Newsletter

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EDITO

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Financing, greater key success factor

By Jacques de Chateauvieux

At JACCAR, no growth is not an option, but financing has become an even greater than before key success factor to fuel our growth strategy.

Many of the criteria to achieve proper financing are hard to meet under the prevailing circumstances: loan to value ratio is reduced to cover a possible drop in asset value; equity is now expected up front, and no longer as and when the borrowing entity generates cash from operations; some banks are reducing their books or even stepping out of financing they used to be fond of. Those banks who know you cannot follow and the ones who don't have to find good reasons to take new customers on board.

This situation also highlights new concerns at the risk evaluation level, the correlation between financial risks and business risks being regarded as a new threat for financing at the holding company level.

This newsletter outlines that JACCAR is aware of the situation and has taken the right decisions to enable it to secure new types of financing and new partners at both bank and financial market levels.

All of us will make sure that we deserve the trust of those who participate in our growth and value creation strategy through their financing.

Agenda

A DREAM COME TRUE

SAPMER

By Véronique CHASSAN

In these difficult economic times, SAPMER is a living proof that dreaming for a better and more successful company is not just a dream after all, growth through investments in those "dreams" is possible and rewarding. Banking partners believed in SAPMER's plan for the future and its development. The AFD (French Government Agency for Development) was the one to choose not just to believe, but also to be an active participant in the development of SAPMER with regard to its latest ship. A partnership is currently under discussion regarding the partial funding of the fifth -40°C tuna purse seiner, due to come into operation next September 2012. This new ship should be registered in Reunion Island and should sail under French flag just like its sister-ship Dolomieu, the fourth of this series.

SAPMER has always been an active participant in the Reunion Island and the Indian Ocean economy. Today these new ships (5 of this series) all named after Reunion Island localities, are living proof of not just a Reunion Island company success story but also of a great investment in this part of the world – the Indian Ocean. Indeed this series of -40°C tuna purse seiners will be fishing in the Indian Ocean. Part of their catches (mainly Skipjack and Yellowfin) will then be value enhanced (steaks, sashimi, loins…) and stored at -40°C in Mauritius to be exported all around the world. This value enhancing activity contributed to the revenues growth in 2011 of SAPMER Group, proof that growth is possible and that investment in well analysed "dreams" is the key to success.

One must emphasise that these growths and investments have been and are still about quality rather quantity. Following this concept it is not a surprise to see how dedicated SAPMER is in regards to responsible fishing, research and development and sustainability of the marine resources. Always a step ahead: "being excellent tomorrow by going beyond today's achievements".

Business and Financial Risk

By Ramon de Oliveira

Five years into a global economic crisis, taking and managing both business and financial risks have become one of the principal responsibilities of business leaders. At Jaccar, risk -current and potential- are consistently discussed with Directors at Board Meetings. Here is one Director's perspective on risks.

A business must take and manage risks all the time. Without it, returns on capital invested inevitably decline. Peter Drucker, the famous consultant, said it best: "there is the risk you cannot afford to take, but there is the risk you cannot afford not to take."

Jaccar has strong risk appetite across all its businesses. The decision of Bourbon to focus completely on marine and offshore services was a case in point. The risk paid off when the company became the industry leader worldwide.

Sometimes, of course, risk-taking does not work and we must live with the consequences. Too bad! This is the price we must pay to compete.

Risk fuels growth. For this reason, Jaccar will continue to take risks. "For us, no growth is not an option," says Jacques de Chateauvieux. As Directors, we stand fully behind him on this strategy.

Business risk management is the flip side of risk-taking. Once taken, a risk must be carefully followed. Jaccar manages risk in two ways. The subsidiaries, each individually, prioritize and control their risks: production cost, changing customer needs, cyclicality of demand like in shipbuilding and operating…

What can go wrong? What should we do about it to prepare ourselves? Two questions which our business leaders must stand ready to answer.

At the holding company level, Jaccar manages risk through diversification. The goal is to develop a portfolio of un-correlated businesses, each with its own market cycle and competitive conditions. The new segmentation of our activities into three distinct blocks reflects the imperative to keep managing risks actively.

Finally, growth must be financed. Debt adds financial risk to business risk. Academics and consultants have written extensively about the relationship between these two risks. In theory, each company has its own "optimal capital structure," a unique mix of debt and equity designed to help earn the highest returns on invested capital.

But, practically speaking, *how much debt is too much?* Three simple rules help us here:

- Rule 1: Measure business risk by either (a) the predictability of each flows; or (b) the capital intensity of the business (do you need increasing levels of capital to support revenues?);
- Rule 2: Business risk always returns financial risks: if business risk rises, reduce financial risk;
- Rule 3: Watch out for "double leverage," that is debt raised *both* by the subsidiaries and the parent company.

How does Jaccar currently stack up against these rules? It could do better. Business risk is rising across the board but we keep adding debt at all levels. Rule 2 and 3 are not exactly followed.

This should call us into action: *where can business risk be reduced? How and where should we cut debt?* We will be discussing these two points actively at our future Board Meetings. As business leaders within Jaccar, start preparing your answers!

Mr. Ramon de Oliveira joined JP Morgan, Paris in 1997. In 1989, following special powers from the Federal Reserve Bank, he was appointed both to lead JP Morgan's entry into the high-yield bond business and to run the Structured Finance practice. In 1991, he founded and led the team of executives who built JP Morgan's Global Equities business; he also oversaw the firm's portfolio of Private Equity Investment. Between 2002 and 2006, Mr. de Oliveira was an Adjunct Professor of Finance at Columbia University. He is now Managing Partner of the consulting firm Investment Audit Practice LLC. Mr. Ramon de Oliveira has been a JACCAR Board Member since 2011.

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GREENSHIP HOLDINGS

By Philippe Rochet

When Jaccar Holdings decided in 2010 to invest at the down cycle stage into the dry bulk and the gas segments, many partners including banks were surprised about this move especially for dry bulk, at a period when rates were at a historical low.

Shipping investments are part of Jaccar's segment B strategy. For those investments, timing is everything. These are businesses where market-cycle determines profitability and proper management of the cycle provides value creation.

Dry bulk activities are currently in a cycle of oversupply and world economic crisis, which drive down returns, and reduce asset value very significantly. It can be said that investing at down cycle stage is a basic strategy, but you need to know more or less where the bottom is, be patient, and be determined enough to exit when the structure is generating significant surplus of cahsflow.

However, things are more complicated for shipping nowadays compared with past history: lack of financing is a new ingredient to take into consideration in the complex equation of the market trend.

Lacking of financing from European banks is especially crucial. They used to be a big providers of shipping finance during the past decade, but now have to accommodate new regulations with Basel III, as well as experiencing difficulties in raising funding in US$. As a consequence, they are significantly reducing or exiting shipping finance.

The third installment of the Basel accords was developed in response to the deficiencies in financial regulation revealed by the late-2000s financial crisis. Basel III strengthens bank capital requirements and introduces new regulatory requirements on bank liquidity and bank leverage.

Investing at down cycle stage is therefore not only a question of getting the right timing, but also a matter of raising the necessary source of funds to be able to succeed with the investment.

Greenship Holdings is therefore a good example demonstrating the key success factors to complete the financing.

(i) A company needs to be in the bank "short list" of corporates that to be sponsored (financed) because their project is good (better than others). This is the case with Greenship Holdings, with its investment into fuel efficient vessels at down-cycle stage

(ii) A company needs to have operating force into the model and not to be a tonnage provider without any cargo employment. This is the case with the integration into Greensihp of SETAF SAGET and EVERGAS

(iii) A company needs a good sponsor with a good reputation (its shareholder), which is also the case with Jaccar Holdings for Greenship

All in all, Greenship Holdings already got 90% of the financing for its 22 newbuilding program within a year. French banks that were supporting the project even so announced an exit from shipping finance, under complex structure like French tax lease that provides additional benefit, with 60% to 75% leverage and up to 10 year tenor in USD at reasonable margins; with Chinese banks that support only big names; with new banks that were financing Jaccar Holdings / Greenship for the first time, and with recognized banks with specialized shipping focus like DVB, HSH, Nordea, SCB, Natixis, Société Générale, China Exim and CACIB.

All this demonstrates once again trust in Jaccar Holdings, Greenship, SETAF SAGET and EVERGAS. Now we have to be patient and wait for the next bullish cycle!

Lotus Garden

Home, Sweet Home

By Lan VO

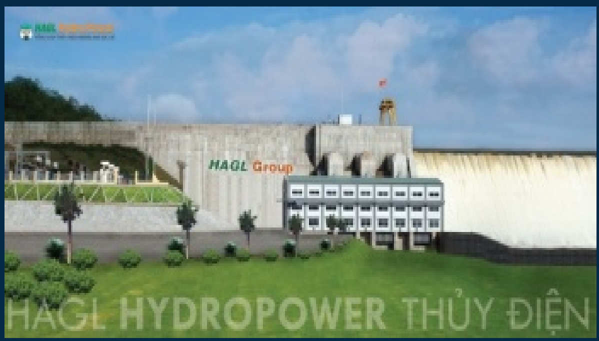
After 18 months of construction, Lotus Garden became one of the rare completed-on-time apartment buildings in Ho Chi Minh City while most of other projects in Ho Chi Minh City are being delayed in the frozen real estate market with 90% construction slower than planned and 70% completely stopped.

In early April 2012, 369 apartments out of Lotus Garden's 416 sold apartments were handed over to customers to their happy surprise. Right after the handover, 313 customers immediately moved in to enjoy their new homes built at high quality as committed with on-site convenience such as New Cho supermarket opening on 1 August, modern camera and access control system, spacious parking basement, etc. The security system and high community hygiene are adding values to living standard in here. At Lotus Garden, everyone could see the investor's true care to residence life fully.

Beside the enormous efforts of the staff to bring Lotus Garden to life, Viet Au is actively cooperating with banks such as HDBank, VCB, ACB, etc., supporting customers to buy its apartments by the flexible policies of interest and terms. 23% customers now have bank loans to receive their apartments. With the decreasing trend of bank interest, we could expect greeting more and more customers coming to Lotus Garden to have their own home, sweet home.

Hoang Anh Gia Lai's Financing Story

By Hiep DO



In 2008, Hoang Anh Gai Lai ("HAGL") decided to diversify and transform its strategy from a real estate company to renewable resource company and this will require a large amount of funding as hydro power is capital intensive and rubber plantation is 4 to 5 years of investment. How did we finance those projects during the difficult time?

Originally, most of the finance came from local bank loans. However, we decided to change our financing strategy. In 2010, we issued $58 million of Global Depository Receipt ("GDR") which were underwritten by Deutsche Bank and listed on London Stock Exchange and issued another $55 million of convertible bonds to Temasek.

The growth strategy was ambitious and already executed thus we continued to raise another $145 million in 2011 through exchangeable and corporate bonds for existing developments and refinancing of the short term loan from banks.

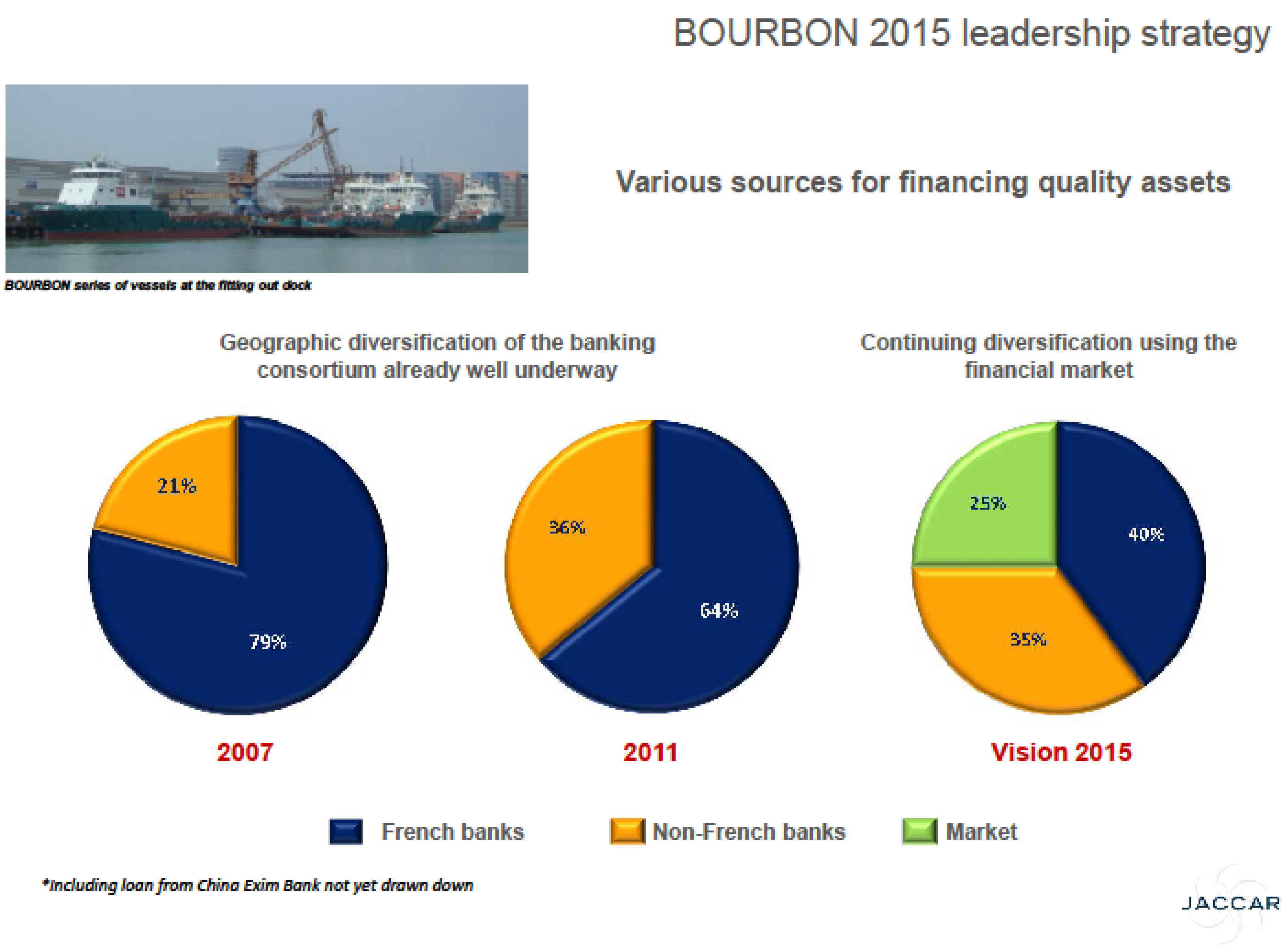
Therefore, in the last 2 years HAGL raised $258 million in the international market and this was a rare case for Vietnamese companies especially during the difficult time. Our experience was that the interest rate was high and we spent more time for road show as Vinashin, a large Government ship builder just default billions of dollars of its international bond issued 1-2 years ago.

Today, we are trying to reduce our gearing level by divesting real estate business and selling some equity interest in rubber plantation and hydro power to rebalance our balance sheet structure. From 2014 onward, HAGL will be a cash rich company.

BOURBON

Raising Money in Financial Turmoil

By Laurent Renard



The Oil and Gas market is booming, with oil companies increasingly investing in new projects in a world where oil price fluctuates around 100$/bbl.

BOURBON in this context is pursuing its growth strategy. Growth comes from investments in newbuildings, but also from increases in dayrates and in utilization rates as the sector gradually moves up the cycle curve. But at the same time the financial market is going through a crisis notably in Europe. As a result French banks, which historically have been the main lenders to BOURBON, are shrinking their balance sheet. However, it is a flight to quality and within this selective approach, they have clearly demonstrated their renewed trust in BOURBON when recently signing a new 240 million Euros club deal.

In the meantime, we have been diversifying further the geographical spread of our banking network; new international banks are coming to us. We have thus recently signed deals with 6 foreign banks for a total amount of 180 million Euros. Why are these banks eager to work with BOURBON? They like the oil servicing sector, they believe in growth in that sector and they see BOURBON as the leader in its market with a unique strategy enabling it to benefit fully from the turnaround of the OSV market.

Beyond that geographical diversification, and following the financial market changes, we intend to approach the debt market with a target to secure up to 25% of our debt by 2015.

CONVERTIBLE BOND

By Philippe Rochet

On July 24th 2012, Jaccar Holdings issued new 3-year convertible bonds for 100 M Euros listed on the Frankfurt stock exchange.

Convertible bond financing is part of Jaccar Holdings' strategy to diversify the nature and source of funding, as well as to open the capital when conversion, to introduce non-family shareholders into the capital.

Partial use of this new issuance was to repay existing convertible bonds worth 70M Euros due to be repaid end of July because current market conditions had not allowed the IPO of Jaccar Holdings as planned, as well as to finance current developments described in Jaccar Holdings' strategic plan.

This new issuance was launched on July 4th, with a target between 70 to 100 million of Euros, so is fully subscribed at the high range, although market conditions were worse compared to the previous issuance in 2010.

Compared with the period of 2010 issuance, the EURO STOXX 50 decreased by 25%, and the credit spreads increased by 250bps where the Euro three years reference rate decreased "only" by 150 bps.

At the same time, European capital market issuances decreased by 52% during the first semester 2012 compared to the first semester 2011.

On top of this, the new issuance of the Jaccar Holdings convertible bonds has been completed at 7% interest rate whereas the previous bond was at 7.5% (plus 2% penalty in both cases in case on non-IPO).

The type of investors is quite diversified with 39% from specialized convertible bond investors, 29% from family offices, 6% from private equity firms, and 26% from private banking.

So globally, both the market and our partners have perceived this issuance as very successful because of the increased amount, the lower interest, and a period of time with tougher market conditions.

Jacques de Chateauvieux and his family, today the sole shareholders of Jaccar Holdings, consider that opening the capital to non-family shareholders will help the company and its management to grow further.

(Jaccar Vietnam Team)

In this context, the issuance of convertible bonds was a first step.

At the same time Jaccar Holdings has in recent years reinforced its management, at Board level with the setting up of a strong Board of 9 members including 7 independent, as well as welcoming new management team members. This is part of Jaccar Holdings' strategy to professionalize the team even further, and step by step pave the way for the future of Jaccar Holdings.

Now it is time to reach another stage, and the shareholders with the Board of Jaccar Holdings have contemplated to launch an issuance for capital increase through a private placement.

(Jaccar Shanghai Team Building)

PIRIOU

Think Global, Act Local

By Pascal Piriou

“Think global – act local” applies to our strategy but also increasingly to our financial policy, including the financing of assets of our subsidiaries. The growing share of our foreign operations leads us to invest in fact far from our French bases but as we do for our historic site in Brittany, we will fund more of our assets and our business through local partners.

Why? Because there we are anchoring, we are part of a local network and local financing creates a lasting bond and commitment for both parties. But also, this local commitment contributes greatly to the management responsibility that integrates the bank debt like a real debt when internal funding by the Group is seen as more flexible and may be less committing.

The local refinancing our assets in Nigeria, via a 5-year, 7% fixed rate, 15 million US$ loan from the GT BANK, respond to this philosophy and anchor more West Atlantic Shipyard, our ship repair and shipbuilding site in Nigeria, in its environment. It makes the local bank a true partner who is actively involved in supporting our investment in an environment deemed “complicated” but which reveals a high growth potential while western economies are going through a severe economic and financial crisis.

(pic.: West Atlantic Shipyard, Nigeria of May, 2012)

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