2018 was a record financial year for APICORP with notable progress made across all lines of business.
Overview

APICORP’s Corporate Finance provides conventional and Islamic funded and unfunded financing solutions across the entire value chain of the energy sector, a key to the growth of regional economies. The mandate is to provide credit in the form of project, asset, trade and commodity financing, as well as corporate facilities and financial advisory services to a wide variety of clients originating from and associated with the Arab world. Credit is typically offered through medium and long-term facilities that can sometimes be in excess of 20 years.

Over the years, an experienced team of dedicated corporate finance professionals have built APICORP’s reputation in the market as a specialised energy-focused financial institution. This has given the team ongoing access to a strong pipeline of deals and high-profile transactions.

The clients range from large public sector entities with mega-projects to privately owned energy businesses, particularly those with the potential to contribute to the development of the broader energy sector in the Arab world. Corporate Finance’s asset portfolio currently stands at USD 3.4 billion for funded and USD 300 million for unfunded projects, up from USD 3.2 billion in 2017 with net income topping USD 70 million for the past three years.

Operational Highlights of 2018

The year 2018 was particularly active for Corporate Finance and it concluded a broad spectrum of deals in multiple industries within the energy sector.

In Egypt, where APICORP continues to maintain an active presence, a financial structuring mandate was signed to raise USD 40 million in debt financing with the Suez Company for Methanol Derivatives (SMD). The agreement was initiated to finance the development of a USD 60 million greenfield formaldehyde and derivatives project in the new Suez Canal Economic Zone adjacent to an APICORP equity investment, EMethanex, the company that will provide SMD with feedstock. The output of the new plant will primarily serve domestic demand with limited quantities earmarked for export in the early years. APICORP’s involvement as a sole arranger of this small but key project for the Government of Egypt stands as a testament to APICORP’s commitment to support the strategic objectives of its member countries.

Another landmark deal for Corporate Finance in 2018 was a SR 202.65 million (equivalent to c. USD 54 million) facility to support the growth of Arkad, a leading Saudi Arabian private sector engineering and construction company. Arkad was awarded three contracts from Saudi Aramco to develop the Kingdom’s Master Gas System (MGS), a strategic national project that will construct gas pipelines to convert Saudi Arabia from oil to gas. The facility marks the first time in APICORP’s history that it has extended financing to a contracting company. Notably, the deal is aligned with APICORP’s mandate to develop energy infrastructure, support the private sector, and contribute to the long-term objectives of its member countries as they reformulate their energy mix.

APICORP remained active in the refining sector through Bahrain’s BAPCO refinery expansion and the Al Dur Water and Power Company in Bahrain. Al Dur is the largest operational independent water and power company in Bahrain that accounts for approximately one-third of the Kingdom’s power and water production. The deal is yet another testament to APICORP’s commitment to financing strategic energy projects in the Kingdom of Bahrain, such as ALBA, BLNG, BAPCO, and NOGA HOLDING.

Trade Finance

2018 was a transitional year for APICORP’s LC Desk which supports clients, including several international commodity traders and national oil and gas entities like ARAMCO, BAPCO and EGPC. Historically, APICORP provided LCs to clients via an outsourcing agreement with a global banking partner. In 2017, however, the decision was made...
to transition all LC services in-house allowing for a more streamlined, efficient process and one-to-one interactions with clients.

In the months since the transition, APICORP not only managed to successfully process LC services on its own, it also managed to grow the overall business. In 2018, Corporate Finance issued LC’s for a total value of USD 595.8 million generating a total income of USD 1.5 million, an increase from USD 291 million in total LC’s and USD 1.2 million in total income in 2017. The growth in business can be attributed to faster processing times, direct interaction with clients and a general improvement in overall market conditions.

2019 Outlook

With a healthy pipeline of deals, Corporate Finance continues to expand its total loan portfolio in an extremely competitive and evolving environment. A new buildup of exposure to emerging geographies requires mitigating country risk by turning challenges into opportunities in markets where it has the advantage of developed relationships with key stakeholders. APICORP will also continue its push into renewables and broaden its definition of the utilities sector beyond just power and water desalination to include sewage water treatment and all projects that fall within the jurisdiction of national utility companies.

Corporate Finance Case Studies

Suez Company for Methanol Derivatives (SMD)

Country of Origin  Egypt

Value of Financing  USD 35-40 million

Description of Company

Suez Company for Methanol Derivatives (SMD) is a company established by the Egyptian Petrochemicals Holding Company (ECHEM) to develop a formaldehyde and derivatives production facility in Damietta, Egypt. The formaldehyde plant, still in its early stages of development, will primarily meet local market demand with limited quantities of its production earmarked for export in the early years. The plant will be located adjacent to the existing EMethanex production facility in Damietta, so that EMethanex can supply the facility with methanol, the main raw material required to produce formaldehyde.

Value Proposition

APICORP’s involvement in SMD is a continuation and reaffirmation of its 15-year commitment to support strategic energy projects in Egypt, a member country. It also reinforces APICORP’s relationship with the Egyptian Ministry of Petroleum, EGPC, and ECHEM. The project is in line with the Egyptian Ministry of Petroleum’s strategy to diversify its sources of financing and develop strategic partnerships. As an import substitution project, SMD will reduce Egypt’s need for hard currency and contribute to the overall economic development of the country.
**Duqm Refining and Petrochemical Industries Company (DRPIC)**

<table>
<thead>
<tr>
<th>Country of Origin</th>
<th>Oman</th>
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<tr>
<td><strong>Value of Financing</strong></td>
<td>USD 100 million as part of a consortium of international and regional banks</td>
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**Description of Company**

An export-oriented joint venture greenfield refinery owned by Kuwait Petroleum International and Oman Oil Company, the 230,000 bpd refining complex will be located in the Special Economic Zone at Duqm in the South Eastern Coast of Oman, 600 km from Muscat. The strategic maritime location will provide immediate access to international shipping lanes in both the Indian Ocean and the Arabian Sea, which facilitates transport and gives the project a significant competitive advantage.

Currently under construction, the complex will include a full-conversion hydrocracker/coking refinery with the ability to process a wide range of crude oil feedstock to produce diesel, jet fuel, Naphtha and LPG. The complex will also include a crude oil storage terminal, a crude oil pipeline connecting the storage terminal to the refinery, and a product export terminal located at the Port of Duqm. The refinery’s output will address the forecasted deficit in diesel and Naphtha in high consumption markets particularly in Asia.

**Value Proposition**

Duqm is a strategic national project for Oman. When complete, it will be one of the first major industrial projects in the Duqm region and will serve as a basis for the transformation of Duqm into Oman’s next industrial and economic hub after Sohar, Sur and Salalah. APICORP’s support of the refinery is aligned with its strategy to help develop the energy sector throughout the MENA region.

While not a member country, Oman is nonetheless a key market for APICORP with exposure close to USD 400 million as of the end of 2018. The Duqm facility is also a continuation of longstanding partnerships between APICORP and the governments of Kuwait and Oman. In addition to boosting exports from Oman and helping to spur job creation during both the construction and operational phases of the refinery, Duqm will also allow Kuwait to increase its international refining capacity and to secure an outlet for Kuwaiti crude oil, which will be used as feedstock.

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**ARKAD**

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<th>Country of Origin</th>
<th>Saudi Arabia</th>
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<tr>
<td><strong>Value of Financing</strong></td>
<td>USD 54 million Equivalent in SAR</td>
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**Description of Company**

ARKAD is a KSA-based EPC contractor established in 2012 with specialisation in piping and pipeline services. The company is set to become the first national EPC contractor in the pipeline sector with all the necessary in-house capabilities (i.e. engineering, procurement, construction, installation, commissioning) to handle medium to large scale projects. In 2016, ARKAD was selected by Saudi Aramco to execute the Kingdom’s strategic Master Gas System 2 (MGS) expansion project that targets displacing oil with gas, and linking the Kingdom’s East and West coasts. When complete, it will save more than USD 500,000 worth of crude oil that would have been burned to generate power. ARKAD employs over 9,000 people and has more than 1,800 pieces of equipment to implement its projects. The company recently entered into a joint venture with ABB through which they plan to expand their operations to the MENA region and possibly Europe.

**Value Proposition**

ARKAD is a private sector company with strong developmental merit and the potential to compete with multinationals and expand globally. The Master Gas System 2 (MGS) pipeline expansion project will transform the gas infrastructure of Saudi Arabia. Financing ARKAD gives APICORP the opportunity to deepen its relationship with Aramco, a long-standing partner, support local content by helping a Saudi EPC company expand its business in a sector that has typically been dominated by foreign multinationals, and help to develop the national infrastructure of one of its key member countries.
Overview

Investments oversees the corporation’s captive private equity business, in which APICORP invests its own capital in direct equity stakes, alongside like-minded investment partners in greenfield and brownfield businesses with strong management teams that exhibit solid growth potential in diversified energy sub-sectors across multiple geographies.

Investments is well-equipped to actively seek out attractive opportunities in businesses in the energy and energy-related sectors, where they can effectively contribute technical and professional expertise to add value.

APICORP prioritises ventures that provide developmental benefits in the host countries, including creating jobs, promotion of economic diversification, or otherwise deliver broad-based advantages to its stakeholders. That said, investments are not limited to APICORP member countries, and the corporation can also invest in other geographical areas, alongside trusted and well-established local partners, especially when investing beyond the MENA region.

APICORP typically targets meaningful minority ownership stakes in the range of 20-33% and proportional board representation is a prerequisite.

2018 Operational Highlights

2018 was a landmark year for APICORP Investments. The year saw APICORP successfully exit its 29% equity stake in National Petroleum Services (NPS) to National Energy Services Reunited Corporation (NASDAQ: NESR). NPS is a leading regional provider of integrated energy services operating in the MENA and Asia-Pacific regions with a breadth of oilfield services including well services, drilling, wireline logging and testing services.

APICORP’s original investment in NPS was made in 2014 alongside a consortium of regional investors that collectively acquired 90% of the business. The corporation, alongside its partners, played a significant role in financing NPS’ growth plans and providing strategic guidance to its well-regarded and experienced management team. The investment was representative of APICORP’s new strategy to diversify its portfolio, which historically was more heavily weighted towards traditional hydrocarbon and petrochemical investments.

APICORP realised significant capital gains from the NPS exit, recording a solid Internal Rate of Return (IRR) in line with APICORP’s successful divestment strategy that began in 2012. This landmark transaction demonstrated responsible management and value extraction on the part of Investments.

APICORP also acquired an equity stake in Yellow Door Energy (YDE), a UAE-based solar power developer, during its Series A capital raising.
alongside a consortium of leading international investors which included the International Finance Corporation (IFC), IFC-MENA Fund, Mitsui & Co., Ltd., Equinor Energy Ventures and UAE-based Adenium Energy Capital. From its core markets in the UAE and Jordan, YDE specialises in the development and financing of renewable energy assets. APICORP’s investment will allow YDE to extend its solar energy and efficiency solutions across emerging markets in the Middle East, Africa, and South Asia and to potentially generate 300 megawatts of solar energy over the next two years. YDE marks APICORP’s first equity investment in renewables and is in line with a strategy that seeks to achieve sector diversification, and to progressively invest in private sector companies, who are in their early phases of growth, with the potential to expand internationally.

Creating and maintaining strategic investment partnerships continued to remain a priority for APICORP. The business was able to deepen its cooperation with leading global financial institutions and strategic partners worldwide, which has led to the building of professional capacity and exposure through the transfer of knowledge and experience.

APICORP continued to drive activity with its investment partnership vehicle aimed at pursuing global energy co-investments alongside Goldman Sachs’ West Street Capital Partners VII funds, a relationship that was formalised in 2017. APICORP also deepened its involvement in the IFC MENA Fund. These important relationships allowed APICORP to gain access to deal flow and further diversify its investment footprint by making private equity investments in a diversified, global portfolio of energy assets alongside leading global investors.

2018 Financial Highlights

As of year-end 2018, APICORP Investments controlled assets worth approximately USD 1 billion. Investments booked a record income figure in 2018, generating USD 170 million, which can be attributed to a number of developments, including APICORP’s successful exit of its investment in NPS, the normalisation of gas supplies to some key petrochemical investments in Egypt, as well as a general uptick in commodity markets.

2019 Outlook

Investments will continue to focus on investing in high-quality growth businesses and prioritise investments that enhance sectoral and geographic diversification, while at the same time diligently seeking profitable opportunities with developmental benefits to its member countries. Deepening strategic partnerships with industry thought leaders also continues to be a main area of focus, with management recognising the benefits of such efforts in attracting and retaining talent. The pivot toward responsible value creation will remain in place, with an added emphasis on successful execution and exposure to sectors vital to the ongoing energy transformation.

NPS Exit

NPS is a leading regional provider of integrated oil and gas field services in the MENA and Asia Pacific regions with a breadth of services and geographical coverage, and well-developed relationships with all of the leading NOCs in the region including Saudi Arabia, Kuwait, Oman, and Qatar. The company’s services fall under four business verticals including well services and intervention, drilling and workover services, wireline logging services and testing services. Despite a challenging market, NPS has delivered consistently impressive results. In all of the countries in which it operates, NPS also plays a developmental role by supporting national agendas and development mandates.

Value Proposition

APICORP fully exited its 29% equity stake in NPS to National Energy Services Reunited Corporation [NASDAQ: NESR] in June 2018 after a successful four year investment period. APICORP originally invested in NPS in 2014 as part of a consortium of regional investors whom amongst them acquired 90% of the business. The investment was representative of APICORP’s strategy to diversify its investment portfolio into the oil and gas services sector and reflected its commitment to create value and support Arab energy companies with potential for growth. Throughout the investment holding period, NPS achieved consistent growth and was transformed into a leading provider of integrated energy services with projects throughout MENA and East Asia.

The NPS exit was an important milestone for APICORP and an endorsement of its investment strategy which aims to create value for businesses by investing in their growth while providing strategic guidance to their management teams during reasonable holding periods that are more typical of private equity investing.

The successful exit enabled APICORP to realise significant value from its investment in NPS.

Post exit, APICORP continues to support the NPS growth story through a USD 50 million debt financing facility extended to the company in 2018. NPS stands as an example of APICORP’s ability and desire to invest across the full project life cycle through both equity investments and debt financing when the proper opportunity presents itself.
APICORP invested in Yellow Door Energy (YDE) as part of a consortium of international banks including the International Finance Corporation (IFC), IFC-MENA Fund, Mitsui & Co., Ltd., Equinor Energy Ventures and UAE-based Adenium Energy Capital.

YDE is a UAE-based, private sector, solar power developer and energy efficiency solution provider that has successfully developed a world-class platform and a growing portfolio of solar projects for commercial and industrial segments in the UAE and Jordan. The company is working to scale its energy platform from the Middle East to Africa and Asia and plans to build 300 megawatts of solar power assets in the next two years, benefitting multiple businesses and the broader economy by reducing energy costs and carbon emissions.

The investment is in line with APICORP’s mission to lead and enable the growth of renewable and sustainable energy within the region. It represents APICORP’s first equity investment into the renewables and distributed solar power generation sphere for commercial and industrial sectors and is one of the largest private placements in the MENA region.

“Investments will focus on successful execution and exposure to sectors vital to the MENA region’s ongoing energy transformation.”
Portfolio Management

A Proactive Approach

APICORP’s Portfolio Management is the corporation’s newest department that looks after the overall management of the portfolio cutting across both Investments and Corporate Finance. This new function is representative of a more dynamic operating model in which a dedicated team will be responsible for the active and proactive management of APICORP’s equity investments and loan portfolio.

For Investments, this new arm seeks to enhance both business performance and profitability while ensuring timely execution of the divestment strategy. In terms of the loan portfolio, the Portfolio Management will monitor loan exposures, perform credit reviews, process amendment and waiver requests, as well as all other Middle Office operations. Additionally, it will offer Loan Agency Services to clients.

Strengthening the internal due diligence process and utilising a more hands-on portfolio management approach will support APICORP’s focus on building stronger partnerships and achieving more long-term value for shareholders, investee companies, APICORP member countries and the broader MENA region.

A dedicated team of professionals is now responsible for APICORP’s equity and loan portfolio.
Overview

APICORP’s Treasury and Capital Markets proactively manages the corporation’s assets and liabilities. It follows a strategy that prioritises timely, efficient funding to support APICORP’s core balance sheet activities, at the lowest cost possible, under given market conditions. Implementing this strategy has involved intensive engagement in both the conventional and Islamic money and foreign exchange markets, with counterparties including regional and global financial institutions, governments, corporations, pension funds and agencies.

Treasury and Capital Markets works to invest APICORP’s excess liquidity in a range of treasury products, covering a similarly extensive domestic and international counterparty base. In its investment activities, the department adheres to strict, predefined guidelines that mandate purchases of treasury instruments of a certain quality and liquidity profile.

It is also responsible for managing the market risks associated with APICORP’s balance sheet activities. To this end, it manages a diversified investment portfolio composed of high-quality fixed-income securities to mitigate the liquidity, credit and foreign exchange risks associated with APICORP’s activities.

2018 Operational Highlights

A return to volatility marked 2018 international financial and commodity markets following a relatively smooth 2017. It was a year of mixed fortunes for the oil and gas industry, while capital markets were buffeted by rising trade tensions and a series of interest rate hikes by the US Federal Reserve. However, despite the heightened volatility and cautious investor sentiment, Treasury and Capital Markets closed a number of highly successful transactions with the aim of reinforcing the corporation’s balance sheet and diversifying the department’s geographic investment exposure.

In 2018, APICORP Treasury engaged in a range of funding products, from bilateral transactions and private placements, to term repos and deposits. Having made its first foray into Asian capital markets in 2016 with the issuance of Formosa bonds in Taiwan, APICORP issued its first Renminbi-denominated bond in 2018. The bond, worth the equivalent of USD 100 million, attracted strong interest from target investors and marked the first issuance of a Renminbi-Dim Sum security by a supranational lender from the MENA region. APICORP’s entry into this fast-growing debut capital market segment successfully furthered its efforts to diversify the corporation’s funding sources.

In addition to tapping into an expanding Asian liquidity pool, APICORP continued to move ahead with further USD bond issuances in 2018. APICORP’s solid track record in the fixed income space continued to strengthen the credit curve at which the corporation can issue its debt.

In September 2018, Treasury and Capital Markets oversaw APICORP’s first global conventional bond issuance in the RegS/144a markets. The USD transaction was issued under APICORP’s newly established USD 3 billion Global Medium-Term Note (GMTN) programme, to provide the corporation with maximum flexibility in accessing capital.
markets and further strengthen its financial position. This was the largest debt capital market transaction in the corporation’s history. The USD 750 million medium-term bond was 3.7x oversubscribed and generated strong interest from major US asset managers. Around 82% of demand for the offering came from outside the MENA region, with—for the first time—more than a third of the securities purchased by American institutions. Strong demand was also seen from European and Asian investors, a validation of APICORP’s strong credit position.

At year-end 2018, APICORP had two main funding programmes outstanding:

- USD 3 billion sukuk programme, subscribed to by investors from the MENA region, Asia and Europe
- A USD 3 billion conventional bond programme, subscribed to by investors from the MENA region, Asia, Europe and, for the first time, the US

Treasury and Capital Markets continued to successfully carry out its mandate to diversify APICORP’s funding base and widen the range of its funding sources. They continued to optimise APICORP’s debt tenors throughout the year, focusing on reliable, stable sources of funding and reducing the share of short-term deposits in APICORP’s overall funding base. This latter development, the extension of the maturity profile of APICORP’s debt, was the primary factor influencing Moody’s decision to recently upgrade APICORP’s rating outlook from Stable to Positive.

Besides diversification in terms of geographies and tenors, in 2018, Treasury and Capital Markets continued to successfully mitigate the foreign exchange risks associated with APICORP’s operations, securing funding denominated in a number of different currencies.

2019 Outlook

Major central banks have signalled a relaxation of monetary policy in the year ahead in response to fears of a slowing of the global economy as a consequence of the continuing trade disputes. APICORP enters 2019 on a strong financial footing from which to pursue further diversification of funding sources and target new investors.
Energy Economics, Strategy, and Sustainability

Refocusing Knowledge, Insight, and Industry Expertise

Overview

APICORP has a long-established track record as a MENA energy specialist that produces highly-respected, industry-leading research on the regional and global energy sector for both internal and external stakeholders.

As a trusted source of analysis and intelligence, APICORP Research plays an increasingly crucial role in supporting the entire corporation’s decision-making and strategy processes. From providing intelligence and insights on credit and investment decisions, to identifying trends that can shape business development, APICORP’s multinational team of economists work diligently to create new opportunities and position APICORP as the leading authority for the exciting energy transformation ahead.

With this new and expanded mandate, APICORP Research has gradually shifted from a pure energy-focused research house to an advisory arm that can play a leading role in APICORP’s strategic growth. In February 2019, it was renamed as Energy Economics, Strategy and Sustainability (EESS), a descriptor more indicative of its new role and goals.

2018 Operational Highlights

The gradual expansion of the economic and energy role within APICORP and the subsequent broadening of its scope of work became more clearly articulated as the year unfolded. Under the leadership of a new Chief Economist who came on board in December 2018, EESS continued its internal restructuring and adopted a new strategy that will see it pursue a more integrated approach focused on leveraging its insights and research capabilities to bolster APICORP’s position as a leading, world-class, multilateral development financial institution. Through targeted publications, industry engagement and thought leadership, EESS will play an expanded role in building capacity and shaping energy policy strategy.

Throughout 2018, APICORP Energy Research continued to produce industry-leading research including its flagship product, the MENA Energy Investments Outlook, as well as monthly commentaries on various topics in the energy and energy-related sectors throughout the region. Topics for the year included electricity trading in MENA, energy reform in KSA, the future of renewables in the region, and outlooks on the oil and gas sectors in the post-conflict regions of Libya and Iraq.

“APICORP Research has transitioned from a pure energy-focused research house to an advisory role that helps drive the organization’s future growth.”
APICORP will expand and restructure its flagship product, the Annual MENA Energy Investments Outlook, into a fully-fledged book that delves into the future of energy in MENA. EESS will not solely focus on writing and disseminating research, but also attracting and engaging a broad community of collaborators and contributors. By establishing a community of peer reviewers and a resource network of country contacts, and consulting regularly with leading corporations and stakeholders, EESS will produce a thriving research platform that may be utilised for business development, both regionally and internationally.

In 2019, research will focus on the themes of natural gas, energy storage, technology and services. Within APICORP, EESS will continue to expand its role as an integral component of strategic planning and business development. Priority sectors and countries will be identified with a goal of producing targeted reports that will support credit and investment proposals, as well as business development initiatives. The reports will also highlight key projects and investment opportunities within sectors and countries and identify gaps where APICORP can create value.

Another priority for EESS is the development of a structured sustainability framework that encompasses economic, social, and environmental sustainability and governance factors, with the aim of providing guidance on investment decisions from a sustainability and developmental standpoint.

In practical matters, this means EESS will:
- Own sector-focused reports that feed into the institution’s investment outlooks
- Own APICORP’s country strategies and sustainability framework, including maintaining sustainability frameworks for specific sectors
- Deliver constantly updated sectors strategies and risk analyses
- Engage in credit and investment proposals, reviews, and business development

As EESS grows into its new role, it will expand its team of industry experts and seek collaboration opportunities for joint research with think tanks, multinationals and other development finance institutions on a case-by-case basis.