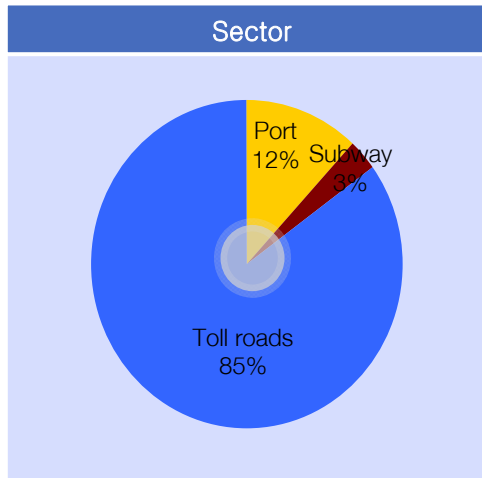
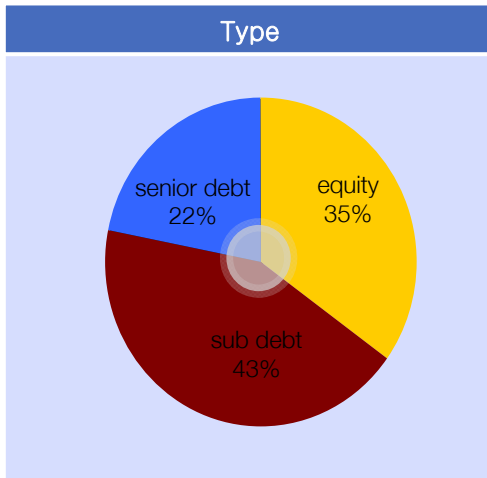
Issuer	▪ ABS Issuer (BYT Securitisation Specialty Co., Ltd.)
Offering size	▪ KRW 172 bil
Offering structure	▪ Private placement
Issue date	▪ 4 January 2008
Maturity	▪ 4 April 2024
Pricing	▪ 6.73% interest rate (90 bps margin over 10-yr Korean treasuries)
Underlying asset	▪ 99.2% of the total secured senior debt raised by BYTL
Credit wrap	▪ AAA rating with KRW 172 bil credit line facility from Shinhan Bank
Asset rating	▪ NICE and Korea Ratings
Terms	▪ Quarterly coupon of 6.73% p.a. ▪ KRW 169.5 bil repaid in equal quarterly payments starting 4 January 2009 ▪ Remaining KRW 2.5 bil to be paid at maturity ▪ Call option exercisable after three years from the Issue Date



# Impact on MKIF portfolio

The Transaction, together with the recently announced Busan New Port Phase 2-3 investment, has the following impact on MKIF portfolio:

- Increases greenfield asset proportion by 8% (47% to 55%)
- Decreases senior debt proportion by 7% (29% to 22%)
- Diversifies the MKIF portfolio (Exposure to toll roads decreased 11% from 96% to 85%)



<sup>1</sup>: By investment commitment amount



# Transaction rationale

## Strategy

- Consistent with MKIF's strategy of:
  - Recycling mature assets to fund early stage projects to drive further growth
  - Reducing senior loan exposures
  - Diversifying revenue sources

## Capital Management

- Immediate source of cash to fund existing greenfield commitments including Busan New Port Phase 2-3
- Supports MKIF's commitment for a growing distribution profile
- Structured to capture future upside
- BYTL having option to refinance after 3 years

## Valuation

- Attractive pricing of the Bonds providing pricing benchmark for MKIF assets
- A proof of MKIF's asset re-rating story
- Value of the residual cashflows attributable to Class 2 shares estimated to be substantial



# Conclusion

- ✓ Demonstration of MKIF's ability to readily monetise its assets at attractive terms
- ✓ Highlights MKIF's focus on driving growth
- ✓ Validation of the intrinsic value of MKIF portfolio, providing an important pricing benchmark
- ✓ Attractive terms achieved despite volatile credit market conditions
- ✓ Indication of robust investor demand for MKIF assets
- ✓ Equity retained to capture upside in value



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## Appendix

1. Baekyang Tunnel overview
2. Revised CA forecast revenues
3. Traffic performance



# Appendix 1 - Baekyang Tunnel overview



- 2.3km dual two-lane toll tunnel that runs underneath the Baekyang Mountain in Busan City
- 25-year concession ending in year 2025 granted by the Busan City government
- Government support in the forms of minimum revenue guarantees (90% of the Concession Agreement revenue forecast) and termination payment





# Appendix 2 – Revised CA forecast revenues

- The Busan City has recently confirmed the change in the Concession Agreement revenue forecasts as shown in the table below:

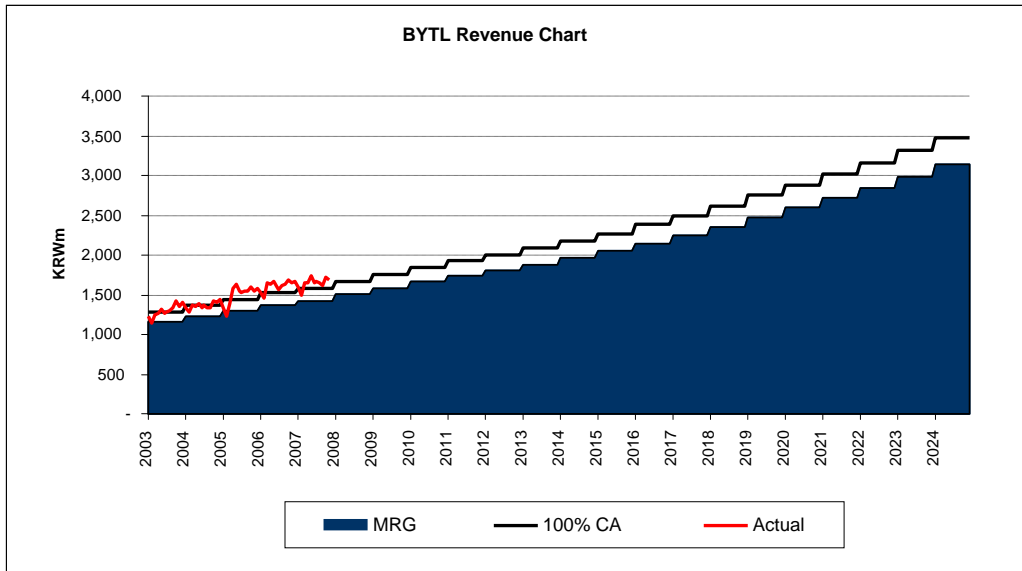
(In KRW mil)

	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Old</b>	15,720	15,862	16,005	16,150	16,295	16,442	16,589	16,739	16,889
<b>New</b>	14,827	15,169	15,520	15,880	16,165	16,456	16,753	17,054	17,360
	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Old</b>	17,043	17,196	17,355	17,512	17,673	17,834	17,997	18,161	18,326
<b>New</b>	17,777	18,203	18,640	19,087	19,546	20,015	20,495	20,987	21,492

Note: based on real price



# Appendix 3 - Traffic performance



- Performance highlights to date include:
  - Actual revenues to be on average 103% of the Concession Agreement revenue forecast during the past 5 years
  - Traffic volume has been increasing at an annual rate of 1.53%
  - Revenue has gone up by 6.78% annually
  - The share of large and extra-large vehicle has increased from 7% to 11%

(in KRW mil)	2003	2004	2005	2006	2007
100% CA (A)	15,432	16,390	17,349	18,224	18,977
MRG (B)	13,888	14,751	15,614	16,402	17,079
Actual (C)	15,522	16,326	18,030	19,318	19,759
<b>(C) / (A)</b>	<b>100.6%</b>	<b>99.6%</b>	<b>103.9%</b>	<b>106.0%</b>	<b>104.1%</b>

Based on nominal terms