



cutting through complexity™

Business case for the Bonaire Port Development

- PRIVATE AND CONFIDENTIAL -

Corporate Finance

June, 2013



| | Page |
|-------------------------------------|-------------|
| 1. Introduction | 2 |
| 2. Business case Cargo | 15 |
| 3. Port models and structure | 11 |
| 4. Governance structure | 12 |
| 5. Next steps | 17 |

- The Maritime situation on Bonaire
 - Currently the two Piers in Kralendijk are multi use servicing cruise and cargo, which is suboptimal for both industries.
 - Both Piers are in bad shape due to (i) old age, (ii) limited maintenance and (iii) Tropical Storm Omar in 2009 and need to be rehabilitated on short notice to prevent that Bonaire will not be longer accessible by sea
 - In 2009 Ascon (engineer) performed a study that indicated that the repairs of the current North and South pier would be approximately USD 11 million to cover only short term repairs to the piers and does not include a long term solution. We understand that only limited investments were made (approximately USD 1 million) resulting in further deterioration of the status of the port facilities
 - Due to the design of the two Piers only smaller RoRo ships can dock, which creates a dependency on Curacao for almost all cargo, resulting in additional costs and extra transport time
 - Both Piers are in the center of the town and there are no possibilities to process the increasing cargo volumes. Currently containers are parked on the boulevard creating dangerous traffic situations
 - The Piers in Kralendijk in its capacity as Cruise Pier needs to be complied to international (safety) standards for the Cruise industry. Loosing the cruise line industry might have a negative impact of 7% of Boanire's GDP
 - Current Ports authority is understaffed and under equipped to fulfill all of its maritime duties
- All of the above have triggered OLB that a solution will need to be created to:
 - Be compliance with international Ports Authority regulation
 - Make Bonaire better accesaceble for cargo transport in a sustainable way
 - Stimulate the tourism development by upgrading the center of Kralendijk in line with Centrum Vision

- In May 2013 a Business Case was produced for OLB on the development of a new Cargo Port for Bonaire.
- As the Port will be built for the long term (50 years) it is important:
 - That the port is build based on expected future expectation for growth of Bonaire (double capacity in 2025)
 - To determine on functional requirements which should be translated into the best technical design. Subject of our review are the following locations:
 - WEB/ Hato
 - Airport
 - Punt Vierkant
 - Cargill
 - Decision by Government on best location. Focus of the study on (i) cost of construction, (ii) structure and (iii) port operations. However other important factors are (i) environmental, (ii) safety and (iii) future development of Bonaire
 - Sound and rationale business case in other words revenues and expenses (including capex) should be balanced for the long term
 - To use the previous studies, amongst others Royal Haskoning.

Functional requirements Cargo Port

- Acres on land for Port use
 - Minimum of 21,000 m² for container terminal and open storage*
 - Minimum of 3,020 m² for offices, parking and other*
- Vessels sizes
 - 2 RoRo berths for a ship of 60x16m and LOA of 95x18m*
 - 1 LoLo berth for a ship of 120x18m*
- Cargo handling capacity by commodity type
 - Double the current local capacity in 2025 (25,000 TEU's)*
 - No large international transshipment, however, possibility for Niche Transshipment*
- Design Life
 - 30 - 50 years*
- Water Depth
 - 6 – 8 meters*
- Equipment type that can be used on surface
 - Phase I: Reach stackers for containers*
 - Phase II: Mobile equipment (incl. Crane of 100 ton)*
- ISPS
 - The facility will provide the necessary security features to be in compliance with the Facility Security Plan*
- Not included in Functional requirements
 - Car carrier and project lading (will continue to use facilities in Kralendijk)*

Current situation



2012 Bonaire Cargo facts

| | |
|-----------------------|--------|
| TEU's (in/out) | 10,158 |
| Car/ trucks | 806 |
| Project cargo per ton | 45,548 |
| Vessels | 2,421 |

PRIVATE AND CONFIDENTIAL

Caribbean Transshipment Triangle

- This region is prone to transshipment for the following reasons:

1. Proximity to shipping lanes:

- Bonaire is not located on the prime shipping lanes
- Distance Bonaire – US is less optimal compared to competition
- Competition on Bonaire's shipping lane is fierce, various expansion plans

2. Costs:

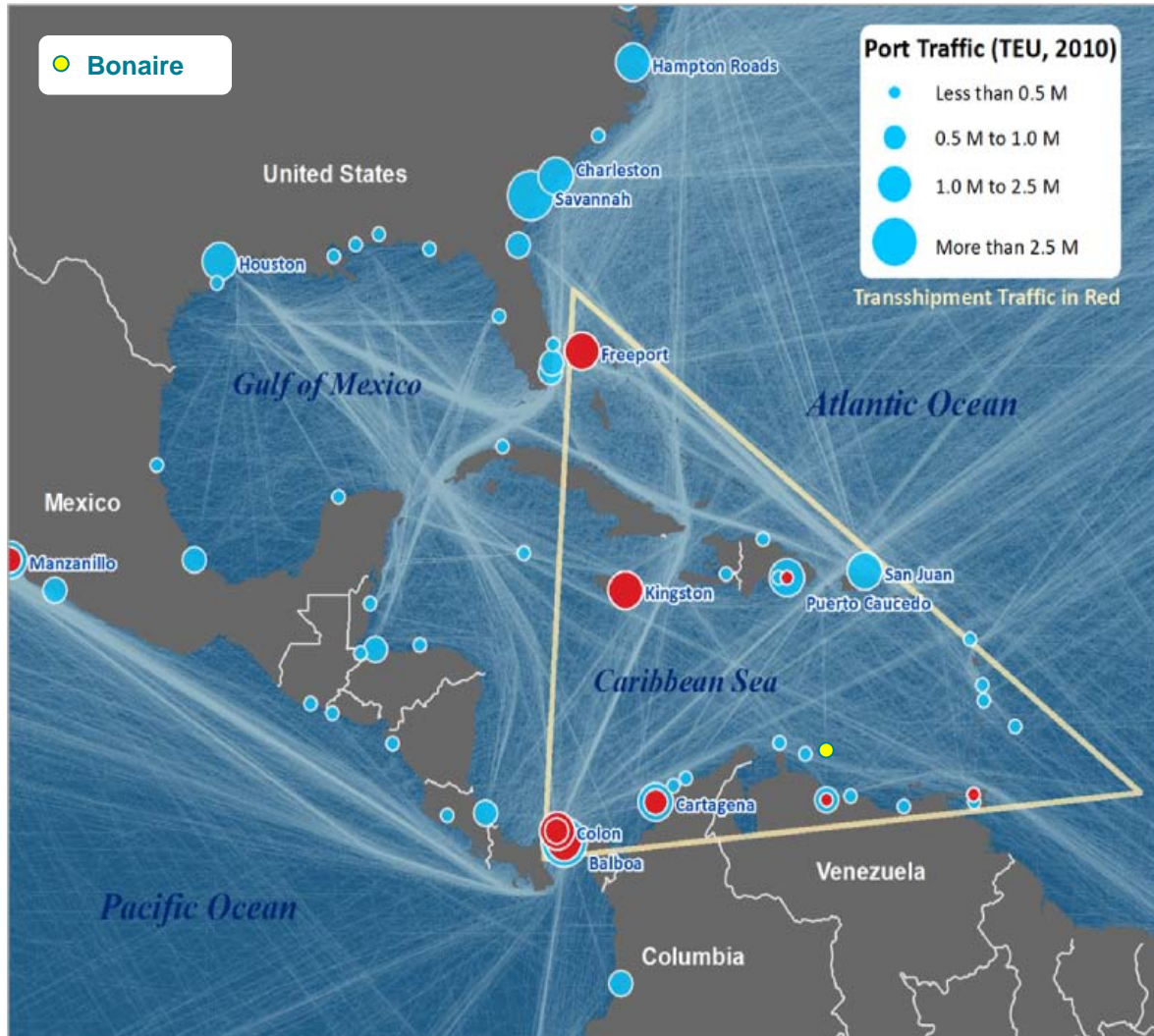
- Factors that influence costs:
 - Labor costs
 - Legal restrictions
 - Transshipment tariffs

3. Land availability:

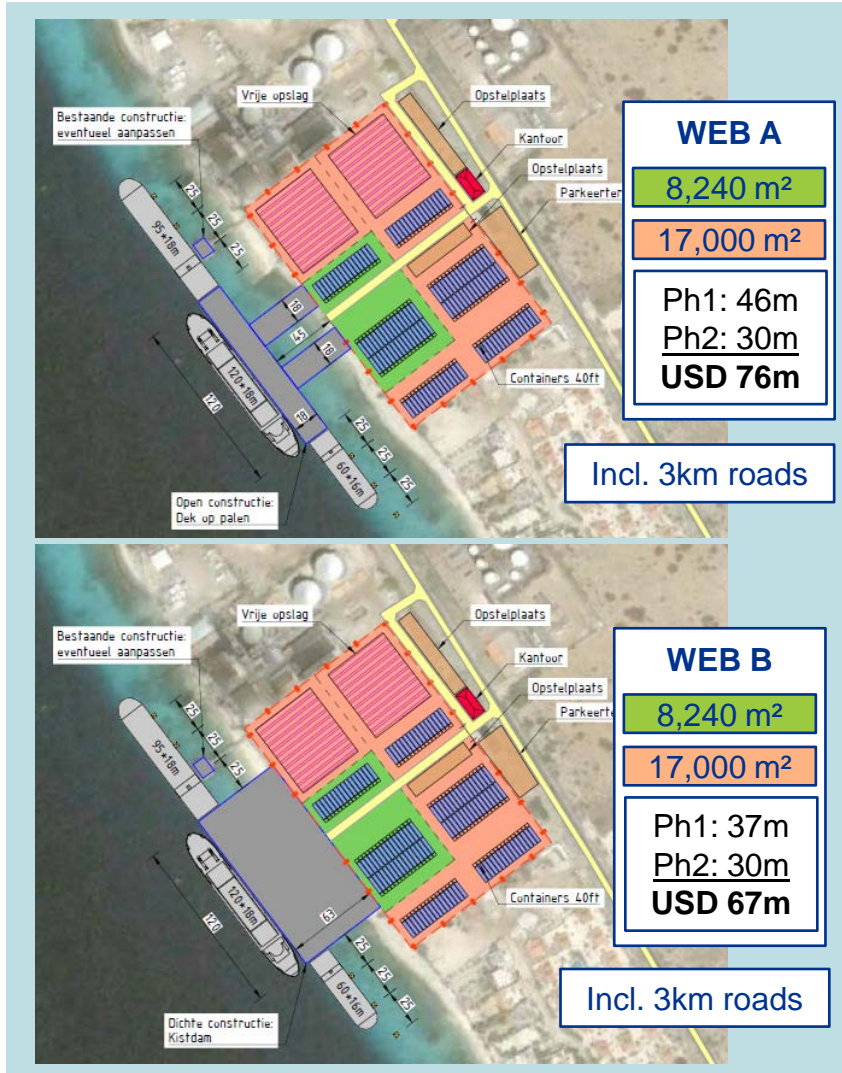
- Bonaire does not have as much hinterland available as its competitors

Conclusion

- No large transshipment harbor on Bonaire, but we do see possibilities for a transshipment niche
- Niche should support itself



Source: American Association of Port Authorities



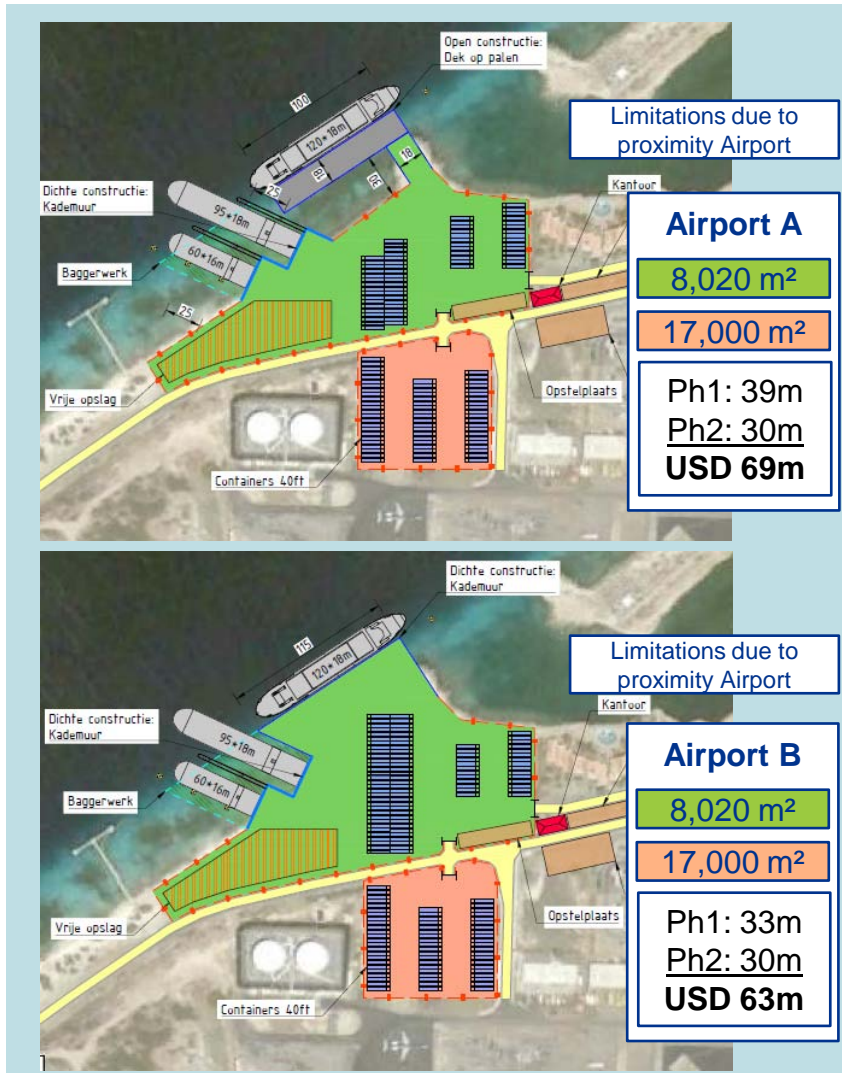
WEB - location

Advantages

- Limited adjustments to convert current WEB-location into Cargo Port premises
- Limited dredging
- Sufficient land available for expansion and possibility to dock ships larger than 120 m
- Land indirectly owned by OLB through ownership of WEB
- Drop is relatively close to the shore
- Nautical protection
- WEB B fits within the Capex budget

Disadvantages

- Additional USD 5.5 million to access road to by pass Kralendijk in phase I
- Situated in a residential and recreational area (extra mitigating measures will be needed)
- Possible conflict in usage of Ro-Ro and Oil terminal ships, requires coordination



Airport - location

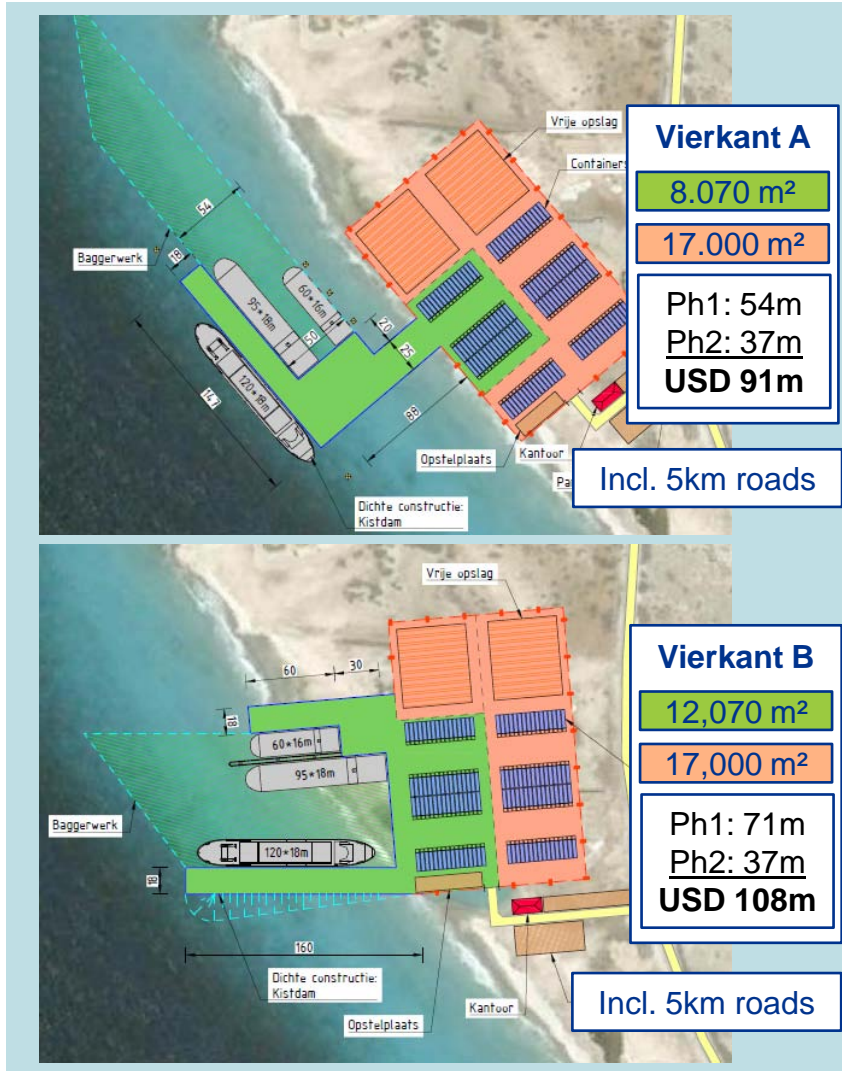
Advantages

- Through optimization the investment amount can be below USD 37 million for phase I
- No adjustments needed for access roads
- Land already owned by OLB
- Nautical protection

Disadvantages

- Loss of Public beach (extra mitigating measures needed)
- Restrictions due to proximity to the Airport (extra mitigating measures needed, particularly for the Crane)
- Dredging needed for Ro-Ro basin
- Possible conflict in usage of Ro-Ro and Oil terminal ships for OTB





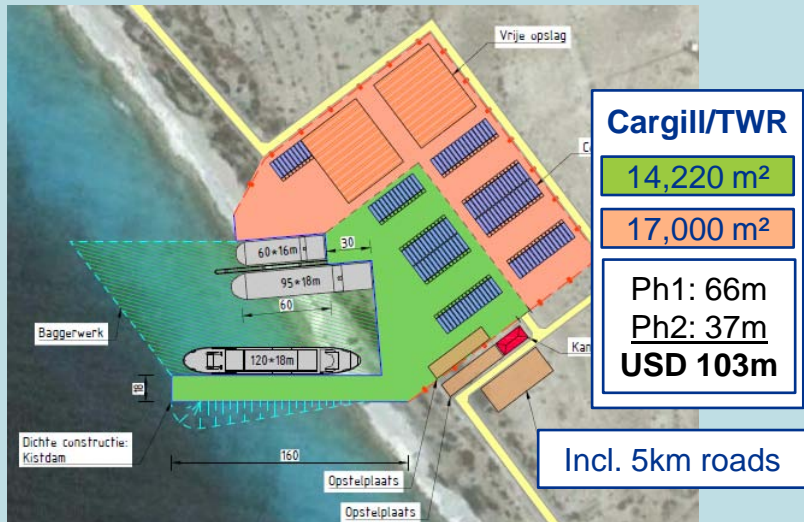
Punt Vierkant - location

Advantages

- Sufficient land available for expansion
- Greenfield project (no constraints)

Disadvantages

- Investment for phase I is estimated to be higher than USD 37 million
- Additional USD 10.1 million to access road to by pass residential area in phase I
- Land will need to be purchased
- No protection of Klein Bonaire
- Large dredging area
- Drop relatively far away from shore



Cargill/ TWR- location

Advantages

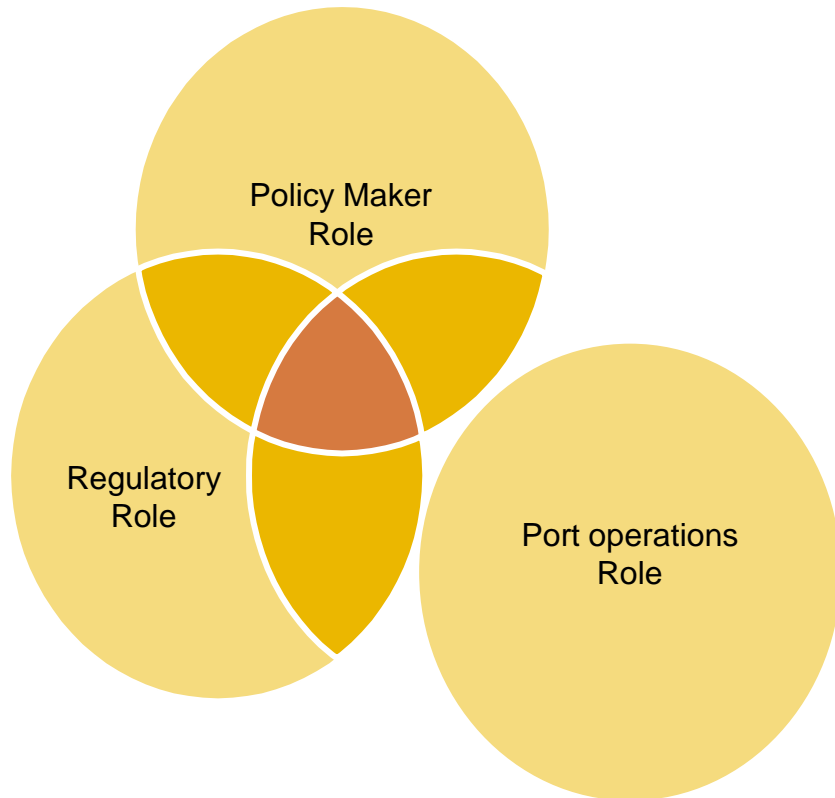
- Sufficient land available for expansion
- Greenfield project (no constraints)

Disadvantages

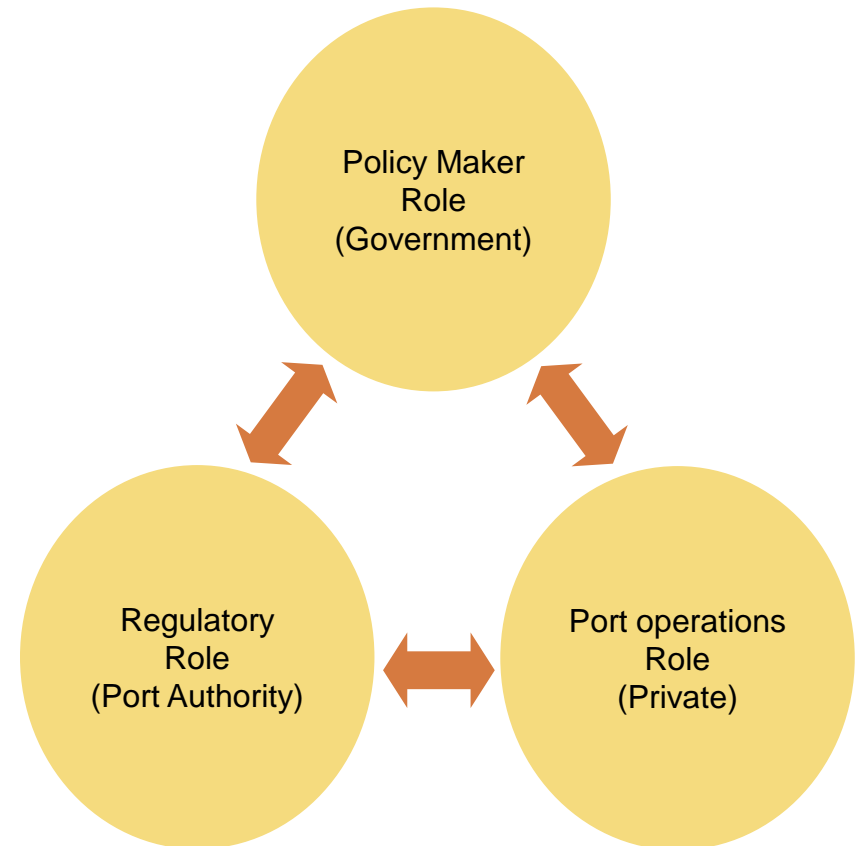
- Investment is estimated to be higher than USD 37 million
- Additional USD 10.1 million to access road to by pass residential area in phase I
- Large dredging area both on sea and land

PRIVATE AND CONFIDENTIAL

Current Integrated Monopoly



New proposed situation, based on segregation of duties and sound business principles.



Above situation is best translated into a Land Lord management structure

| Port management model | | | | | |
|-----------------------|-----------------------------|-----------------------------|-------------|-----------------|--|
| | Infrastructure ¹ | Superstructure ² | Port labour | Other functions | |
| Service port | Public | Public | Public | Majority Public | |
| Tool port | Public | Public | Private | Public/Private | |
| Landlord port | Public | Private | Private | Public/Private | |
| Fully privatized port | Private | Private | Private | Majority Public | |

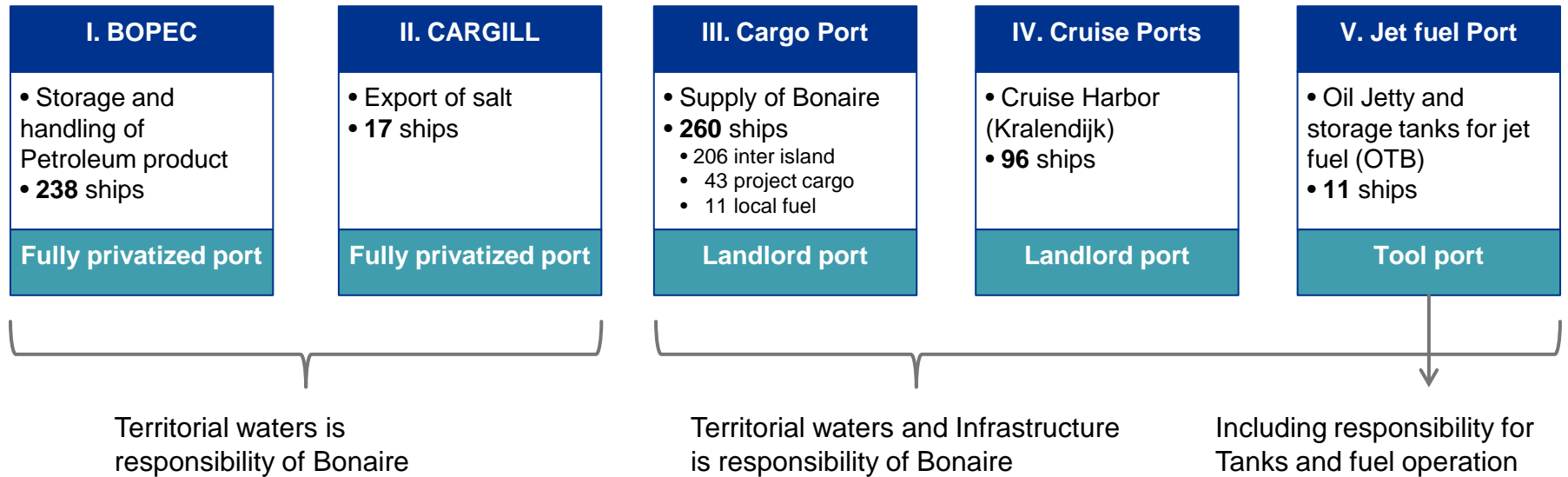
¹ Infrastructure: quay walls, revetments, navigation aids, maritime access channels

² Superstructure and equipment: buildings, paving, warehouses, tanks, offices, ship storage handling, crane, etc

General development in Port management and ownership models

- Less service ports and tool ports worldwide due to risk allocation and high investments
- Private ports mainly in situations where there are more ports per region/ country or specific functions
- The Landlord model has been and is being used with great success across the world. For example, most of the major ports in the US and Europe the states or cities build and own the basic infrastructure whilst private terminal operators manage the terminals. Ports like Los Angeles, New York-New Jersey, Houston, Hamburg, **Rotterdam**, Barcelona and many other ports in The Netherlands
- Tendency to move to a landlord port:
 - Public entity owner and operator of Infrastructure
 - Private parties via concessions for the rest (however avoid monopolies!)

PRIVATE AND CONFIDENTIAL



Recommendations

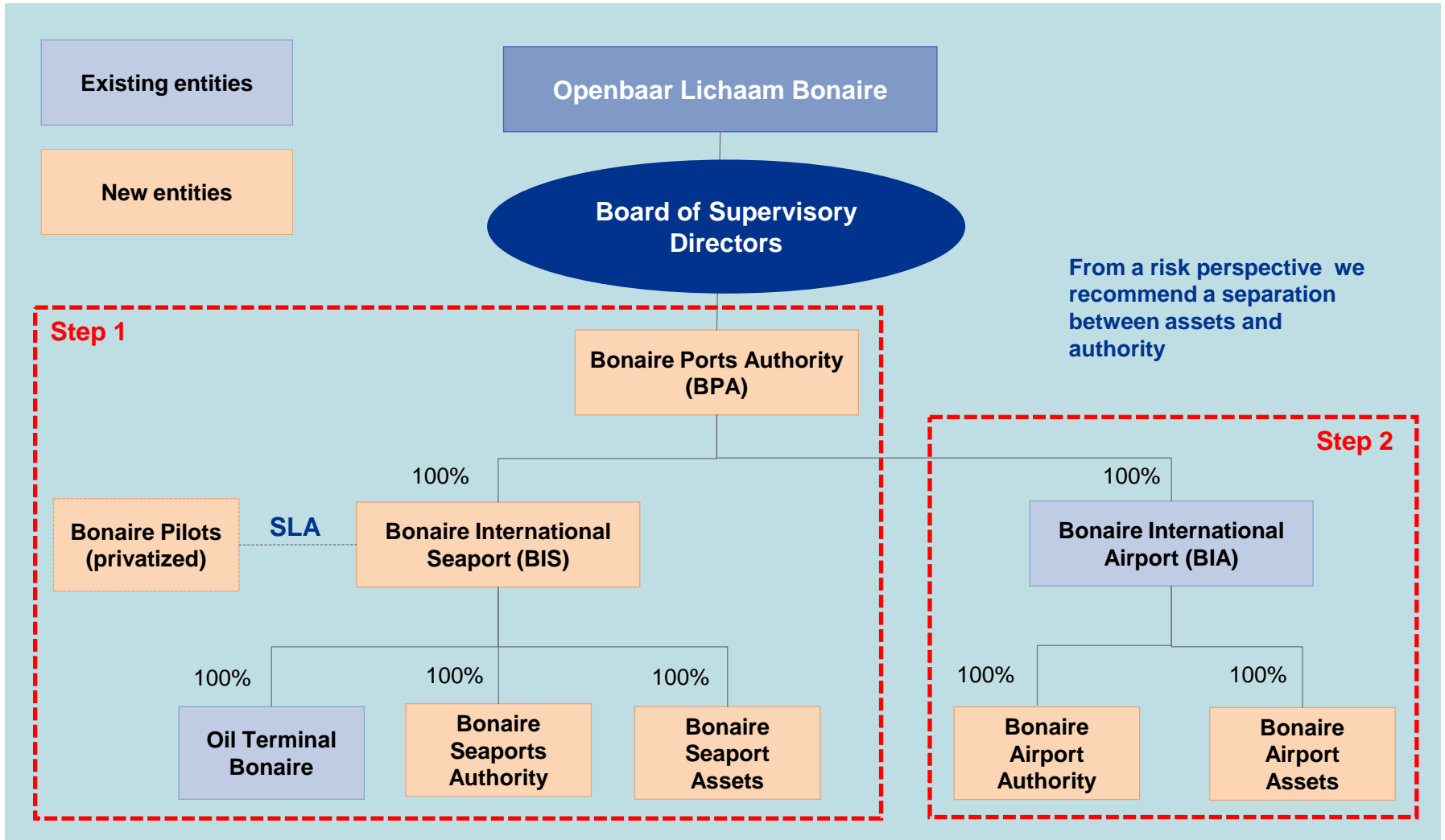
- One Port Authority responsible for all Harbor related activities, combining all resources, investments and therefore eliminating the effects of small economy of scale
- Include the commercial shops (Real Estate) in the Cruise Port for revenue reasons
- OTB is a Tool port as it owns the pipes and the fuel tanks and is responsible for the fuel operations for the airport. However, this creates certain risks for OTB which should be reconsidered and mitigated. The focus of OTB should be on its ports operation.
- Port Authority based on the Landlord principle (possibly customized per situation) because:
 - Land lord is the best option to enhance competition in a small economy without creating a monopolistic situation
 - Land lord brings in expertise from the private market, limits the investment for the Port and operational & financial risks is (partially) transferred to private parties (stevedores based on a concession agreement)
 - However, due to limited volumes a customized solution should be analyzed per situation (e.g. Joint Venture for Crane)

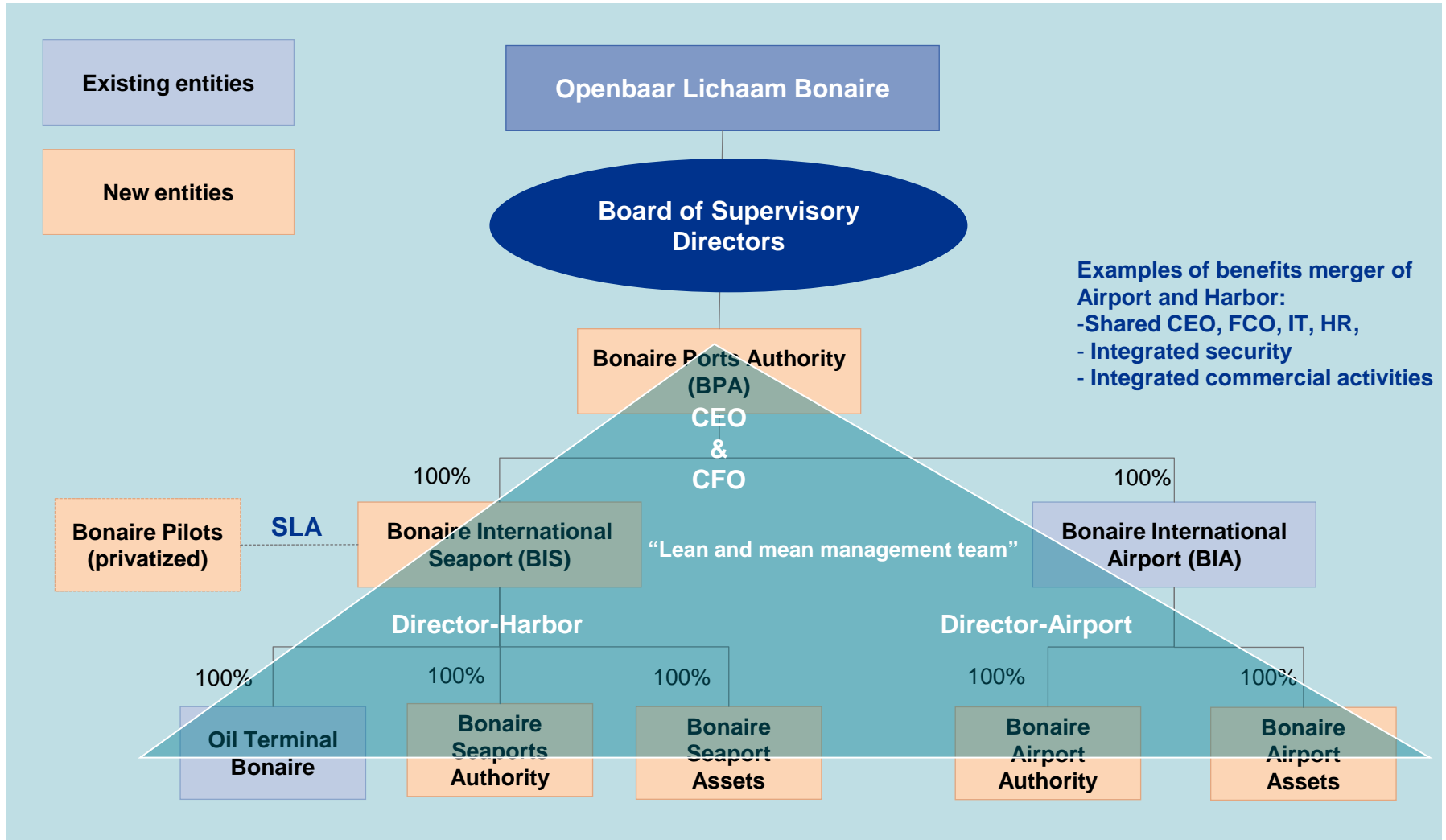
Step 1: Establishing a “semi-public harbor entity”

- At this moment the harbor activities are managed by a department of the government of Bonaire
- We recommend that in the future the Harbor should become a separate “semi-public entity” with all shares owned by Government based on the following basis principles:
 - **Lean and Mean Governance Structure** for the “semi-public entity” based on segregation of duties
 - Transfer of harbor **employees and assets** from the government to the “semi-public entity”; the initial point is to ensure that the effects for the Government budget are neutral. Assets will be transferred as capital in kind. No effect on the Balance sheet for the Government (transfer from port assets to subsidiary)
 - Cruise, OTB and Cargo in one port entity
 - A **concession agreement** wherein responsibilities and compensation towards the government are documented
 - **New legislation** for collection of tariffs as customary for a “semi-public entity”
 - **Separation** between **assets and operations** based on a risk perspective where if desired a further distinction can be made between cruise and cargo assets
 - Good Corporate Governance Code

Step 2: Integrating the harbor and airport into one entity

- The seaport and airport are part of the same sector and are mainly managed in the same fashion. Basically both facilitate and regulate the operations of a port, whereby activities are mainly exploited by third parties. Therefore there is a lot of synergy between the two companies:
 - Similar operations (safety, maintenance, immigration, customs, etc)
 - Joint marketing as both gather passengers and freight
 - Both small sized operations can benefit from certain shared services (HRM, IT, IAD, safety, maintenance etc)





- Execution points for business case:
 - Performing a MER for the two preferred locations including recommendations on mitigation of the issues;
 - Performing a “maatschappelijke kosten/ baten analyse”
 - Detailed study on impact of tariff increase
 - Appoint experts to review consequences of adjustment of the zoning plan for the selected location. Verify if the Hato location for the port can qualify within the existing zoning plan
 - Appoint legal council to support new fees structure and develop the Corporate structure for the Bonaire Ports Authority
 - Start process of identifying and discussing strategic partnerships on the various levels as indicated
 - Obtain financing and start procurement



cutting through complexity™

PRIVATE AND CONFIDENTIAL

© 2013 KPMG Corporate Finance, KPMG Corporate Finance is a trade name of KPMG Advisory Caribbean B.V. a Curaçao limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ('KPMG International'), a Swiss entity. All rights reserved. Printed in Curaçao.

The KPMG name, logo and "cutting through complexity" are registered trademarks or trademarks of KPMG International Cooperative ("KPMG International").