

MERITO



*Commitment to a
Cleaner Environment*

THERMAL DESALINATION



WATER / WASTEWATER PLANTS



REVERSE OSMOSIS DESALINATION



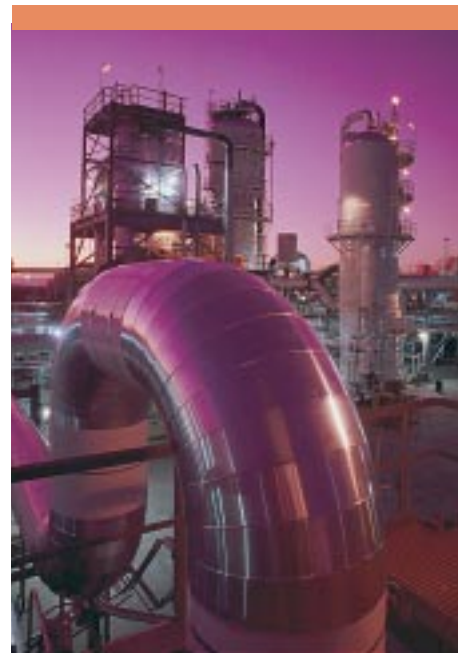
PROJECT FINANCE... *The BOT Approach*

What Is The BOT Approach?

The term BOT is the most common among a variety of terms: BOO (Build, Own & Operate), BOOT (Build, Operate & Transfer), BT (Build & Transfer), BLT (Build, Lease & Transfer), CAO (Contract, Add & Operate), DOT (Develop, Operate & Transfer), ROT (Rehabilitate, Operate & Transfer), ROO (Rehabilitate, Own & Operate). All of these are business transaction terms that essentially mean finance of whole or part of a project by the Seller. The latter is normally a company or consortium of companies that are experts in execution and operation of the type of plant that the Buyer is in the market for. The Seller will be compensated by the Buyer on a monthly basis for actual plant output delivered to the Buyer for a pre-determined period of time (normally 10-20 years).

The METITO Role

Along this principle, METITO, as part of the Seller's team, will undertake design, construction and operation of a water supply or water desalination scheme with little or no capital contribution by the Buyer. The Buyer will



pay the Seller on monthly basis for the metered amount of treated water delivered to the Buyer for the duration of the contract.

METITO has accumulated a wealth of expertise required for the execution of BOT schemes. The strong ties that METITO has with the numerous leading financial agencies involved in such schemes make an otherwise very difficult transaction an achievable reality.

BOT Prerequisites

Although the advantages of BOT are numerous (some are outlined on the fold-over page), "Successful Packaging" or realization of a BOT contract is contingent on the availability of some basic elements such as:

- The project is financially and economically sound in its own right, i.e. the generated cash flow has to be sufficient to cover all project's costs and make adequate profit for its sponsors.
- There must be a buyer of a large portion if not all of the plant output, who is prepared to sign a purchase agreement for the duration of the contract.
- Preferably be supported by the government, signifying the importance of the project and its being in the public interest.



The Contractual Framework of A BOT Scheme

BOT schemes, while simple in concept, can get quite involved when implementing a suitable contractual framework. In general one can identify the following distinct but inter-related elements:

- The Concession Agreement
- The Special Purpose Concession Company (SPCC)
- Project Finance
- The Construction Contractor
- Enhancing Legislation by The Government

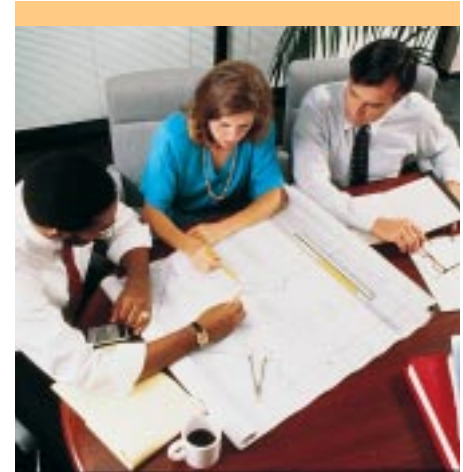
In turn, these elements will introduce agencies of diverse specialties: Banks, financial institutions, pension funds, public offering agents, lawyers, insurance companies, insurance consultants, risk management consultants, engineering consultants, etc.

METITO in The BOT Contractual Framework

The chart shows the different elements and the essential players in a BOT scheme. METITO's involvement is quite extensive and in most segments.

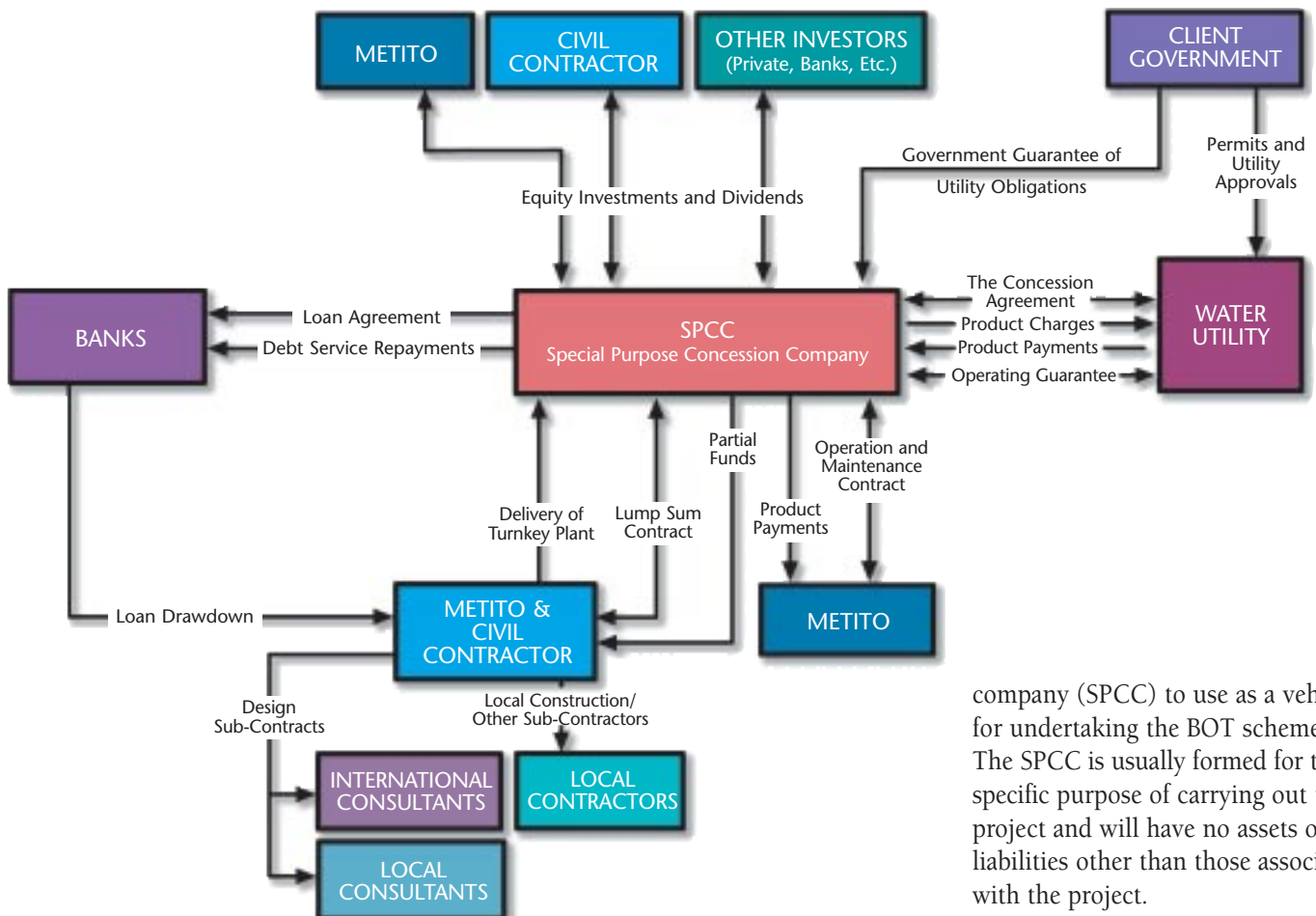
The Concession Agreement: This is the main document that defines a BOT scheme. It is usually negotiated between the Buyer (e.g. public water utility agency) and the Seller. METITO as a leading member in the Seller's team will play a leading role in discussing such matters as: scope of the concession, period, legislation, land rights of use, exclusive purchase agreement, etc.

The Special Purpose Concession Company (The Sellers): The SPCC normally consists of a consortium of



companies sponsoring the project together with METITO. These can consist of local or international civil contractors, investors, banks and other companies that preferably provide a service employable in the scheme. The team of Sellers will together form a new special purpose concession

BOT Contractual Framework (a sample)



company (SPCC) to use as a vehicle for undertaking the BOT scheme. The SPCC is usually formed for the specific purpose of carrying out the project and will have no assets or liabilities other than those associated with the project.

Project Finance: Besides capital contribution by METITO and its SPCC partners a large portion of the capital will be financed through lenders (banks, financial institutions, etc.) on “limited recourse basis”. The latter means that the lenders will look at the merits of the project itself rather than the credit of the SPCC partners. The lender’s recourse is limited to the project and the revenue generated by it. It is for this reason that before the lenders decide whether or not to finance a BOT project, they will need to carry out a thorough assessment of the project including its viability and economics.

The Construction Contractor: The construction contract is almost always a design and build contract awarded on a turn-key basis. Normally METITO and an SPCC civil contractor partner are awarded the construction contract by the SPCC. METITO for the execution of the electrical and mechanical works and the partner for civil works. The construction contractor may in turn subcontract portions of design and construction to third parties who have local experience and presence.

The Operation and Maintenance Contractor: The operation and maintenance contractor is also selected by the SPCC. Since the M&E part of the construction contract is normally designed and executed by METITO, the latter is invariably chosen by the SPCC for operation and maintenance. The long term of METITO’s experience in operation and maintenance is an asset appreciated both by the SPCC partners as well as the lenders who can rest easy with the thought that their investment is in good hands.

Enhancing legislation by The Government: The extent of government support is of course a matter which SPCC members and lenders will wish to consider carefully before embarking on a major BOT project. Legislation will normally be required for matters such as acquisition of land, setting and collection of water toll charges, exemption of import duties and sales tax, allowing special tariffs for purchase of consumables and utilities, etc.



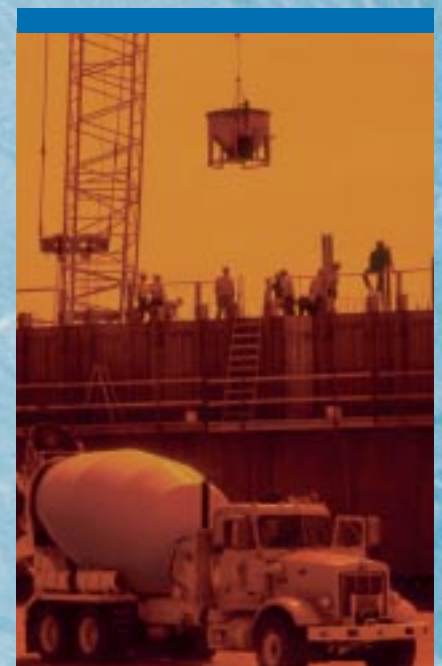
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t a time of expanding infrastructure requirements in developed and developing nations, governments are increasingly receptive to the idea of funding water and wastewater treatment and environmental projects via public/private partnerships.

Established in 1958, METITO is an international leader in water/wastewater treatment and water desalination. From its beginning METITO's drive was towards making pure water available and affordable to each and every person on this planet. It was thus natural for METITO to have adopted the BOT approach as a tool for achievement of its goal.

Private sector participation in the development and operation of water projects is especially attractive for a number of reasons:

- *Eliminating plant performance and operation risk factor*
- *Expediting provision of vital services such as water and safe environment*
- *Securing technology transfer at minimal cost and no capital outlay*
- *The utilization of conventional financing (through the private sector) in lieu of sovereign financing*
- *Long term commitment of the contractor through equity, technical and operating support*
- *The option of project transfer at the end of the term of the contract allows the buyer to be the ultimate owner and in charge of his vital resources.*





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