ICT Leaders Executive Forum

13 – 14 September 2012

Cumberland Lodge,

Great Windsor Park, United Kingdom

Financing ICT Infrastructure:

A Financier's Perspective

Presentation by

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London, 19 September 2012

Frontier Markets Fund Managers

EMERGING AFRICA INFRASTRUCTURE FUND

GuarantCo Guarantees For Development

CTO COMMONWEALTH TELECOMMUNICATIONS ORGANISATION

Overview – What this presentation will cover

▪ The presenter – Overview of FMFM	1 minute
▪ FMFM Telecom Finance Experience	2 minutes
▪ Types of Telecommunications/ICT Financings	2 minutes
▪ Parties with an interest in Telecom/ICT financings	1 minute
▪ Other ways to look at Telecom/ICT financing – 1	1 minute
▪ Other ways to look at Telecom/ICT financing – 2	2 minutes
▪ Telecom Project Financing Options – 1 through 4	6 minutes
▪ Planned Presentation Time:	15 minutes
▪ "Time over-run contingency/Question & Answers	5 minutes
▪ Total:	20 minutes

Frontier Markets Fund Managers

- Frontier Markets Fund Managers Limited ("FMFML") is the fund manager for two development oriented project finance infrastructure funds:
  - Emerging Africa Infrastructure Fund ("EAIF"), founded in January 2002, currently $750 million in fund size
  - GuarantCo, founded around 2006, provides guarantees for local currency loan or capital market debt instrument financing. It is currently $400 million in size
- FMFML is owned 70% by Standard Bank, plc, a subsidiary of the Standard Bank group of South Africa. 18% is owned by FMO; 12% by EMP
- Day to day exclusive advisory work to EAIF and GuarantCo is provided by Frontier Markets Fund Managers, a division of Standard Bank

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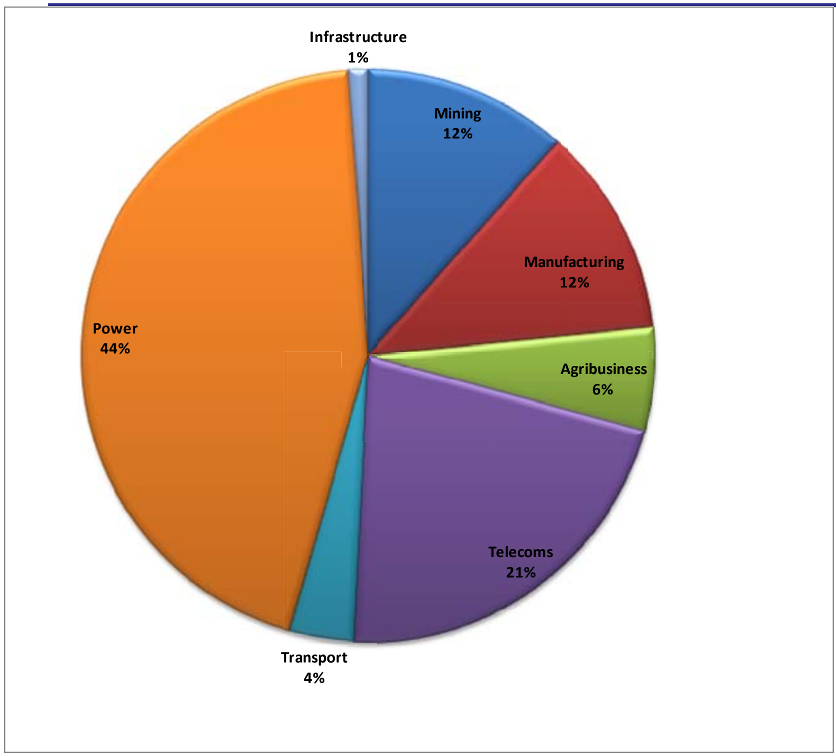
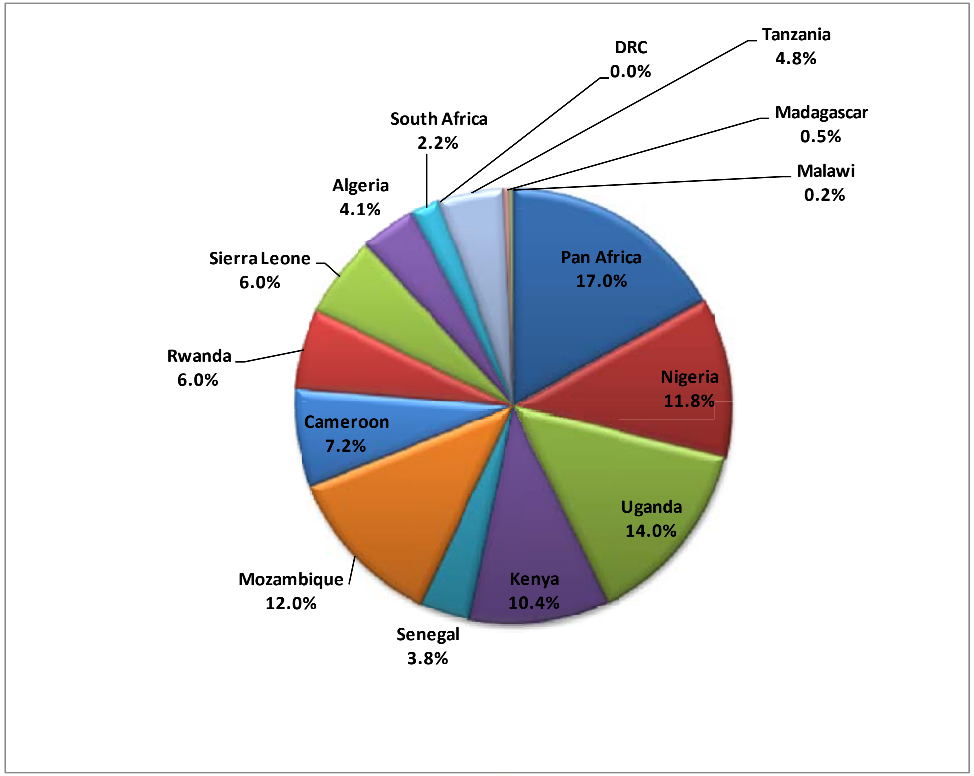
EAIF's existing portfolio is spread over 7 sectors and 15 Countries



Infrastructure in the charts means industrial infrastructure such as cement plants

At 30 June 2012, 21% of the EAIF Portfolio was to the ICT sector, down from 31% at 31 December 2010 due to faster pre-/ repayments of mobile financing than other new ICT financings added.



GuarantCo's portfolio includes further ICT financings

Summary of FMFM telecommunications/ICT transactions *

Jan 2003 MSI-Cellular / Celtel US$ 260 million Expansion of a GSM network across selected countries in Arica **US$ 30m** **Mezzanine debt facility**	Nov 2004 MTN Nigeria LUSD 200 million Corporate facility for the expansion of MTN's pGSM network in Nigeria **USD 10m** **Senior Debt Facility**	Dec 2005 Celtel Kenya KES 3.5 billion Guarantee of a l Kenya Shilling Bond Issue **KES 725 million (US$ 12million)** **PartialCredit Guarantee**	Feb 2007 Celtel Nigeria US$ 190 million Corporate facility for the expansion of GSM network in Nigeria **US$ 35m** **Senior Debt Facility**	Jun 2007 Celtel Africa US$ 320 million Corporate facility for expansion of GSM Network in 5 African countries **US$ 24m** **Senior Debt Facility**
Oct 2007 Celtel Chad XAF 14.8 billion Expansion of a GSM network and refinancing of USD with local currency loans Chad **XAF 3.5 billion (US$ 8m)** **Guarantee Facility**	Nov 2007 Seacom US$ 600 million Debt financing for equity participation of IPS Kenya (AKFED) in Seacom, the first submarine Fibre optics cable along the east coast of Africa **US$ 36.5m lender to IPS CSH** **For equity in Seacom**	Jan 2009 Wataniya Palestine US$ 145 million Corporate facility for the expansion of a GSM network in the Palestinian territories **US$ 10m** **Guarantee Facility**	Jun 2009 Zain Ghana US$ 523 million Construction and operation of a Greenfield mobile network in Ghana **US$ 17.5m** **Senior Debt Facility – B loan**	Dec 2009 Helios Towers Nigeria US$ 250 million Corporate facility for the expansion of Helios' tower network in Nigeria **US$ 19 m** **Senior Debt Facility**
Nov 2010 O3b Networks US$ 1.4 billion MEO Satellite Constellation and ground facilities to Deliver fibre quality broad band communications services via satellite to emerging markets **US$ 12.5m Senior Debt** **US$ 12.5m Sub Debt**	Dec 2011 Helios Towers Tanzania US$ 85 million Acquisition of >1000 telecom towers from Millicom Tanzania Ltd. Debt facility for refurbishment and Expansion of the acquired tower network. **US$ 15m** **Senior Debt Facility**	Declined /Non Pursued Transaction 8Transactions Declined after significant assessment or not pursued, e.g. due to disagreement over terms and conditions, including pricing	Pipeline EAIF 4 Projects Includes: • a new technology (LTE) data project • a submarine fibre optics project • a mutualised network •[a rural telco project working with existing carriers]	Pipeline GuarantCo 4 Projects Includes •a mid-sized mobile operator seeking expansion financing in local currency • a mid-sized telco with mobile and fibre operations seeking refinancing to local currency and expansion financing, as well as LT local lender/insurance lender market access •a national fibre network • a mutualised network

* FMFM staff gained further Telecommunications and ICT experience before joining FMFM, a/o in Latin America, Western and Eastern Europe, in the Russian Federation and Asia

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Types of telecommunications/ICT financing transactions

- Corporate financing for established (majority) private sector companies with a track record of cash flow generation
    - Large cross border groups – financed at group level – may prioritise one market over another in capital allocation -
    - Affiliates of large cross border groups – partially financed at country/affiliate level
- Corporate financing for (majority) state owned companies
- Limited recourse financing for "stand alone" projects of large private or public sector controlled companies
- Mergers and Acquisition finance (usually of large companies)
    - Sale/lease-back/spin-off finance (e.g. "Tower Companies").
- Privatisation finance
- Distressed assets/work-out situations
- Project financing of start-ups (large, medium sized or small)
- Mutualised/shared infrastructure projects
- Technology and other venture capital financings

Parties with an interest in Telecom/ICT financing

- Users:
  - Pay for goods & services: end-user devices, bandwidth, etc.
  - Save time/effort – seek quality and quantity at best price.
- Regulators seek to:
  - Create environment that allows growth of provision of services
  - Maintain/enhance service quality, orderly markets, fair competition
  - Potentially generate revenue from licensing, spectrum, taxes, etc.
- Equipment suppliers and installation contractors: Seek profit from their services and sometimes market share/recognition for loss lead sale
- Service operators (e.g. Telecommunications carriers): (long term ?) profit
- Entrepreneurs/promoters of new projects, technologies: Profit from new entry – Often sell out to others or replaced once start-up has grown
- Equity financiers/investors: Seek to maximize return for a given risk
- Debt financiers: Seek repayment & to minimize risk for limited returns
- Development finance financiers as a sub-class of equity and debt financiers: Development interest beyond pure financial performance.
- ECA lenders/Vendor Finance providers also have non-financial considerations

Other ways to look at the ICT infrastructure financing world -1

- By size of company/investment (small, medium/large project/company)
- By degree of market attractiveness (city vs. rural) or segment (data/voice)
- By financing instrument/type of financier:
  - Equity
    - Lower risk equity – invests in large, quoted groups/companies and seeks more moderate returns from diversified risk exposure
    - Higher risk equity – e.g. more passive private equity – co-invests in new un-quoted ventures; may not actively manage/co-manage; incl. development finance equity
    - Entrepreneurs – “sweat equity”, limited capital
  - Debt
    - Capital market issues (bonds, etc.) - mostly for existing large businesses
    - Vendor finance & export credit agency backed commercial debt
    - Non-ECA backed commercial loans
    - Development finance institution loans
  - Internally generated cash
  - Guarantee and insurance instruments
- Debt and equity can be (and usually are) present in sub-categories (e.g. common and preferred equity class/series A, B, C, D, ….; senior and subordinated debt, etc.)

Other ways to look at the ICT infrastructure financing world - 2

- Many infrastructure industries are regulated and some have specific shared/heavily regulated or co-owned common infrastructure structures:
  - E.g. Power – independent producers supply "national grid"/ "big entity to big entity risk"
  - Such industries may have a degree of common/shared infrastructure that industry participants in one form or another pay for.
  - Expansion may be much more government planned (e.g. IPP plant by IPP Plant).
- Lenders and equity investors are often comfortable to finance in such industries based on <u>long term take or pay commitments </u>among market participants: a Telecom equivalent would be long term IRU pre/"anchor tenant"-sales for use of a system.

- Such system was e.g. used for the Seacom cable financing. Pre-sales of IRUs were made to cover a certain amount of senior debt service with certain coverage ratios. De facto subordinated lenders (e.g. EAIF)still took a degree of long term market risk.
- Project promoters/equity prefer to minimize "anchor" tenant pre-sales because they have to accept lower pricing for such commitments. Large Telco's typically also do not buy on this basis (and may e.g. prefer a consortium cable to an independent cable system or to wait till the system is operational.
- In ICT such joint/mutual projects, particularly involving public private sector partnerships are also contractually complex to put together.

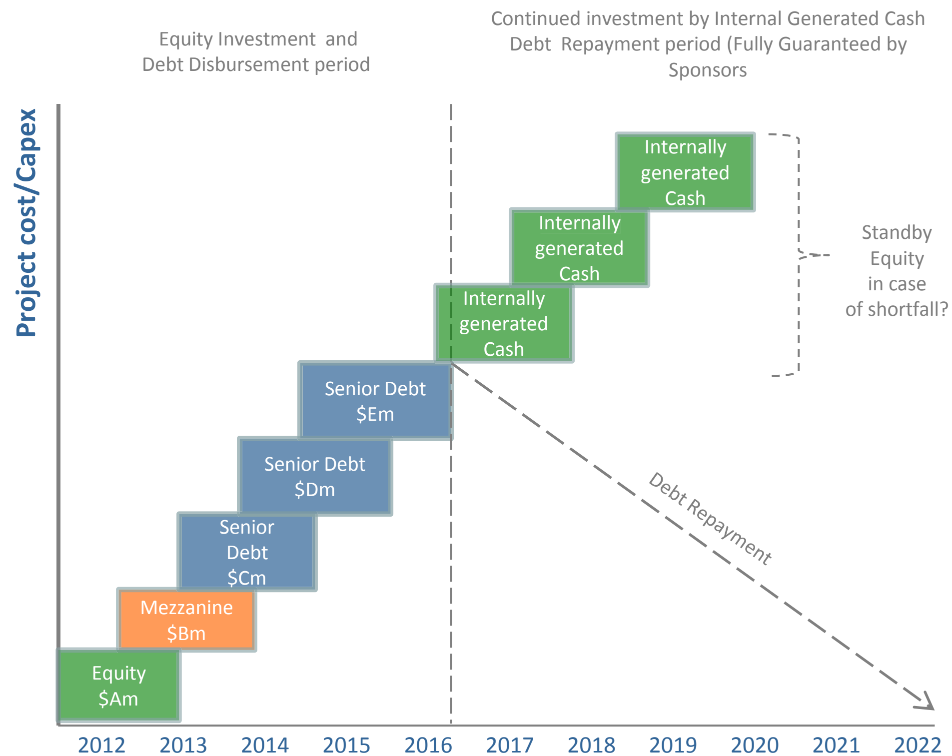
Other ways to look at the ICT infrastructure financing world - 2

- FMFM evaluated one example of what the presenter considered a fairly well structured joint/mutual backbone network.
  - In this case the regulator granted a time limited national backbone exclusivity
  - Nearly all mobile/ICT operators in the country became members/shareholders
  - Support for equipment sales was provided by a development grant institution
  - Credit committees may still dislike such structures for lack of a strong, dominant sponsor, although this is what may make ICT company co-operation possible.
- In practice, in the ICT sector, in the regional markets where FMFM is active, there is much less of the "common/shared/mutually owned or regulatory imposed" infrastructure. The success of de-regulation in the ICT industry, competitive behaviour/(lack of ?) trust levels, the pace of technology innovation and mass market consumer orientation (with associated payment risk) may have contributed to this.
- The framework of the Telecom services segment of the ICT sector tends to be dominated by oligopolies with a few large companies and difficult to finance small ones.
- Consequently in ICT equity and debt providers are often faced with high market risk financing situations requiring high returns, particularly for new entrants/projects.

Telecom Network Project Financing Options - 1

Option 1 – "Big Bang" new technology/ new network roll out – Lenders typically want Senior Debt fully Guaranteed by a credit worthy party – The lender concern is "market risk" they take Equity will try to have debt assume as much risk as possible

- New entrant wishes to roll out its planned network fast in all planned regions regardless of the speed of the uptake of its services or level of existing direct or indirect competition (e.g. CDMA versus GSM, LTE versus HSPA+, 4th/5th mobile operator versus incumbent 1st /2nd/3rd carrier, etc.) or "price war " risk
- Usually new entrant needs debt finance as well as equity, to ensure adequate return to equity financiers.
- To achieve the "big bank" impact, new entrant would like to utilize the full debt (senior & mezzanine) in a short time frame after the base equity has been invested in full, or if lenders allow, is disbursed pari passu and pro rata with the debt.
- "big bang" leaves senior lenders exposed to "equity type" of market risk and hence this would require credit enhancement through corporate/sponsor guarantees for the life of the loan.
- From a lenders' perspective a further problem is that much of the expenditure is for operating rather than capital expenditure; equipment value is also problematic to lenders ("first mile driven on new car" issue/technical obsolescence)
- "spectrum and license validity and values are also problematic to lenders as usually transfer of license and change of ownership require regulator approval. Lenders will seek written or contractual regulator protection/assurances.



Length of periods/years are illustrative only. Investment periods to equity exit and loan tenor periods are often key negotiation concerns.

Telecom Network Project Financing Options - 2

Option 2 – Performance based loan utilization

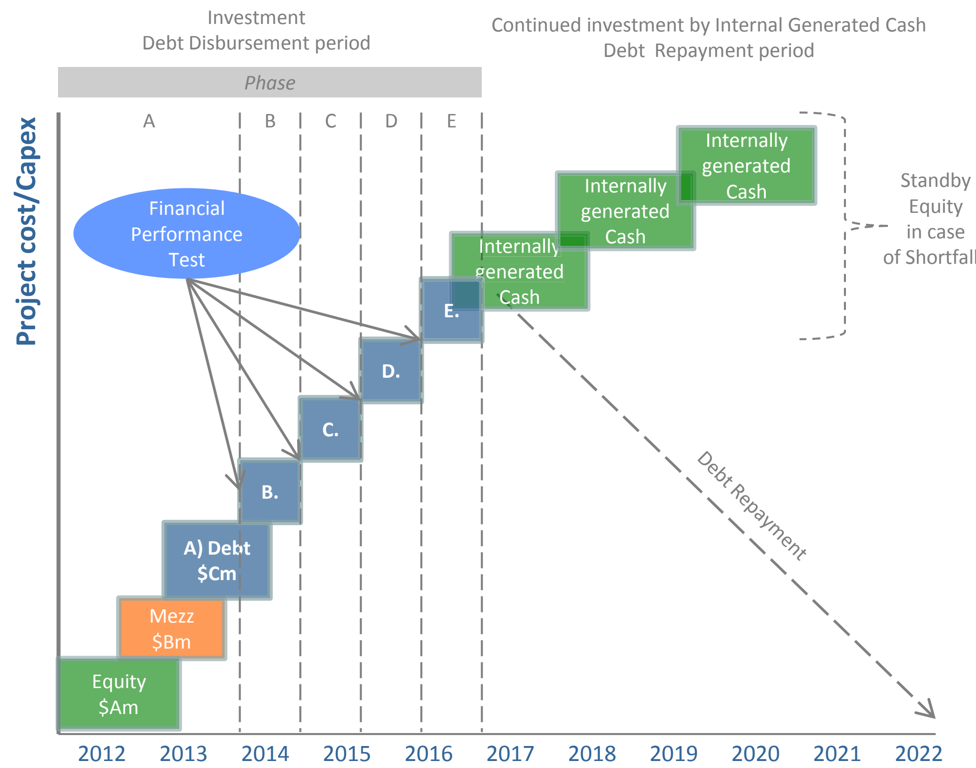
In this scenario the Senior Debt will be drawn as follows:

- After equity and mezzanine debt have invested in full;
- Tranche A: a minimum amount of Senior Debt [USDX-Ym]* can be drawn in order to meet the minimum capital outlay requirement to achieve the required basic service footprint (e.g. national roll-out; selected regions or cities, etc.).
- Trance B, C, D, E: then the Senior Debt can only be drawn in batches of USD [Zm]* based on company meeting various milestones/financial tests:
  - Subscriber base;
  - Revenue/EBITDA** /Cash generation;
  - Debt to EBITDA;
  - Projected DSCR***

Exact amounts of debt and ratio between equity/mezzanine/subordinated debt and various classes of equity is also an important consideration for financiers, as it influences risk and reward by type of party

** *Earnings before interest, taxes, depreciation and amortization*

*** *Debt service coverage ratio*



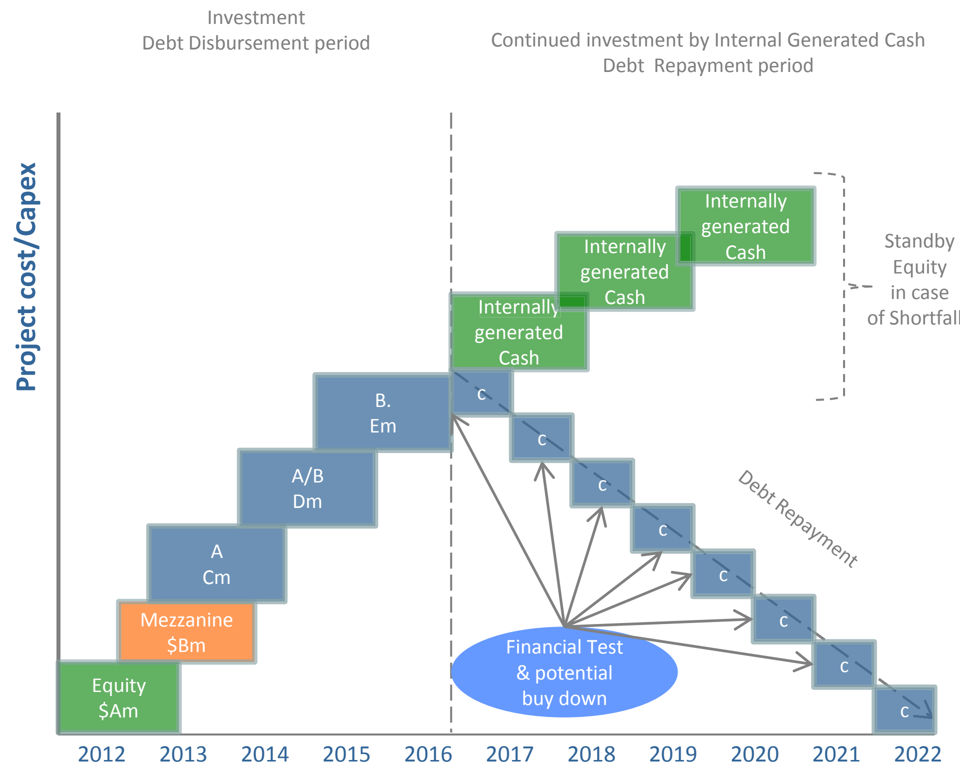
Telecom Network Project Financing options - 3

Option 3 - Debt buy down

In this scenario the Senior debt will be drawn as follows:

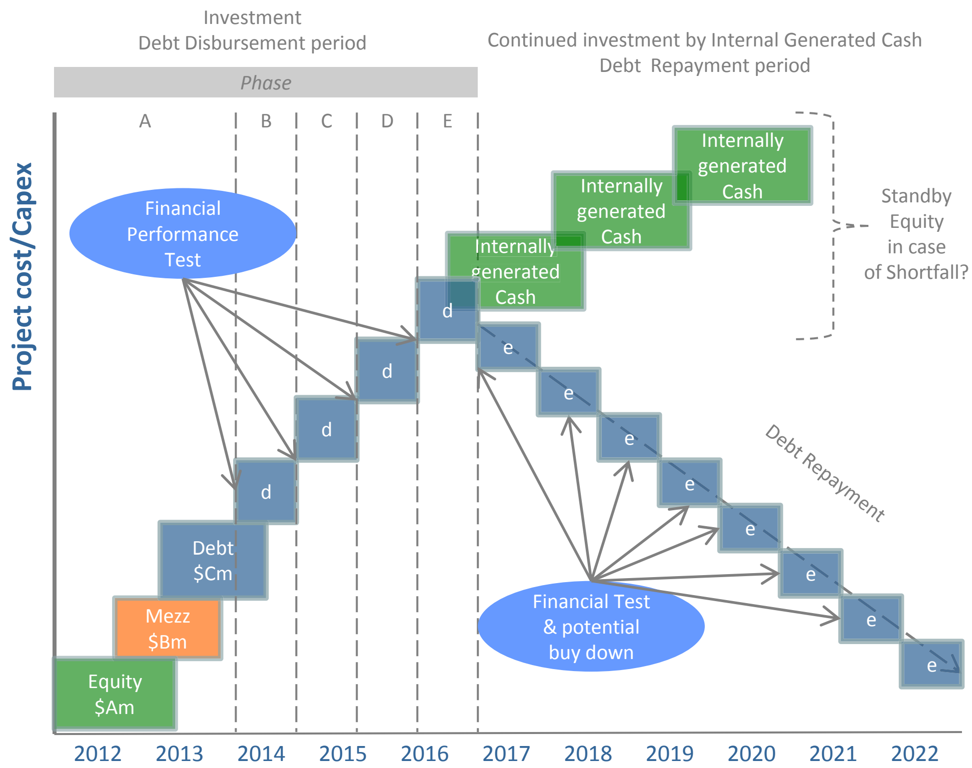
- After equity and mezzanine debt have been invested in full;
- The Senior Term Facility is then available during e.g. the first [4] years and can be drawn regardless of performance/uptake in the following order:
  - Tranche A: [USD Xm]* can be drawn to achieve the required footprint /network/service roll-out.
    - This tranche will be subject to a sponsor debt buy down obligation at each repayment date in case certain financial milestones have not been met. The financial test may include preset targets for:
      - actual and projected Debt to EBITDA [max: e.g. [3-4]x]
      - Projected DSCR on Run Rate Basis [e.g. min run rate DSCR [1.8x]]
    - The debt buy down obligation would be capped at [….%] of the loan. The Debt buy down obligation will be enshrined in a Sponsor support agreement.
    - Effectively the debt buy down means a portion of the debt is put back to the equity holders and extinguished or serviced from cash flows outside the project.
  - Trance B: [USD Y]*.

** Exact amount and ratio between contributions of different equity and debt classes subject to negotiation but typical numbers known to financiers.*



Telecom Network Project Financing options - 4

Option 4- Mix of option 3 & 4



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Other issues typically playing a role in financing

- Entrepreneurs and Equity providers typically seek an "equity" exit
- Lenders concern about loan maturities
  - Commercial lenders typically – a/o due to cost of capital and regulatory requirements – prefer shorter term loans;
    - this puts more pressure on cash flows particularly for infrastructure with long term pay back required to keep usage costs reasonable
    - Technology obsolescence and asset values often also make long tenors more difficult in ICT projects
  - Development finance lenders are typically more willing to lend long term

Typical key due diligence items for equity and debt providers

Management	▪ Depth and expertise, team that has worked together or not, etc.
Technology	▪ Lender Technical Adviser to review design, project cost, planning, proposed technology, operating procedures, logistics, quality issues.
Financial	▪ Financial structure; ▪ Forex risks; ▪ Market risks (see below) ▪ Project budget, assumptions; ▪ Robustness financial model/projections, key performance and covenant ratio's; ▪ Sensitivity analysis.
Environmental & Social	▪ ESIA Compliance with IFC Performance Standards/Equator Principles, etc.; ▪ ESAP/ESMP to be developed in cooperation with Lenders Technical Adviser; ▪ Organizational capacity.
Legal / Regulatory/ Tax/ Political	▪ Review of all Project documents; ▪ Regulatory framework (Concessions, permits, licenses, spectrum, etc); ▪ Tax implications ▪ Country or region's social stability, economic prospects, political situation, etc.
Insurance	▪ Review of all required insurances, limits etc.
Sponsors/ Shareholders	▪ Shareholder structure; ▪ Shareholder technical/industry expertise and financial standing (creditworthiness, "deep pockets or not", strategic interest ▪ Legal, tax and accounting opinions provided by firms acceptable to the Lender; ▪ Consolidated audited financial statements; ▪ Corporate governance and Know Your Customer (KYC) regulatory checks
Market	▪ Country economy and growth prospects ▪ Accessible market ▪ Ability to pay ▪ Competition analysis.