Medium Term Perspective

August 13, 2006

Goa

Small Beginnings!

Consolidated Toll Network (India) Limited (CTNL) was incorporated in November 2000 to provide focused attention to the FUTURE ROAD BUSINESS of the IL&FS Group

Initial Mandate

- Implementation
  - Implementation of AMTRL and NKEL
- O&M
  - Oversight of Operations & Maintenance for AMTRL and VHTRL
- Initial Staff Strength
  - Personnel drawn from IL&FS ISBU and SPVs
  - Initial Number of Employees: 35

Strategy

We had a 'strategy'.

GET IT DONE

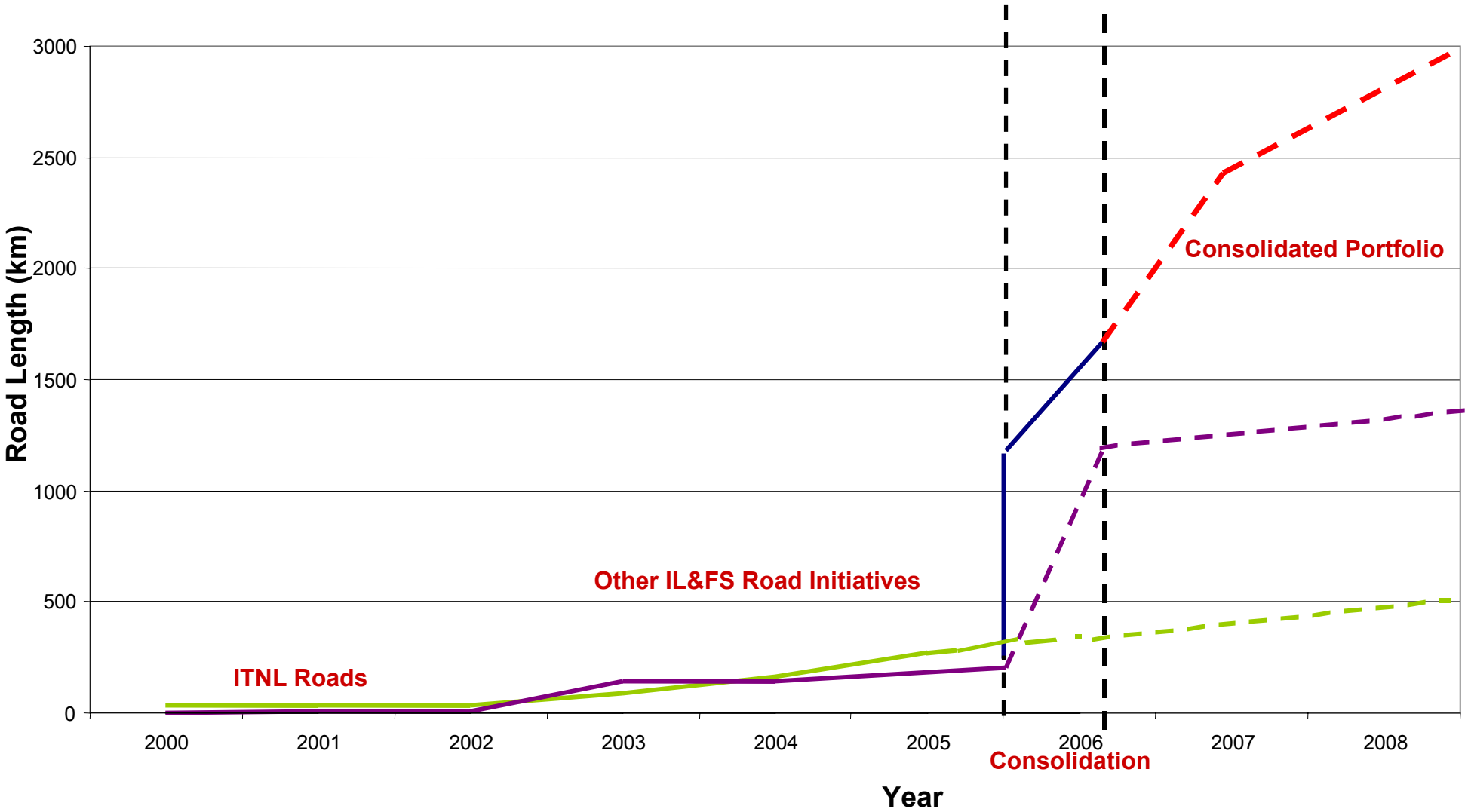
Structure of the Presentation

Section I:	**Steady Growth**
Section II:	**Management**
Section III:	**Key Achievements**
Section IV:	**The Road Sector**
Section V:	**The Port Sector**
Section VI:	**The Urban Transport Sector**
Section VII:	**The Railways Sector**
Section VIII:	**Technology**
Section IX:	**The Coal Bridge Project**
Section X:	**International Mandates**
Section XI:	**1000 Day Program**
Section XII:	**Challenges**

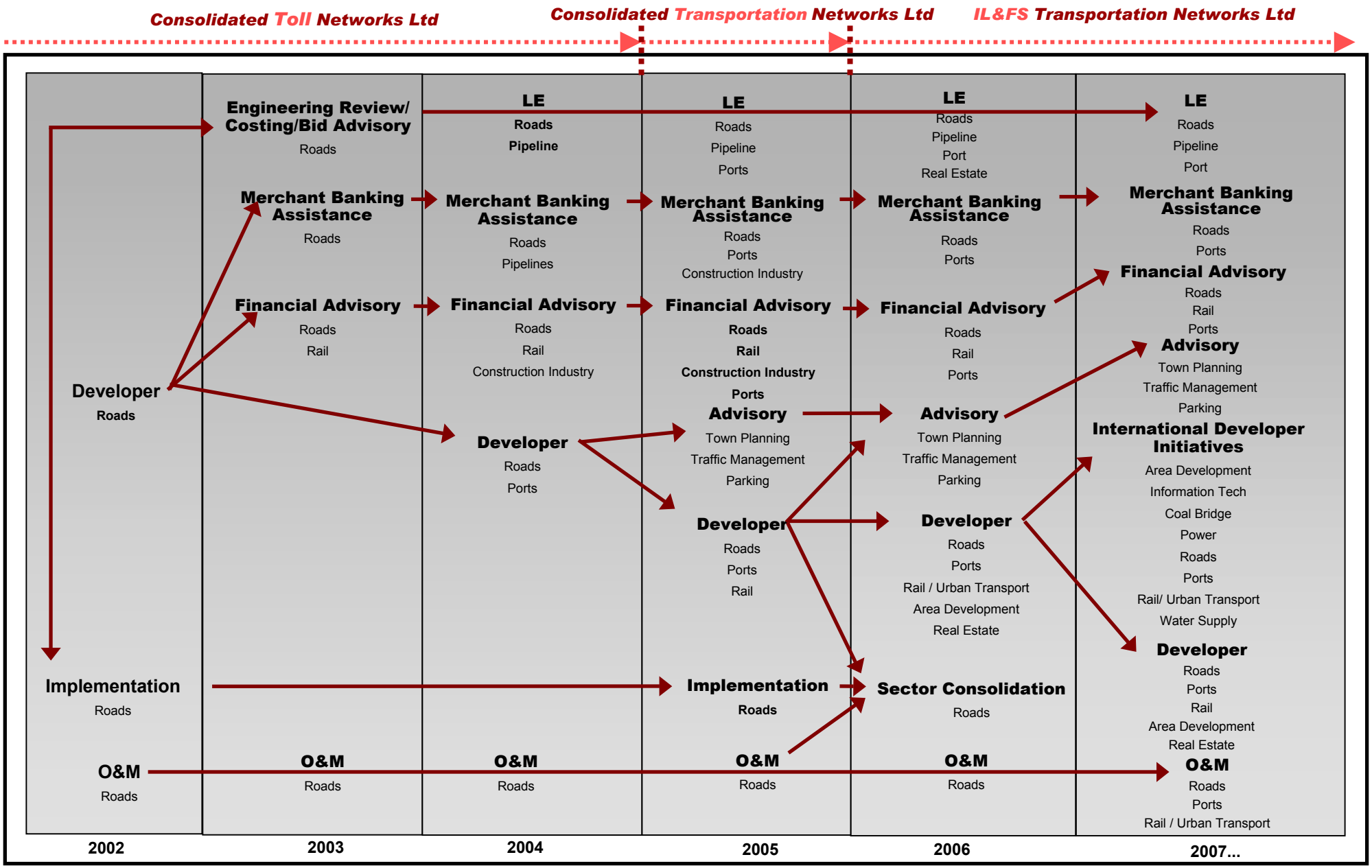
Section I

Steady Growth

Road Length Under Ownership

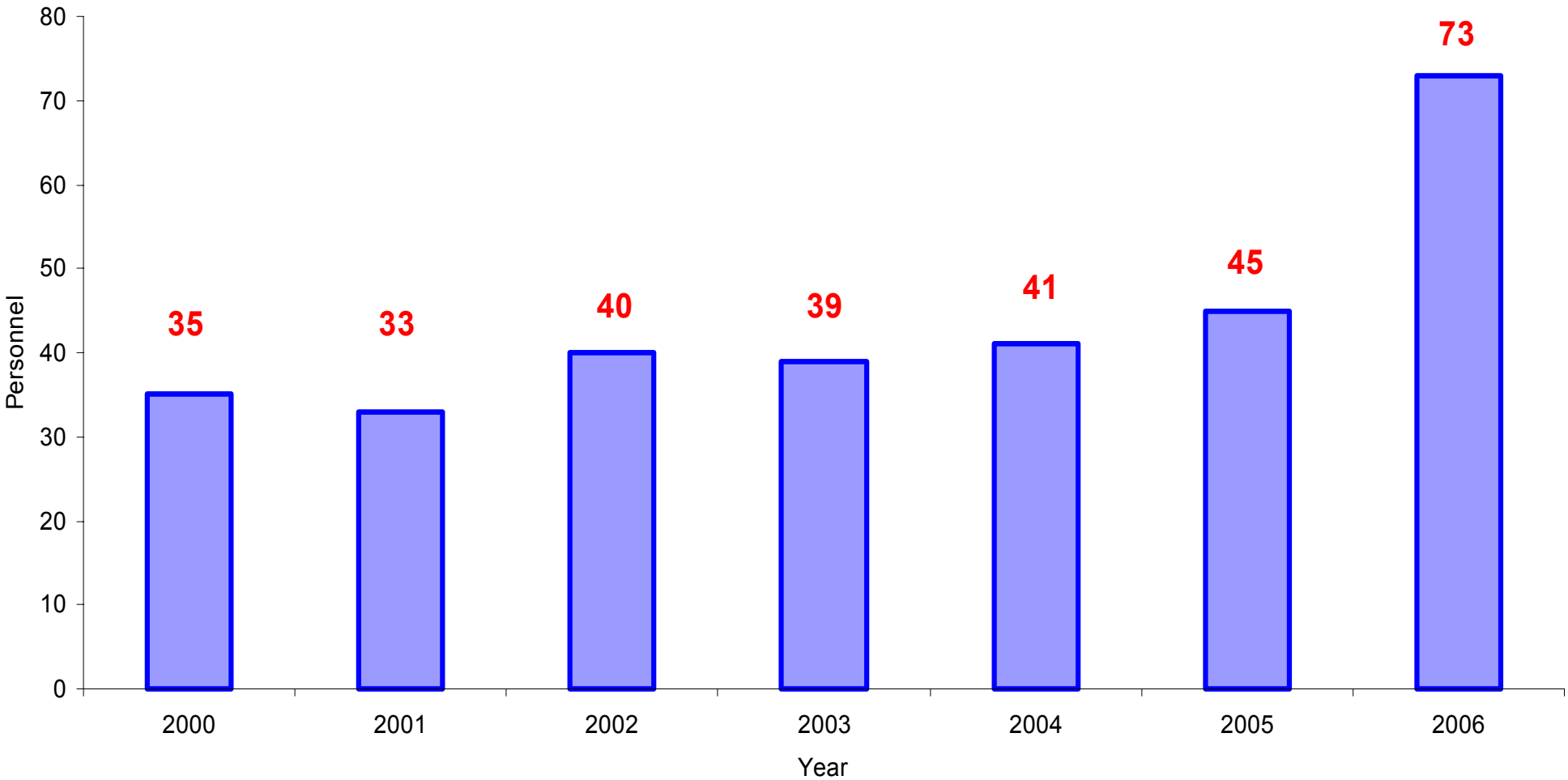


Evolution of Business



Growth in Personnel

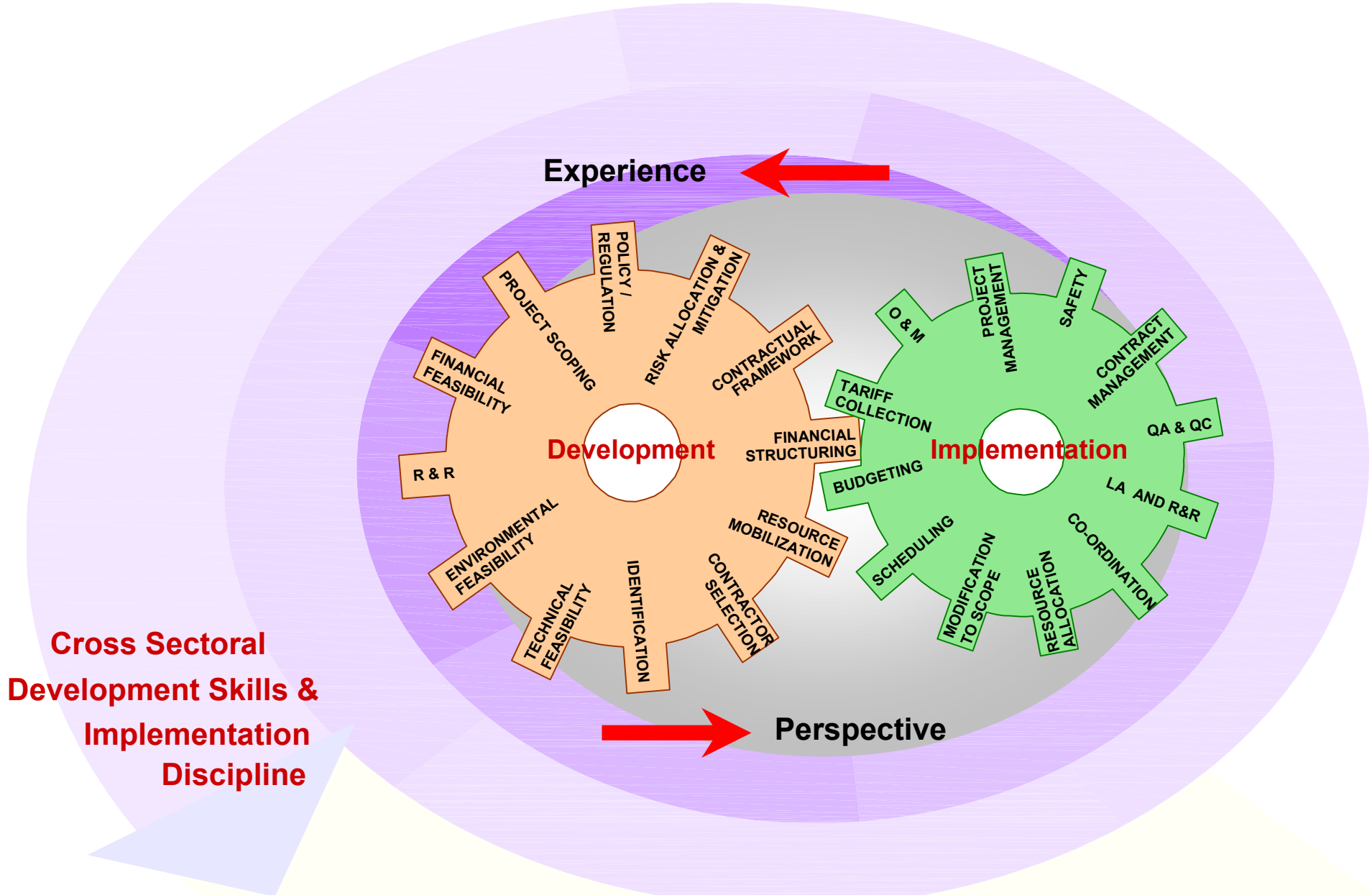
Current Number of Group Employees : 73



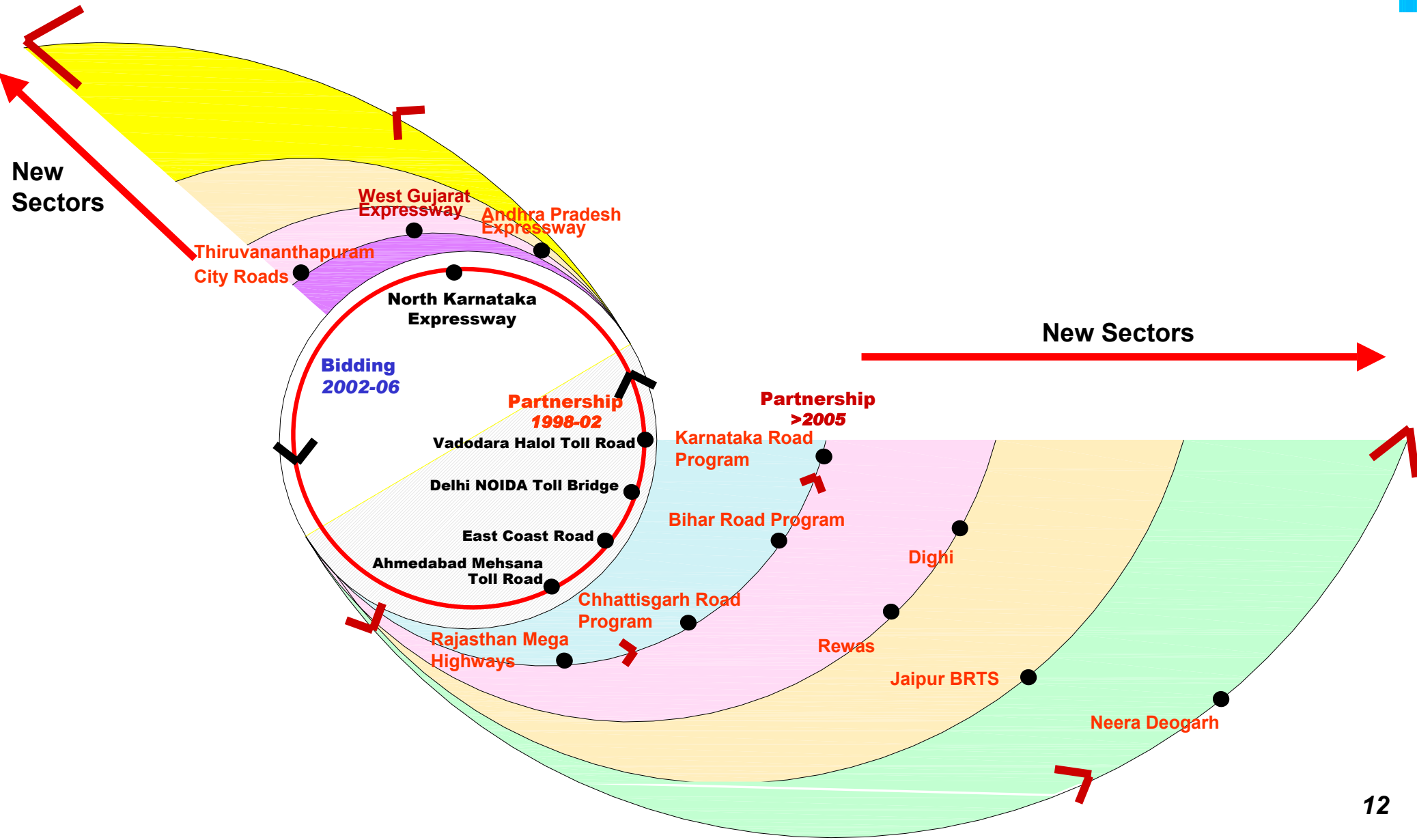
Value Creation Across Sectors

	Development/ Advisory/ Bid	Implementation	Acquisition	Operations	Consolidation
ROADS	▪ Chattisgarh Roads ▪ Karnataka Roads ▪ Bihar Roads ▪ Nanded City Roads Development	▪ TRDCL ▪ WGEL ▪ RIDCOR ▪ APEL		▪ NTBCL ▪ VHTRL ▪ ECR ▪ AMTRL ▪ NKEL	
PORTS	▪ Dighi ▪ Rewas ▪ Cochin Port				
REAL ESTATE		▪ Kohinoor-CTNL			
URBAN TRANSPORT	▪ Jaipur BRTS ▪ Hyderabad MRTS ▪ Goa MRTS ▪ Chennai Monorail ▪ Chandigarh Monorail ▪ Andheri Ghatkopar LRTS				
RAILWAYS	▪ Mega Rail-cum-Road Bridge – Monghyr, Bihar ▪ Mega Rail-cum-Road Bridge – Boghibil, Assam				
AIRPORTS					

Project Development and Implementation Skills



Mandate Origination



Section II: Management

ITNL Group

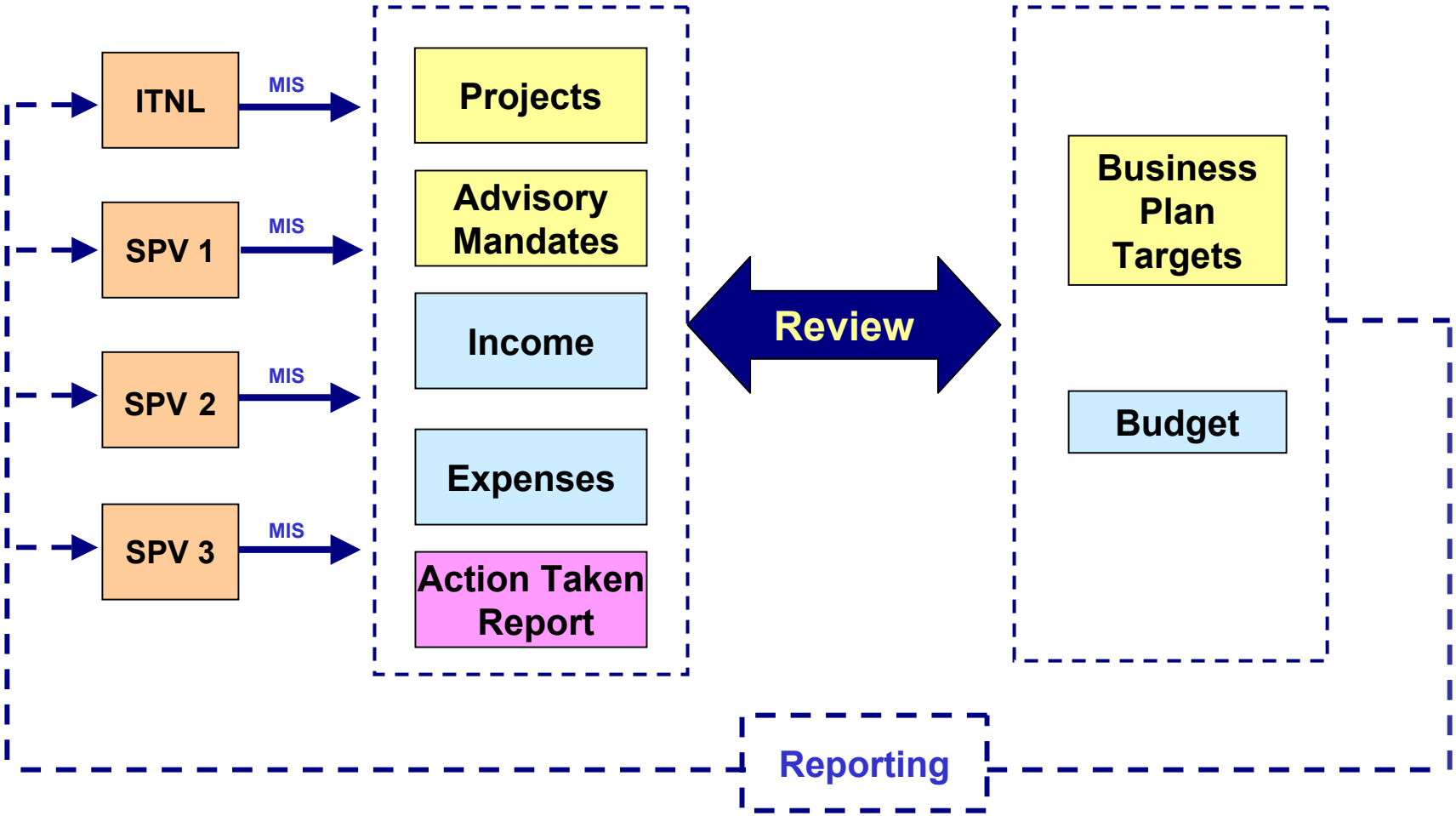
- SPVs Managed by ITNL
  - GTRICL
  - NKEL
  - TRDCL
  - WGEL
  - APEL
  - NTBCL
  - TNRDC
  - RIDCOR
- Operations at BKC and spread over 9 other Locations

Current Practice

- ITNL is responsible for all compliance for all related SPVs (except for TNRDC and NTBCL)
- Accounts
  - An Annual Budget is prepared against which Income and expenses monitored
  - The financial statements of the SPVs (except for RIDCOR, TNRDC and NTBCL) are prepared by ITNL
  - Follow mandatory Accounting Standards
- Statutory
  - All statutory payments and bank accounts of the SPVs are maintained by ITNL
  - Concession Agreement related compliances are monitored by ITNL
  - Statutory audits are conducted on yearly basis at HO for ITNL and SPVs (except for RIDCOR, TNRDC and NTBCL)
  - Internal audits are conducted on half yearly basis

- Management
  - An Annual Business Plan sets targets
  - Interface with Lenders for compliance under Financing Agreements
  - Certification by Independent Auditors of Cost and Progress under Concession Agreement
  - Data backed up on periodic basis
  - Periodic review of debtors. Follow up to ensure that debts do not become NPAs
  - Periodic Reporting to Shareholders
  - Compliances related to accounting issues reported to Board on quarterly basis
  - Periodic MIS generated and sent to ITNL- BKC that includes monthly Project Progress Reports

- **Periodic Review Meetings**



Section III:

Key Achievements

Key Achievements

- Implementation of all projects to Quality, Cost & Time
- Restructuring of the Gujarat Road Project Companies
  - Amongst the first successful Comprehensive Restructuring exercises for Road Companies
  - Corporate Debt Restructuring
    - Achievement of sustainability in the short to medium-term
    - Protection of Promoter / Shareholder interest (IL&FS and GoG)
    - Protection of Lenders / Creditors interests
- Merger of existing Gujarat Road Companies to optimize resources
  - Recognition of Concession Value in Financial Statements
  - Fair valuation of Equity shares and consequent surplus
  - Protection to Lenders / Creditors through pooling of assets / resources

… 2

- Special Experiences
  - Squeezing an Asset – NKEL
  - Project Incubation & Sale – Rewas Port
  - Exploiting Opportunity – Kohinoor CTNL
  - Nursing Big Ticket Projects – Rewas Port, MTHL
  - Real Estate Foray – Bhattad
  - Break through at State Level – Rajasthan, Urjankur Fund, Rural Roads, Chhattisgarh

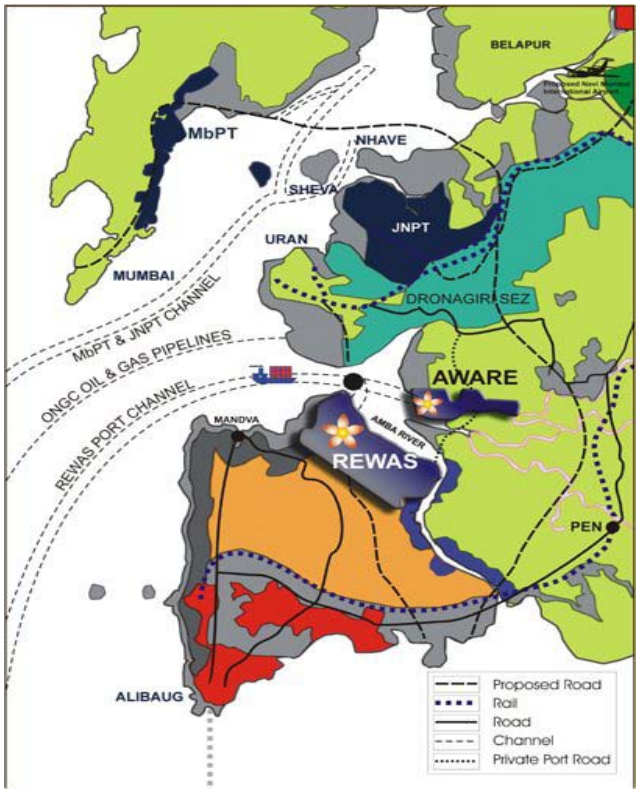
Special Experiences

Squeezing an Asset - NKEL

- NKEL, a joint venture between ITNL, IL&FS and PLL, implemented the 77 km, Rs.5423 million road stretch on NH4 along the Belgaum-Maharashtra border on annuity basis
- The Project was commissioned 5 Months ahead of Schedule in July 2004, to budget & quality
- The Lenders to NKEL were approached for raising additional funds by discounting future NHAI receivables (Semi–Annuity Payments)
- NKEL successfully raised an additional Rs 2080mn backed by an IL&FS Counter Guarantee of Rs 1000mn
- The Quality of the Asset and the credibility of the IL&FS group support (Financial backing) enabled the first ever Securitization of an Annuity Project in the Road Sector
- The additional funds were raised from existing lenders, indicating the confidence of the Lenders in the IL&FS group

Project Incubation & Sale – Rewas Port

- ALL appointed IL&FS as the Advisor and Co-developer for the Rewas Aware Port Project
- IL&FS partly financed Project Development Expenses by way of equity
- ITNL was assigned the responsibility of managing the mandate. Role of ITNL:
  - Technical Review
  - Expansion of Project Scope
  - Legal Review of the Concession Agreement and recommendation of an alternate framework to make the project bankable
  - Negotiations with MMB to incorporate proposed changes to the CA
  - Development of a Business Plan
  - Preparation of a Project Information Memorandum
  - Negotiations for MoUs with candidate sub licenses

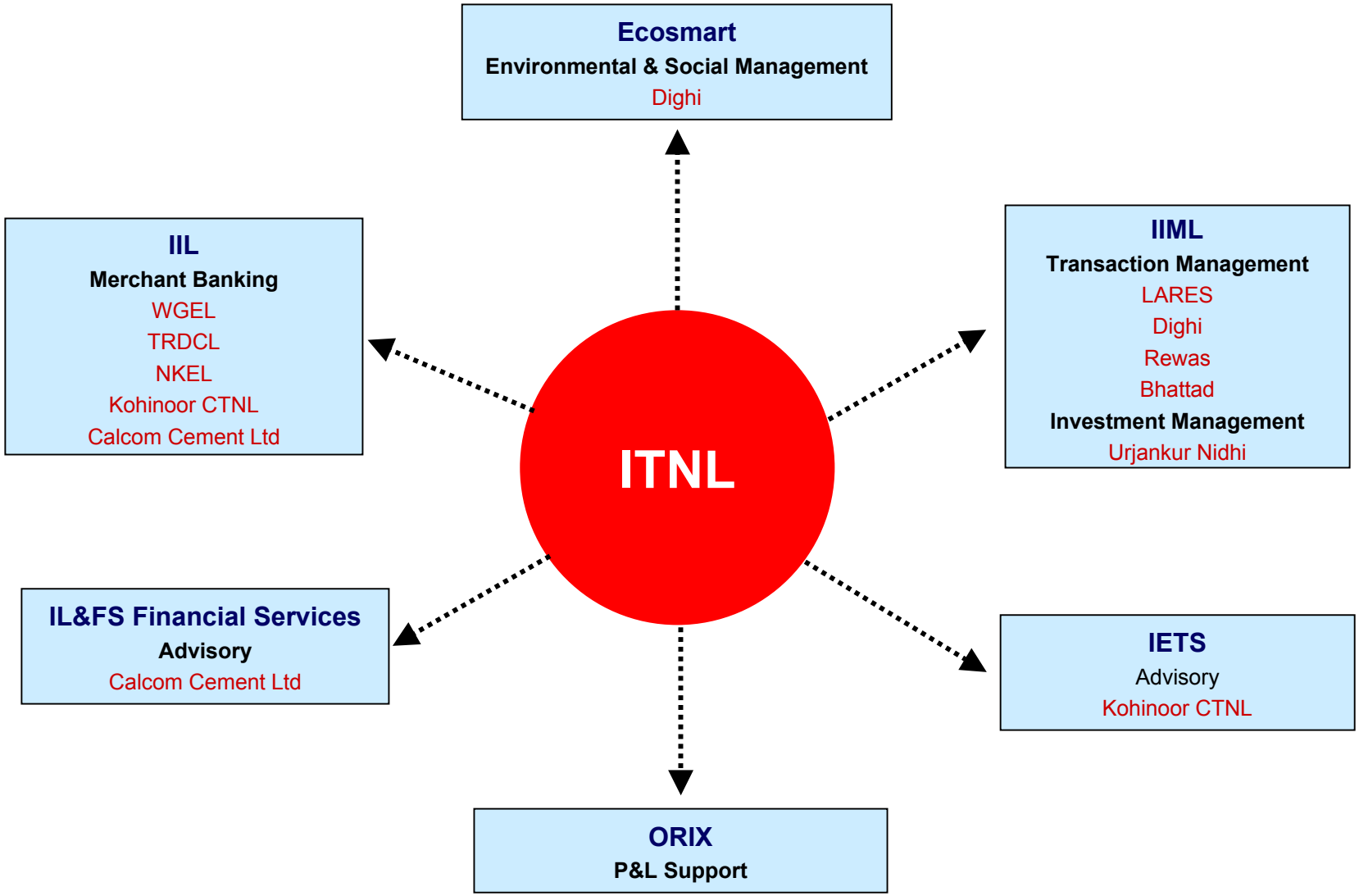


- ITNL's Project Development Activities added substantial value to the Project
- IL&FS exited the project with a notable premium

Exploiting Opportunity – Kohinoor CTNL

- The Kohinoor Group approached ITNL to support its bid for the Kohinoor Mill land tendered out by National Textiles Corporation (NTC)
- The proposal presented an opportunity to enter and capitalize on the high growth real estate market
- A Consortium comprising ITNL, IL&FS and the Kohinoor Group secured the bid for a consideration of Rs 421 crore
- ITNL and IL&FS were responsible for providing balance sheet support, structuring and debt syndication
- The ITNL and the IL&FS Group earned an upfront income of Rs 31 crore
- The Consortium has formed an SPV – Kohinoor CTNL Infrastructure Company Ltd for developing a Retail Shopping Complex on the Kohinoor Mill Land
- The Project costing Rs. 724 crore is currently under implementation
- New Opportunities will provide revenues upwards of Rs. 100 crore

Collaboration Across the IL&FS Group



Support from IL&FS

- IL&FS Brand Equity
- IL&FS relationships with Governments, Lenders etc
- Balance Sheet Strength
- Corporate Guidance
- Access to the IL&FS proprietary deal flow
- Financial support
  - Funds for project development activities
  - Equity
  - Debt
- Support from Legal, Secretarial Dept
- Support from IL&FS Group Companies

Current Engagements

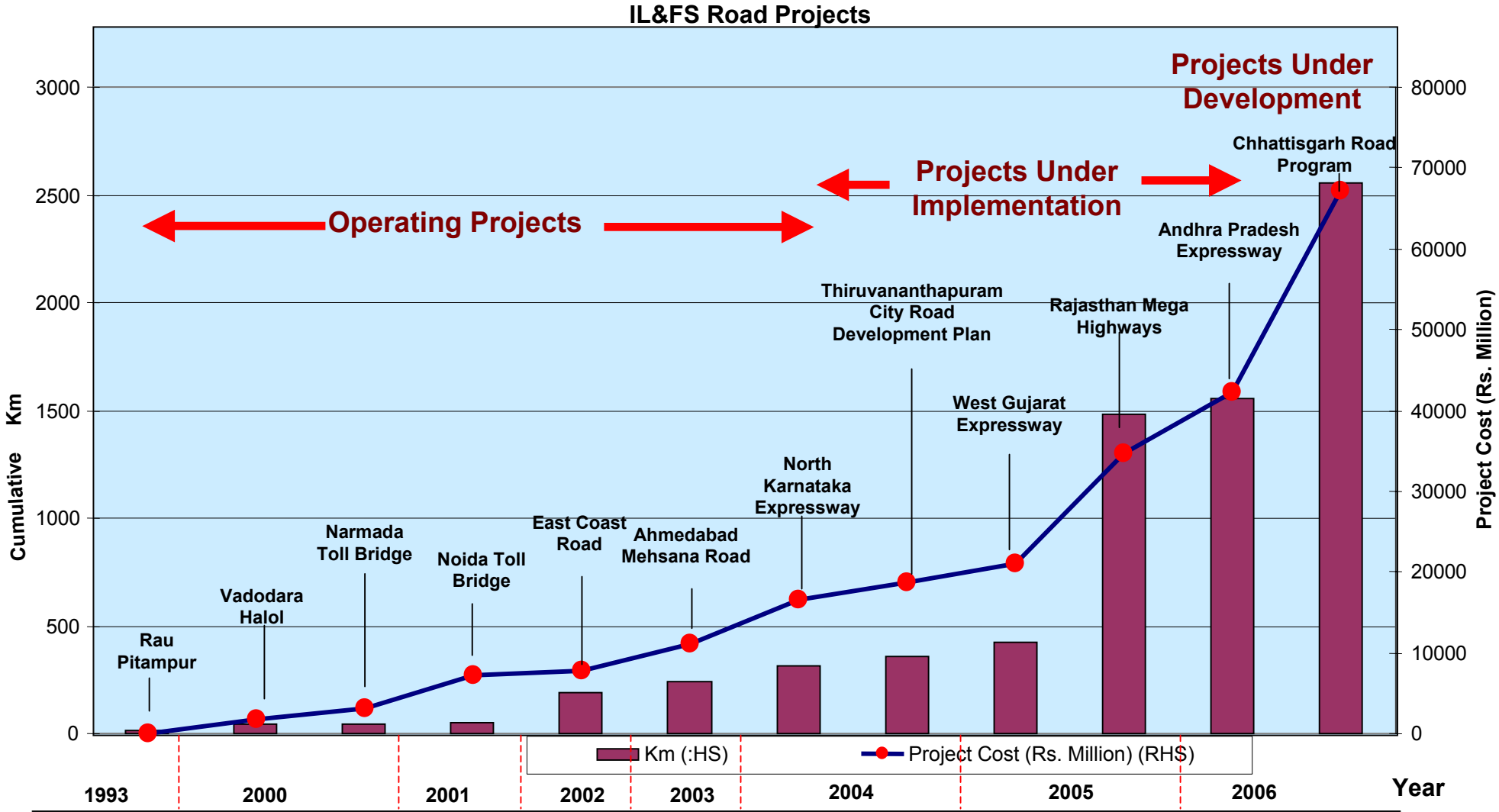
Advisory	Bidding	Negotiations	Development	Implementation	O&M
Pune – Sirur Road	Badarpur Elevated Road	Karaikal Port Project	LARES	Thiruvananthapuram City Road Improvement Program	Vadodara Halol Toll Road
Jabalpur – Narsinghpur – Pipariya Road Project	Aahmedabad Ring Road	Bihar Road Improvement Project	South Sumatra Railway Project	West Gujarat Expressway Ltd	Ahmedabad Mehsana Road
Second Vivekananda Toll Bridge	Hyderabad MRTS Project	Karnataka Road Development Program	Kalimantan Railway Project	Kotakatta – Kurnool Road Project	North Karnataka Expressway
Neelamangala Tumkur Road Project	Haridaspur-Paradip Railway Line	STAR Project	Kalimantan Port Project	RIDCOR	
Dronagiri Truck Terminal	Mumbai Trans Harbour Link Project	North Arahan Power Project	Coal Bridge Project – Development of Khotai Mine		
Jaipur LRTS	AP – 1, AP – 6 , AP – 7, AP - 8	Pacific City Development Project	Dighi Port		
Jaipur Car Parking	Girye Power Project	Development & Maintenance of Rural roads in the district of Kolhapur, Sangli, Sindhudurg under PMGSY			
Dahej – Bharuch Road	Development of Land on Jaipur – Delhi NH8	Chhattisgarh State Road Development Project			
Neera Deogarh	3 BOT Projects in Karnataka				
	Godavari Bridge Project				
	Indonesia – 4 Road Projects				
	Maynilad Water Services Inc.				

Section IV:
The Road Sector

Outlook

- **The sector will continue to show growth**
  - **National Highways**
    - Over 39000 km of National Highway to be bid out over the next 10 years - Estimated project cost: Rs.203,218 crore
    - Government is in the process of forming a separate dispute resolution authority
  - **States**
    - Approximately 25000 km of state highways are expected to be improved at an expected cost of Rs. 90000 crore over the next five years
    - To cater to the increasing vehicular traffic, several cities have announced programs to develop/upgrade over 1000 km of city roads at an approximate cost of Rs. 2000 crore
- **Increased Responsibilities for the Private Sector**
  - The new NHAI model concession agreement has transferred onus for land acquisition and utility shifting to private sector. This will increase cost of future projects
  - NHAI will increasingly use DBFO formats thereby transferring the design risk to the private sector
  - NHAI has proposed to develop the remainder length of National Highways under the BOT scheme
  - Individual Project road sections likely to be of longer lengths -Advantage to larger players

ITNL in the Road Sector

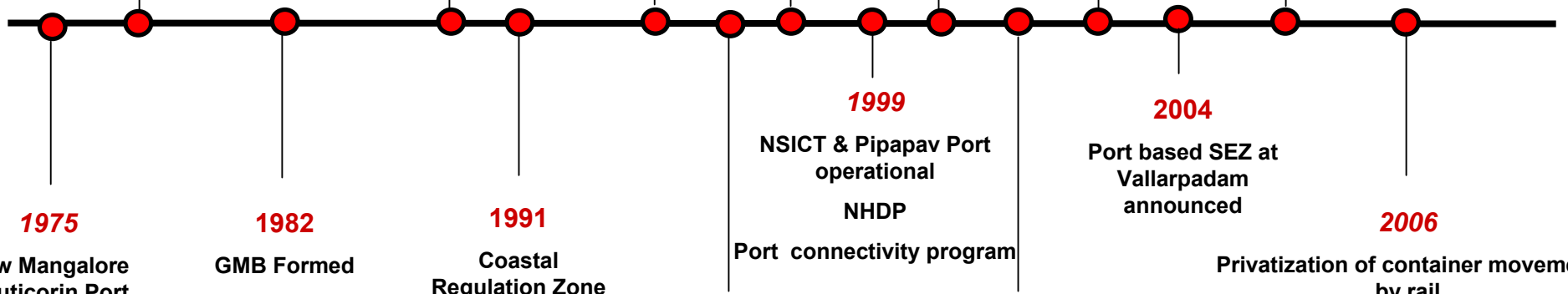


The ITNL Bidding Success Rate has been dropping drastically

Section V:

The Port Sector

Milestones



1975
New Mangalore &Tuticorin Port Commissioned

1977
Haldia Dock Complex Commissioned

1982
GMB Formed

1989
JNPT Commissioned

1991
Coastal Regulation Zone Act

1995
TNB Formed
EDI introduced

1996
NHDP Introduced
Gujarat Infrastructure Act
Policy Guidelines for opening up of Port Sector
MMB Formed

1997
Ports (Laws) Amendment Act
TAMP

1999
NSICT & Pipapav Port operational
NHDP
Port connectivity program

2000
SEZ Policy introduced

2002
Ennore port operational
Mundra port operational
CCTL Privatized

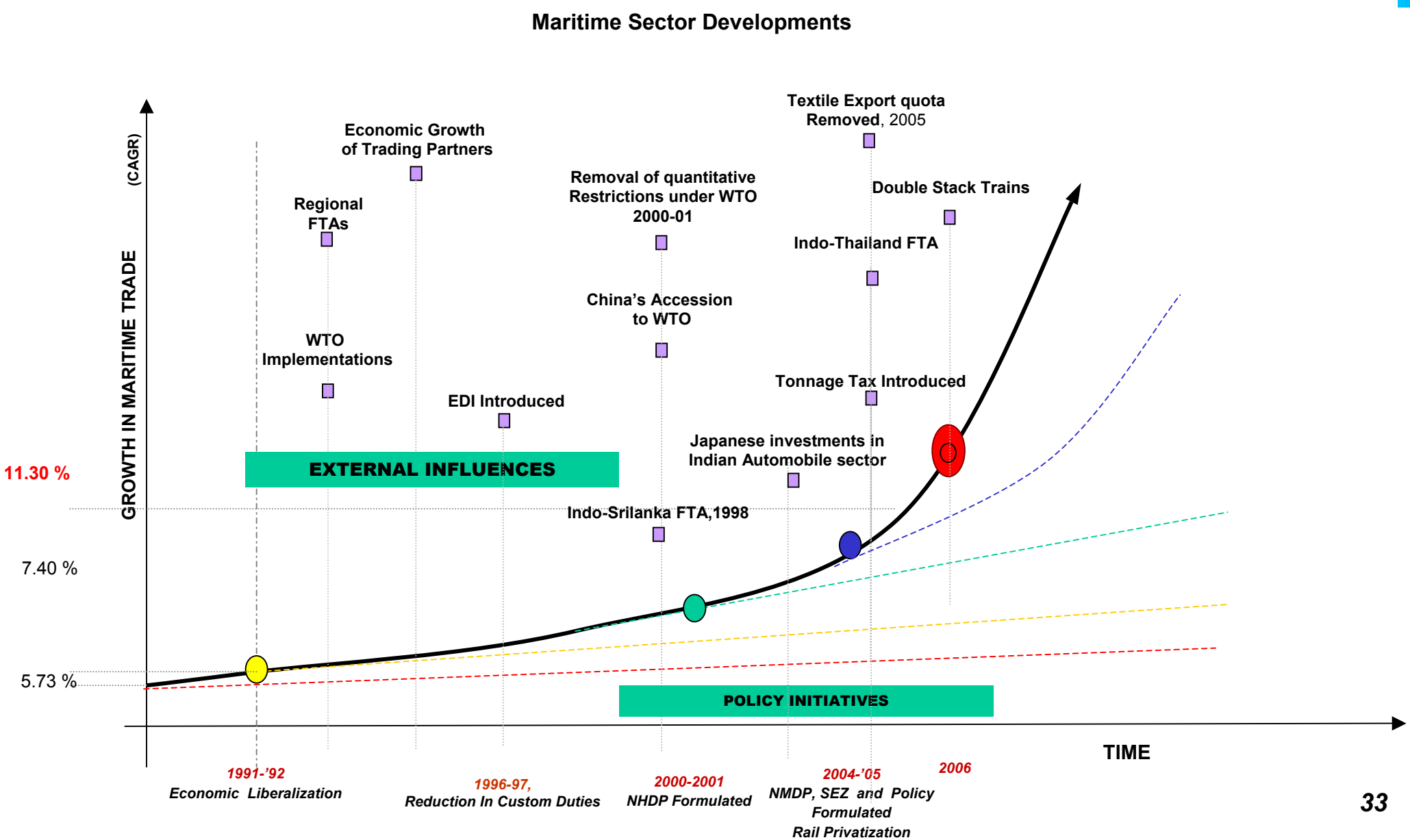
2003
Pipapav BG commissioned

2004
Port based SEZ at Vallarpadam announced

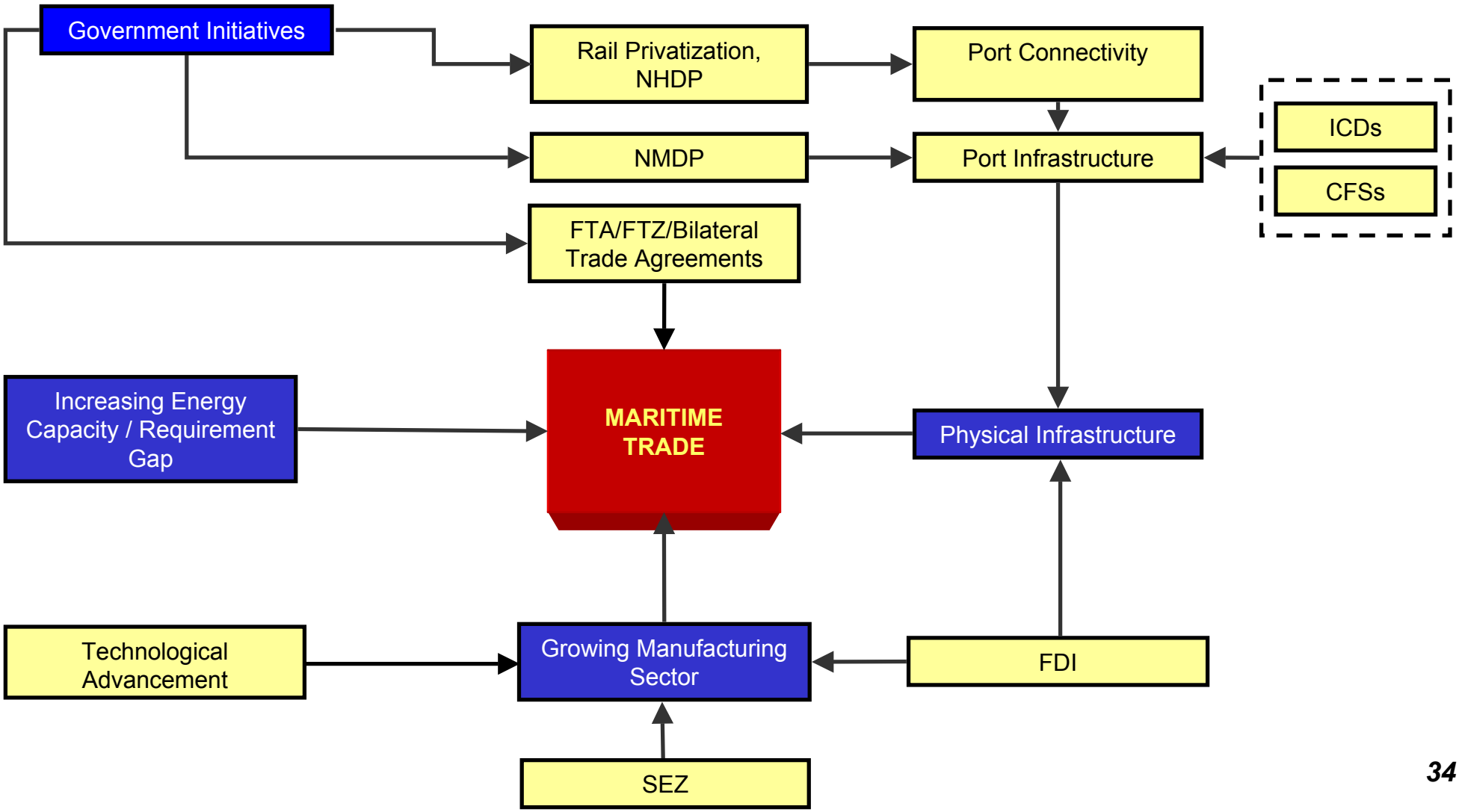
2005
Sethusamudram ship channel project
Tonnage tax introduced

2006
Privatization of container movement by rail
Dredging of major ports privatized
Formation of Directorate general of ports announced by NMP
Double stack container trains on Jaipur-Delhi route

Future Outlook – Exponential Growth



Growth Drivers for Maritime Trade

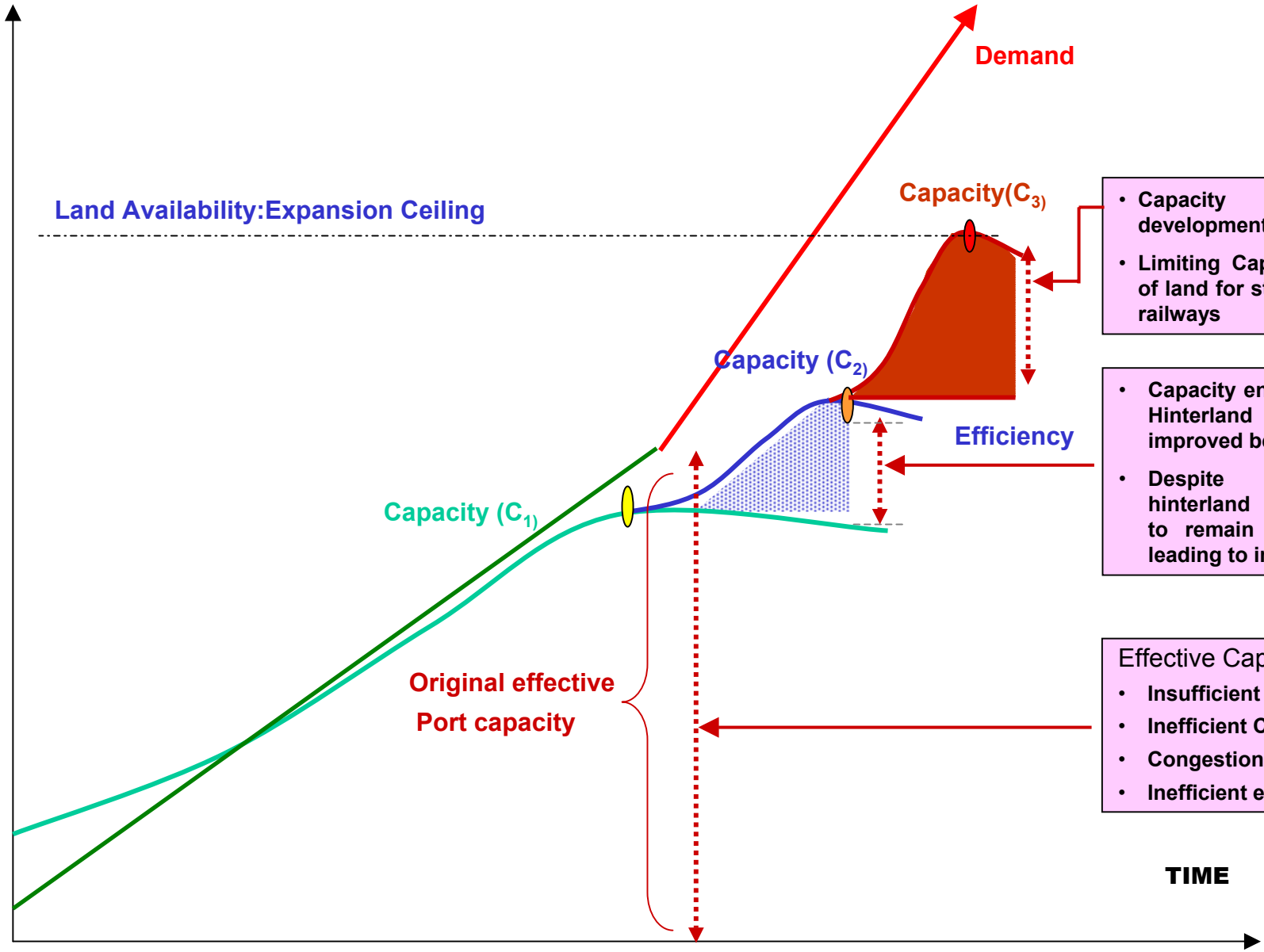


Growth Drivers for New Ports

- Primary Factors
  - Increase in the average ship sizes
  - Restricted capacity expansion at each port
  - Rapid Containerization
- Secondary Factors
  - Consolidation of Shipping Lines
    - Consolidation has created mega shipping lines who wield greater bargaining power with port operators
    - Increased competition between few players requiring greater efficiency
  - Development of Port based economic zones
    - Power Plants
      - Setting up of coastal coal based power plants that will use imported coal as feedstock
    - Port based SEZ
      - Regulatory and Fiscal incentives provided that aim at increasing Indian Exports
      - Setting up of industrial units around ports reduces the logistics cost that translates into cheaper cost of production, enabling competitive pricing of goods

- Catalysts
  - Government Policy Initiatives
    - FTA/ Bilateral Trade Agreements: India has signed FTAs with Sri Lanka and Thailand. Negotiations are ongoing with ASEAN and EU
    - With reduction in trade barriers including custom duties, the volume of trade between nations will increase
  - NMDP
    - Aimed at accelerating investments in specific port infrastructure, tonnage acquisition and institutional capacity building in maritime projects
    - 276 port projects entailing an investment of Rs 600 billion are expected to be completed by the year 2006
  - FDI Policy
    - 100% FDI permitted for construction and maintenance of ports and harbours
  - Impact of WTO
    - Removal of Quantitative Restrictions has increased imports and exports

Capacity Shortfall



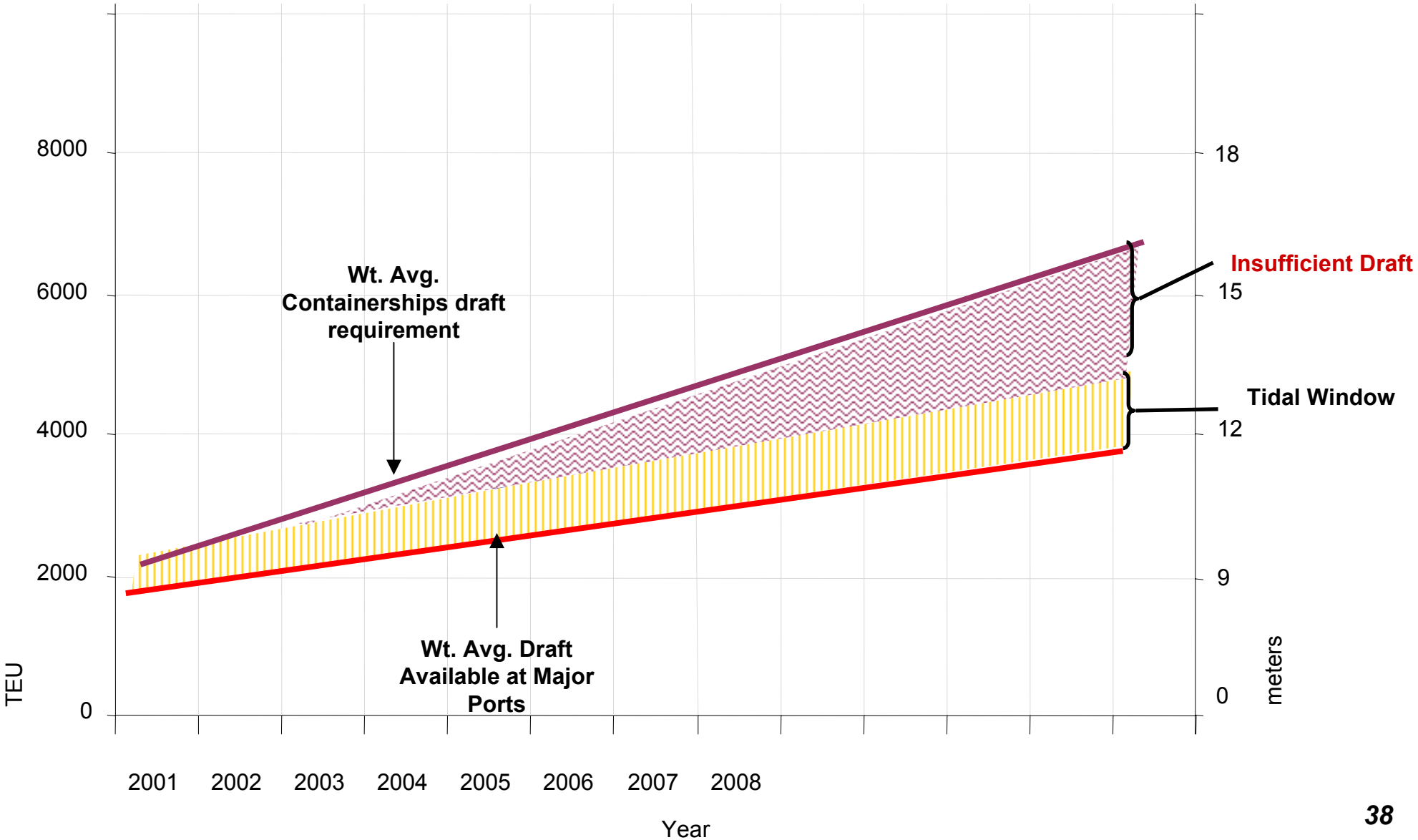
- Capacity enhanced due to development of new berths/ports
- Limiting Capacity – non-availability of land for stacking, ROW for roads/ railways

- Capacity enhanced due to Efficient Hinterland Connectivity and improved berthside productivity
- Despite recent developments hinterland connectivity continues to remain a constraining factor, leading to inefficient evacuation

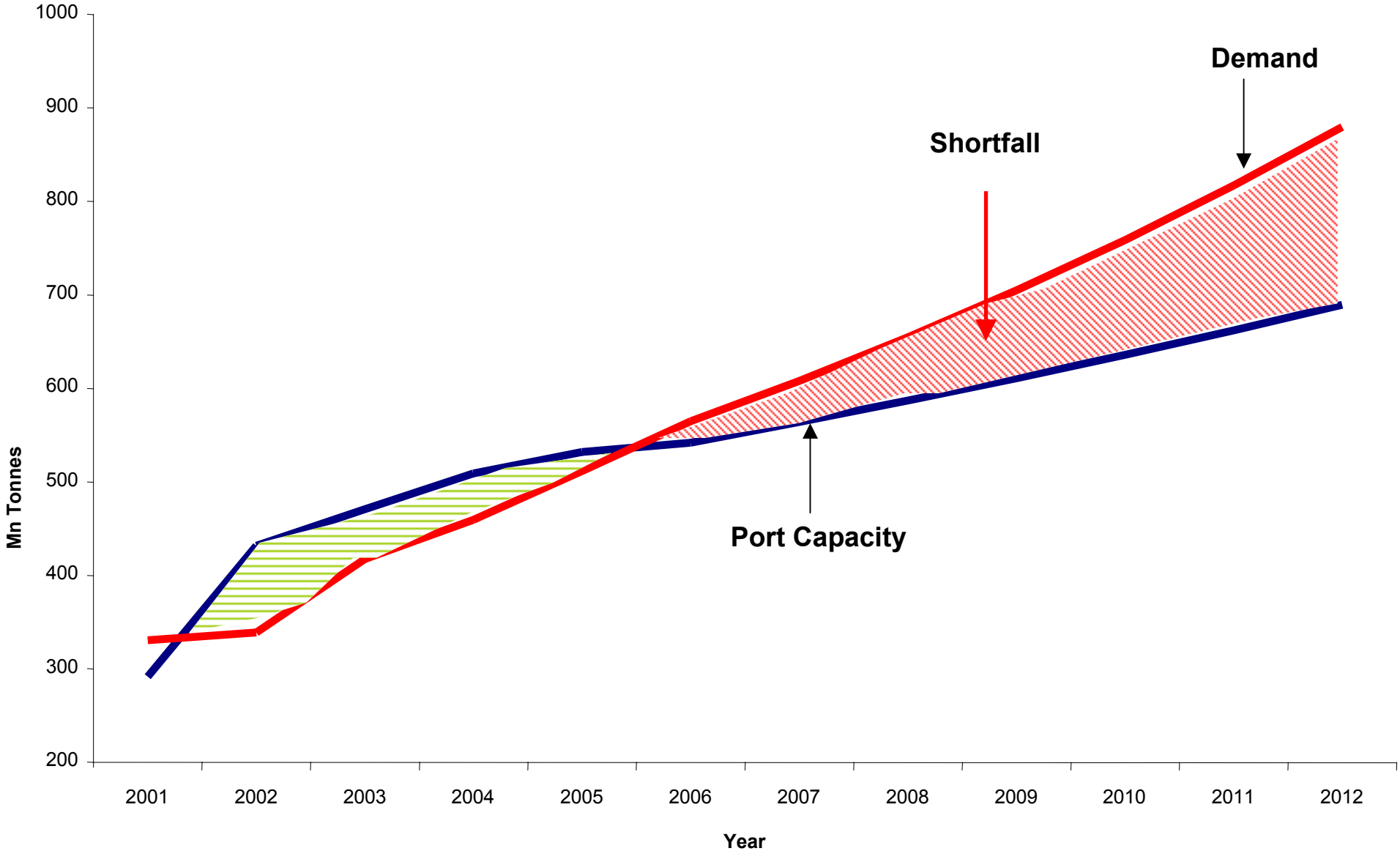
Effective Capacity Limitation due to

- Insufficient drafts
- Inefficient Cargo Handling
- Congestion
- Inefficient evacuation

Increase in Ship Sizes – Container Ships

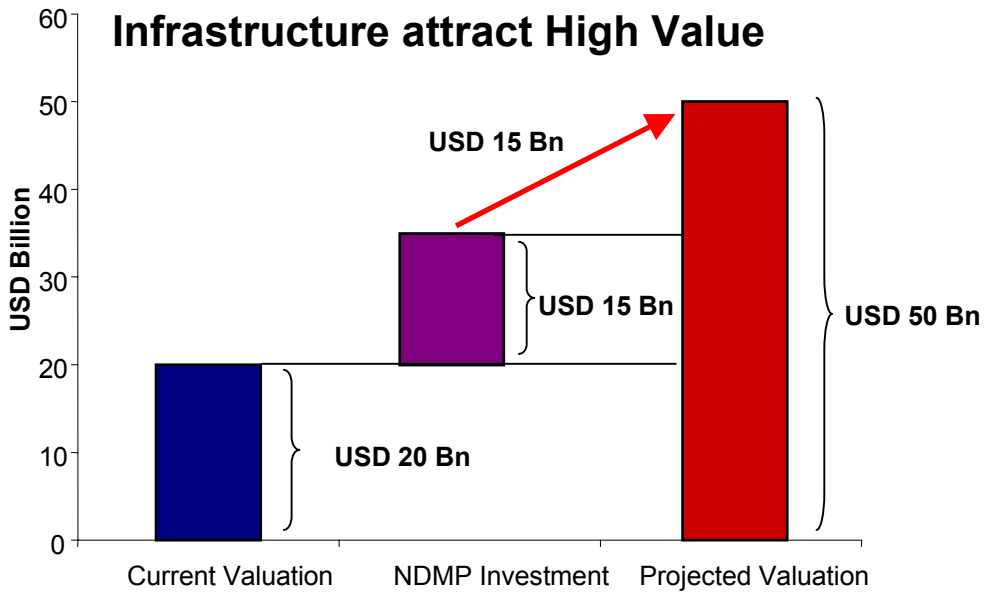


Investment Value Driven by a Growing Infrastructure Deficit



Port Valuations

Port Concessions and Port Infrastructure attract High Value



Source: I Maritime

Market Valuation

- Total port assets in India are valued at US$ 20 Bn (Source : i Maritime Consultancy)
- An envisaged investment of US$ 15 bn under NMDP will take overall valuation to US$ 50 bn

Factors Driving Valuations

- Capacity Deficit
- Deeper Draft
- Proximity to Hinterland
- Evacuation Infrastructure

Valuations of Select Ports

- **Mundra Port**
  - P&O Ports acquired the container terminal of the Mundra Port in 2003 (Container Terminal Cost : 315 crore) for Rs.900 crore
- **Gujarat Pipavav Port**
  - Maersk India bought 36% stake in GPPL at a Rs. 40 per share (premium of Rs. 30 per share)

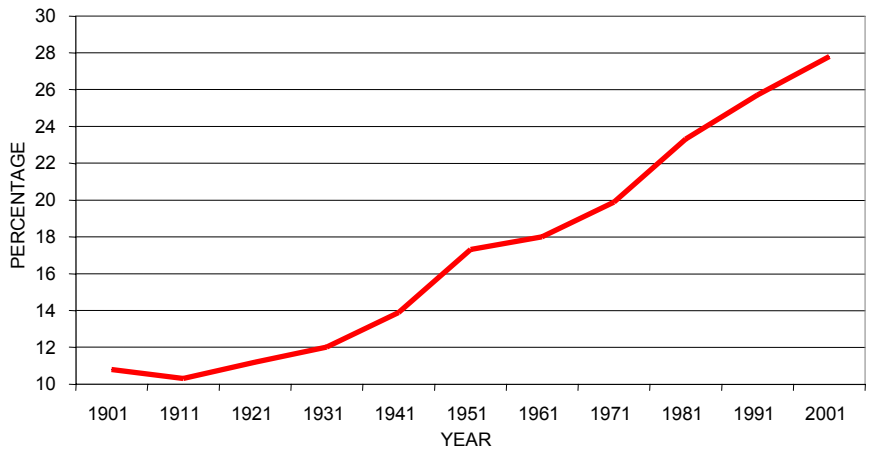
Section VI:

The Urban Transport Sector

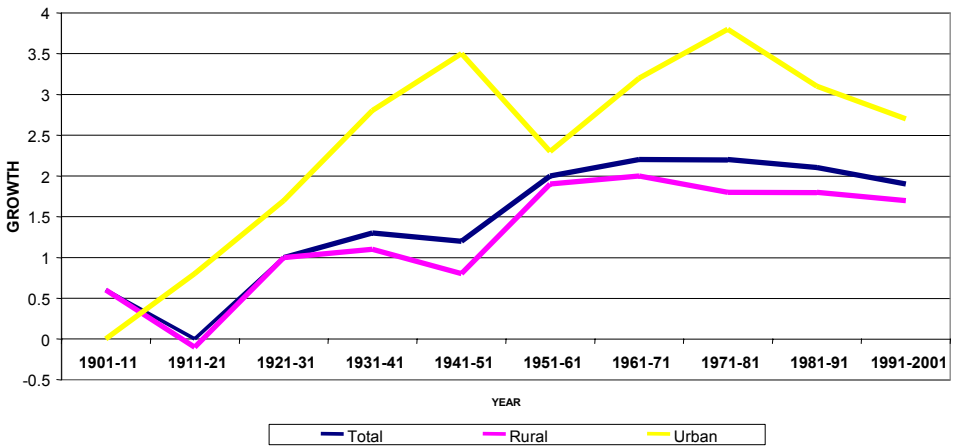
Urbanisation

- India will *no* longer be "*Living in her Villages*" – more Indians are migrating to urban areas
- By the year 2025
  - 38% of Indians will live in cities, compared to 28% currently
  - 75% of Tamil Nadu will live in cities
  - 61% of Maharashtra will inhabit urban areas
  - 53% of Gujarat will reside in cities
- Urban transport infrastructure has not kept up with the increase in population causing severe strain on the quality of life

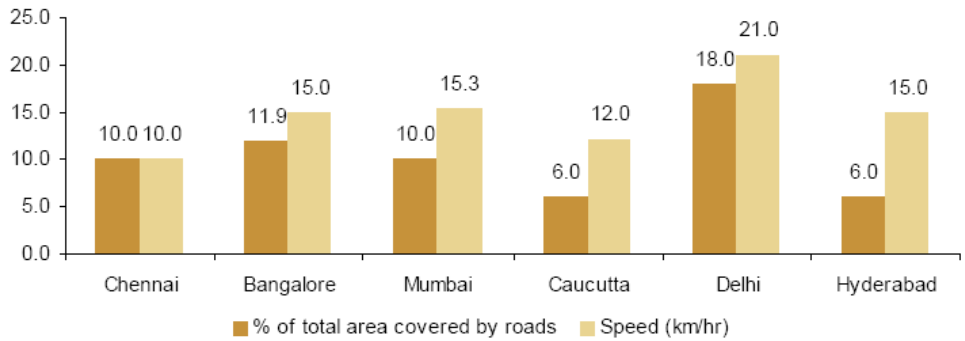
Growing Urban Population …



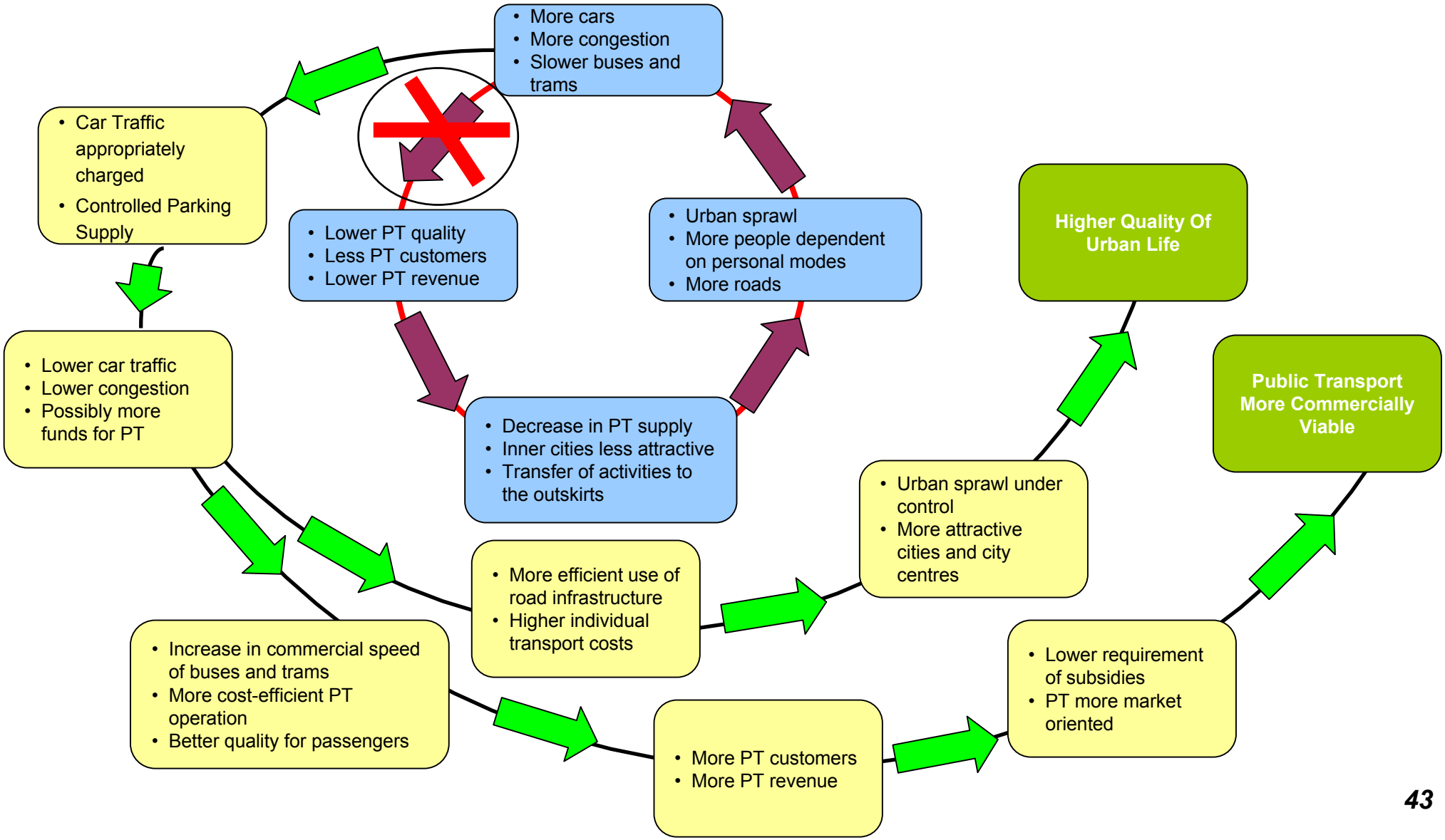
Growth of urban agglomerations/towns..



Not Commensurate Increase in Road Infrastructure



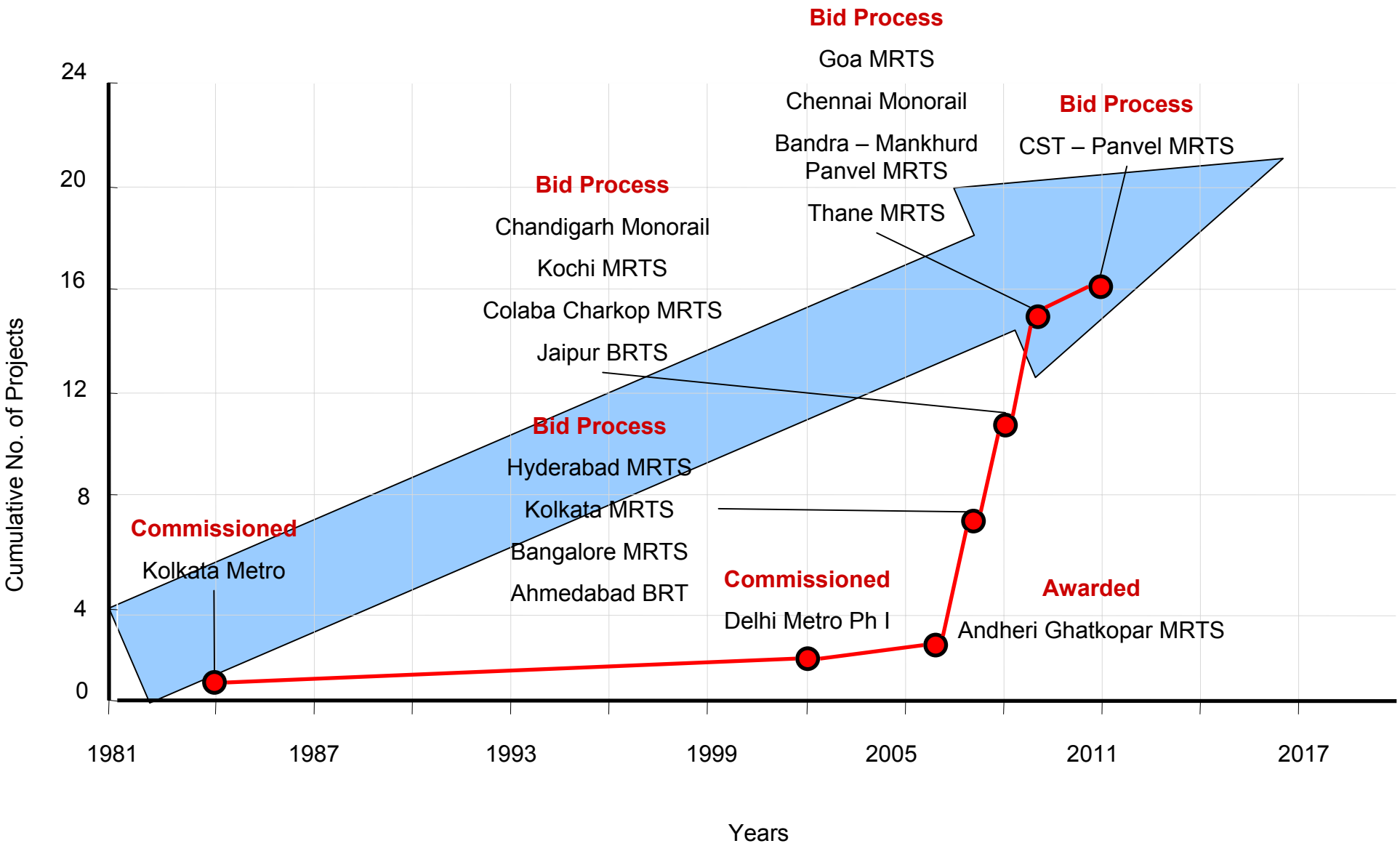
Need For An Efficient Urban Transportation System – Breaking the Vicious Cycle of Urban Decline



Outlook

- High Income-elastic demand for quality services
  - Between 1994 and 2000, passenger rail demand for premier services grew faster than total passenger rail demand:
    - Intercity Rail: 7.3 % vs. 4.2 % a year
    - Suburban Commuter Rail: 7.5% vs. 3.3 %
- Technology
  - Closely controlled by a few suppliers
  - Rolling Stock production capacities have reached saturation, mandating imports
  - Cost of technology has decreased
- Government Initiatives
  - Central Government has accorded priority to development of Urban Infrastructure under the Jawaharlal Nehru National Urban Renewal Mission. Urban Transport forms part of the mission
  - Viability Gap Funding from the Central Government is available for development of Urban Transport Projects
  - Several state governments - Maharashtra, Kerala, Andhra Pradesh, Chandigarh, Tamil Nadu, Goa, Gujarat and Rajasthan have initiated the development of Mass Rapid Transit Projects in their respective States for efficient Urban Transport

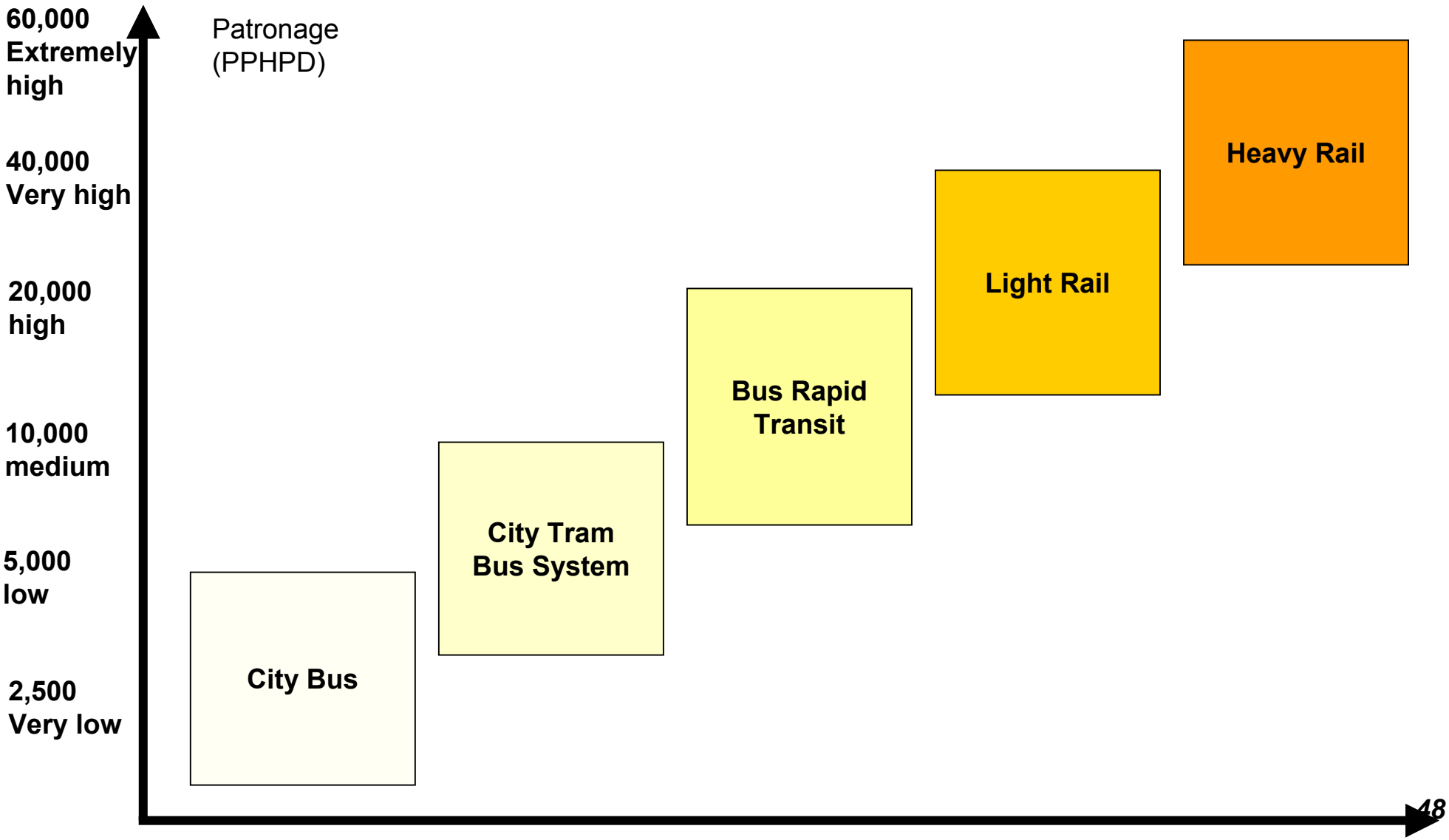
Mass Transit Projects in India



- The Delhi Metro
  - Incorporated in 1995, Delhi Metro Rail Corporation is a 50:50 joint venture between Ministry of Urban Affairs, Government of India and Government of National Capital Territory of Delhi (GNCTD)
  - The total cost of the project is estimated at Rs 150 billion to be implemented in about 3 phases
  - First phase of the MRTS was approved by the Union Cabinet in September 1996 and almost 60 km of rail is under operation
  - The Project has been partly funded through a loan by JBIC
- The Hyderabad Metro
  - The Andhra Pradesh government has invited a global expression of interest and requested for qualification to execute metro-rail projects in Hyderabad on a build, operate and transfer (BOT) basis
  - The Rs. 798.6 billion Phase I will comprise three corridors with a total length of 59 km
  - The central government has agreed to provide the maximum grant available (20%) under the Viability Gap Funding
  - The State Government has agreed to provide an additional grant of upto 10% of the Project Cost

- The Bangalore Metro
  - The Karnataka government has formally approved the Rs 62.1 billion Bangalore Metro Rail project
  - Bangalore Mass Rapid Transit Ltd (BMRTL) has begun planning, design, identification and shortlisting of vendors and contractors, and land acquisition
  - Government of Karnataka will contribute Rs 18.1 billion, Central Government Rs. 14.5 billion and the remaining Rs29.5 billion will be arranged from banks and financial institutions

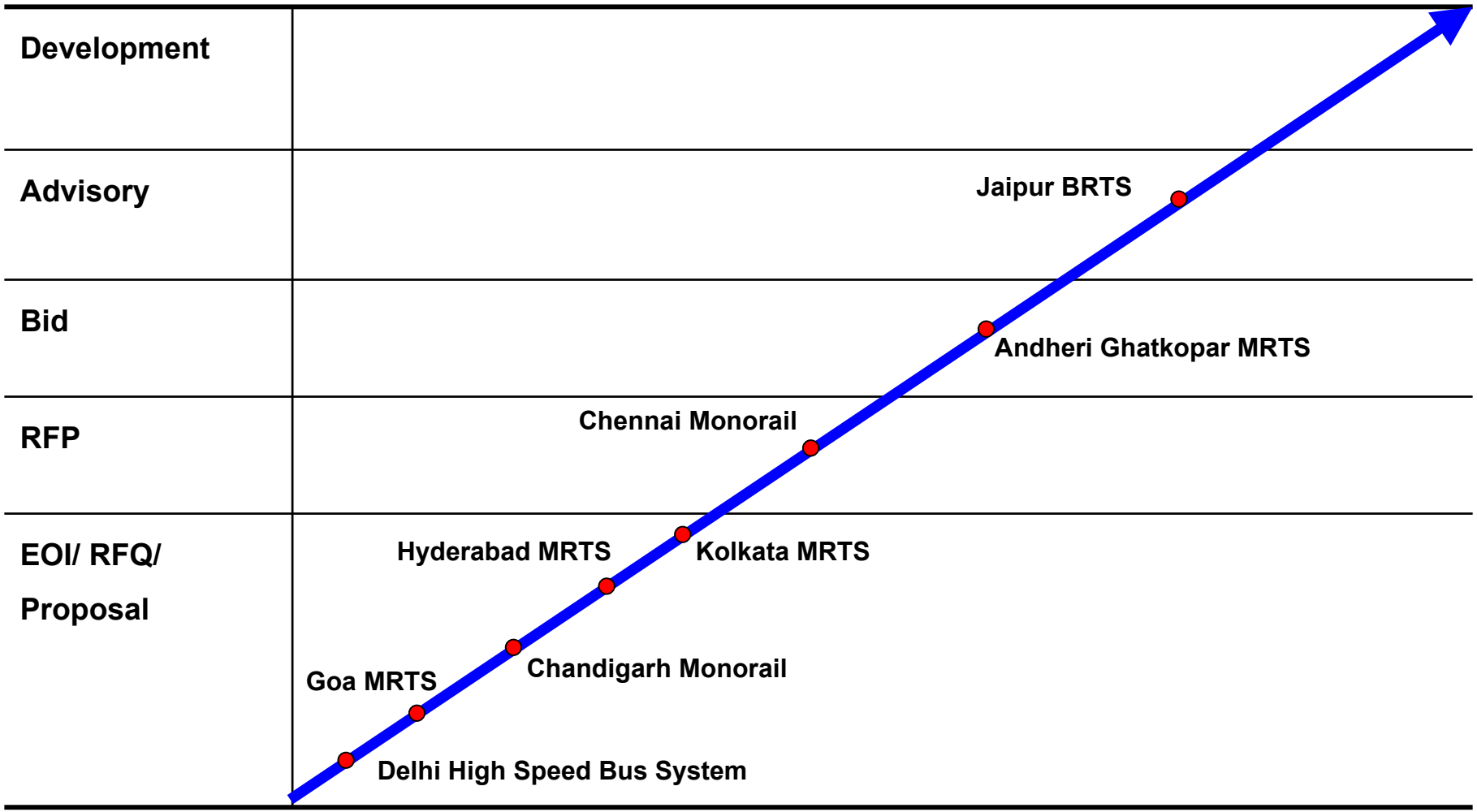
Selecting Technology



Special Focus- Bus Rapid Transit System

- Bus Rapid Transit system (BRTS) involves the operation of bus services on dedicated lanes
- BRTS can operate on exclusive transit ways, High Occupancy Vehicle (HVO) lanes, expressways, or ordinary streets
- Advantages
  - Combines the qualities of rail transit and the flexibility of buses
  - Flexible system, can
    - Use dedicated ROW in congested zones and also use existing roadways in light traffic zones
    - Be rerouted of necessary to avoid road blockages
    - Be tailored to meet specific needs
  - Faster to implement
  - Can provide services similar to MRTS and LRTS at lower capital investment in vehicles and ROW. Approximate capital cost per km is Rs 15 Crores
  - ROW can be used on MRTS as high rail
- BRTS is suitable for category B cities, where public transport is not efficient

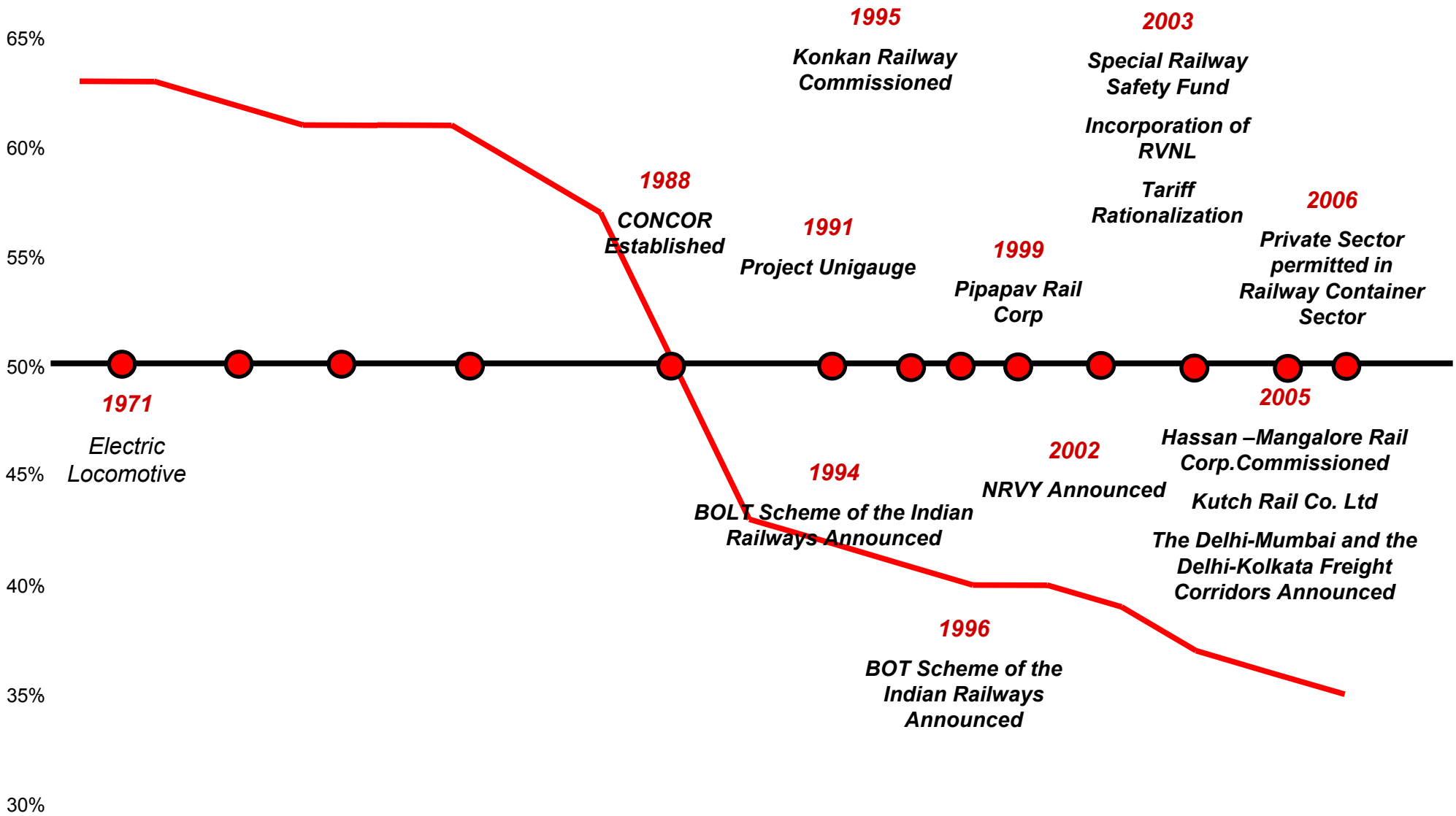
ITNL in the Urban Transport Sector



The Jaipur BRTS Proposal has been approved by NURM

Section VII: The Rail Sector

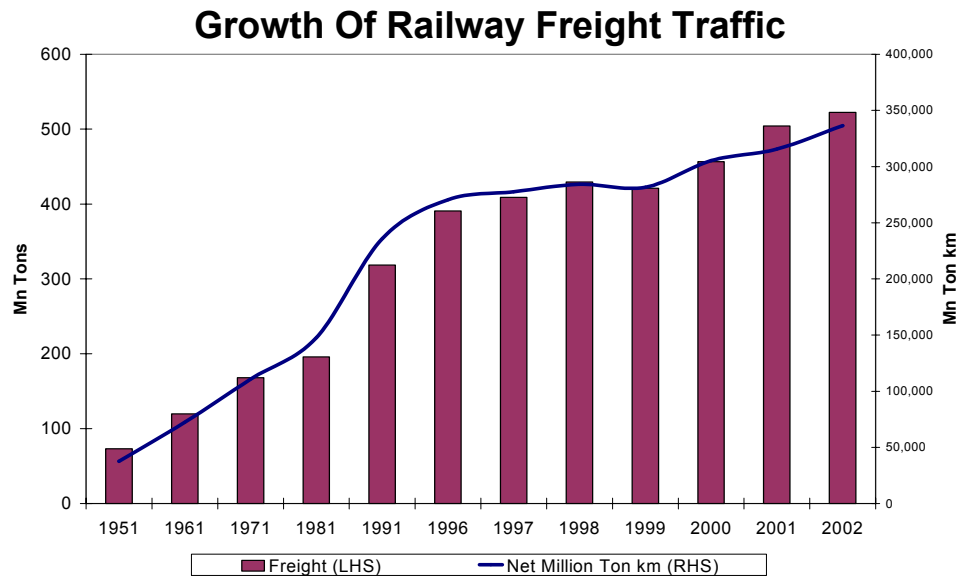
Declining Market Share (Freight)

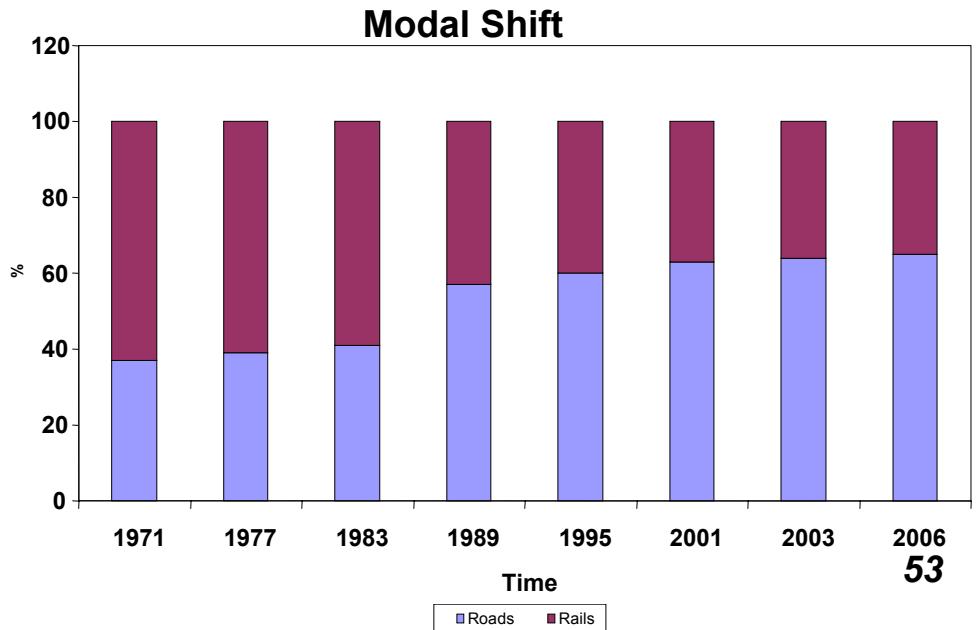


Share of Railway in Freight Traffic

Loss of Cargo to Roads

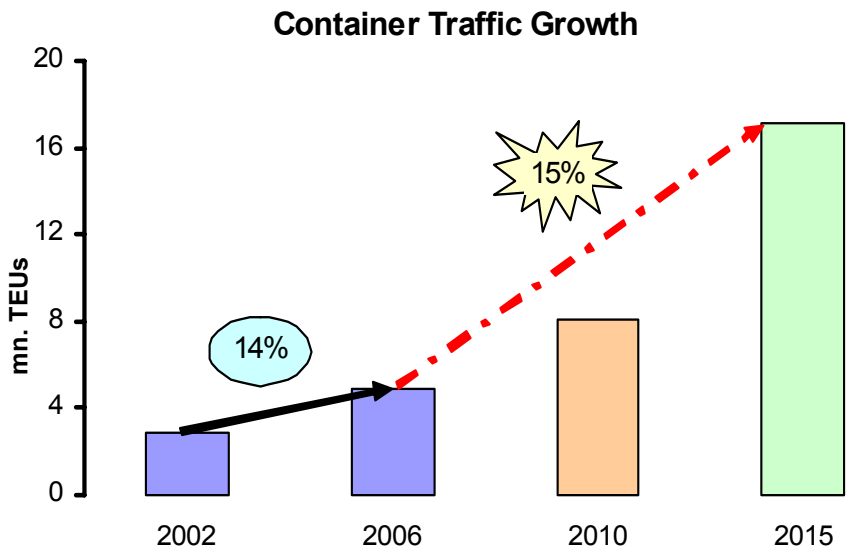
- Although absolute volumes have risen, the Railways has been losing freight business to roads
- Causes
  - Time-sensitive cargo prefers road transport - average operating speed of railways: 15-20 kmph
  - Theft
  - Inadequate rail capacity
  - In-efficient utilization of rail routes
  - Shortage of Flats/Wagons
  - Other Factors that reduced road transport costs - e.g.overloading
  - High Logistics cost - 12% of freight value compared to 8% globally
  - Door-to-Door cargo movement in case of roads





Reasons for Hope

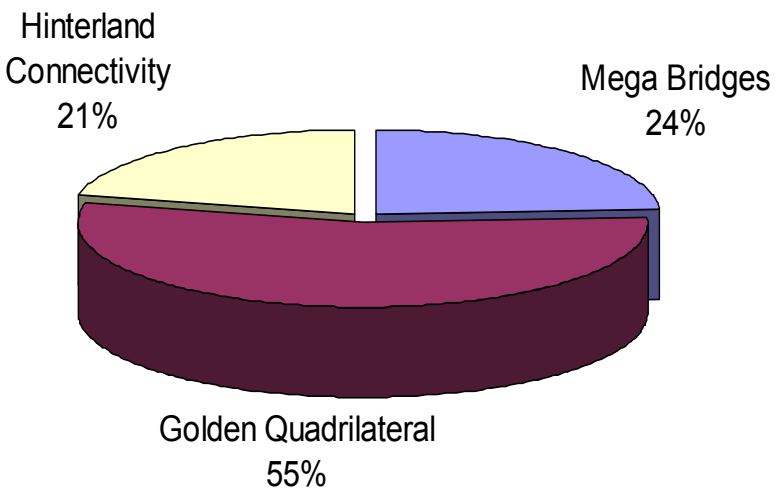
- Growing Economy and Manufacturing
- Growing Container Traffic
  - New Commodities being containerized: Agri, Cement, Coal, Ores etc.
  - Containerization level expected to increase from approx. 15% to 25% by 2015



- Government Initiatives
  - To address the increasing traffic of containers, the Ministry of Railways has allowed private operators to run container trains
  - Introduction of options like moving containers on double stack trains, piggy-back service etc. will reduce transportation costs by 25%-30%, making railways more cost effective

- National Rail Vikas Yojana (NRVY)
  - NRVY was launched in the year 2002
  - The Rs. 15000 crore program has the following investment components
    - Strengthening of Golden Quadrilateral
    - Augmenting rail connectivity to ports
    - Construction of mega bridges

Breakup of Investments in Rail Vikas Yojana



- Dedicated Freight Corridor
  - The Ministry of Railways has announced the 9260 km, 61200 crore dedicated freight corridor along the golden quadrilateral connecting the four metros
  - Phase I of the project (estimated to cost Rs. 22500 crores) connecting New Delhi to Mumbai and New Delhi to Howrah is expected to commence in 2006 and is scheduled to be completed by the year 2012

Outlook

- Increase in domestic movement of containers
- Increased share of Railways in Cargo Movement
- Private Operators allowed to run container trains and compete with CONCOR
- Opening up of entire rail freight traffic to competition ?
- Expansion of role of various players as a result of private operations
  - Forward & Backward Integration opportunities for
    - CFS/ICD operators
    - Port/Terminal Operators
  - Emergence of efficient multi-modal operations
  - Emergence of a Commercial Market
    - Commercial arrangements between Banks, Manufacturers & Operators for rolling stock
    - Slot Trading

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- Exporters/Importers to benefit from competitive rates
- Efficiency Improvement
  - Reduction in Transport costs - align to global normative costs
  - Effective Utilization of Rail routes

ITNL in the Railway Sector

- ITNL has successfully delivered two advisory mandates by the Ministry of Railways to develop an "*Approach to Raising Resources for Implementation"* for:
  - Mega Rail-cum-Road Bridge at Boghibil in Assam (Project Cost Rs. 41547 Mn)
  - Mega Rail-cum-Road Bridge at Monghyr in Bihar: (Project Cost: Rs. 23829 Mn)
- ITNL had conducted several training programs for IR officers on Project Finance and PSP
- IL&FS has submitted a Proposal to RVNL for a long-term Project Implementation Partnership mandate
- ITNL has delivered a widely appreciated Concept Paper to the CII Steering Committee on the Redevelopment of Indian Railways

Section VIII: Technology

Outlook

- GQ and the Port Connectivity projects are Toll Roads
  - NHAI toll revenue in 2003 was Rs 2475 million (does not include the private sector BOT projects)
  - NHAI toll revenues estimated at Rs 3825 million in 2007; Rs 11250 million in 2008; Rs 495,000 million for the period 2001 – 30
- NSEW Corridor
  - NHAI toll revenues estimated at Rs 6750 million in 2009; Rs 272,250 million for the period 2001 – 30 (does not include the private sector BOT projects)

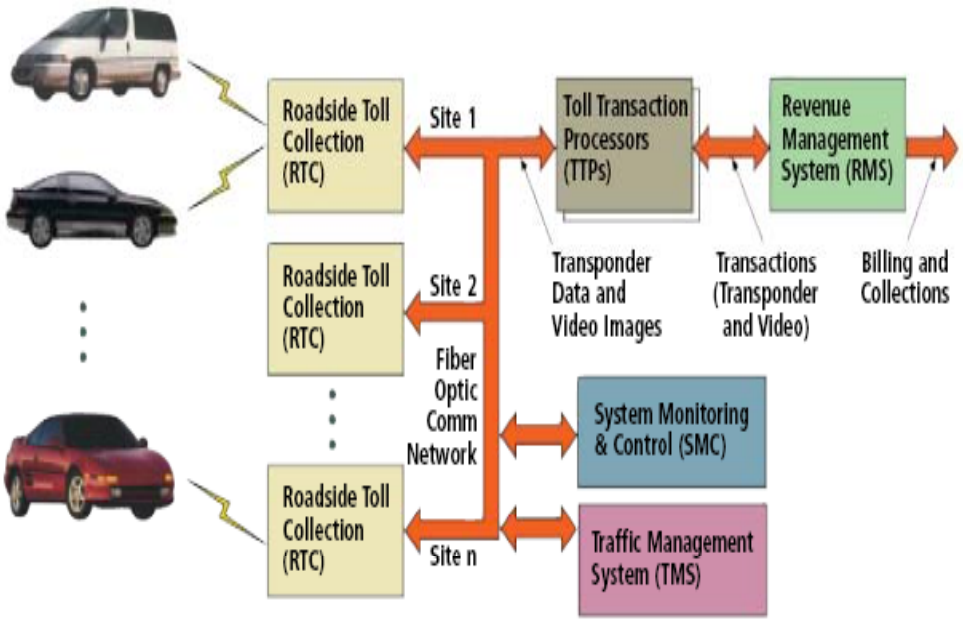
- Other BOT Projects
  - Estimated toll collection in 2003 for 1400 km: Rs 7200 million
  - Estimated number of toll plazas required: 1200
- Over 39,000 km of National Highways would be constructed over next ten years, these roads would be available for tolling

Design Parameters

- There are many tolling systems operating in India. These systems will need to be integrated and/or made compatible with existing infrastructure
- Design of Tolling collection system should:
  - Not affect average speed of vehicles
  - Be an integrated service
  - Be fast
  - Be Safe
  - Be Fraud proof
  - Minimize human involvements

Tolling Technologies

- Semi-Automatic Tolling System
  - Manual Transaction
  - Operations such as booth peripherals controls, data processing, lane lights etc are automated to control fraud
- Automatic Tolling System
  - The Electronic Toll Collection System (ETC) aims to eliminate delay on toll roads
  - It electronically debits the accounts of registered cars without the need for the cars to stop
  - There are two types of ETC Systems
    - Gantry based Multilane Free Flow ETC System
    - Non-Stop ETC at Toll Plaza



ETC System Block Diagram

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- Gantry Based Multilane Free Flow ETC System
  - Open road system with no Toll Plaza
  - Trip information of vehicles, Date and Time of Travel, Location and Vehicle Classification is updated on central Server
- Satellite based Multilane Free Flow ETC System
  - In the satellite based ETC tolling, each vehicle is equipped with On Board Unit that is equipped with GPS Receiver, tachometer connection with vehicle and transponder unit
  - Distance traveled by the vehicle is reported to the toll authority

ETC Gantries with Road Side Equipment (on left side)

- Non-Stop ETC at Toll Plaza
  - Based on dedicated short range Communication (DSRC) 5.8 GHz microwave link
  - Automated Vehicle Identification
  - Automated Vehicle Classification
  - Transaction Processing
  - Violation Enforcement

ETC Lane Transponder

ETC OBU

Options

- In-House Development
  - Establishing a R&D cell
- Acquisition of Technology
  - Acquire Technology from vendors - ITNL's involvement limited to integration
  - Adoption of technology would be dependent on project requirements and will require development of broad integration skills
- Staggered Learning & Development
  - Develop technology in partnership with a vendor
  - This option is a hybrid system and would lead to building of in-house expertise over a period of time
- The ITNL Group manages 250 km of toll roads and is currently implementing toll road projects having an aggregate length of over 1000 km
  - Tolling Equipment are available with vendors
  - The operational toll projects will allow ITNL to conduct integration and R&D
  - Further ITNL could provide Tolling Services to other Road Operators

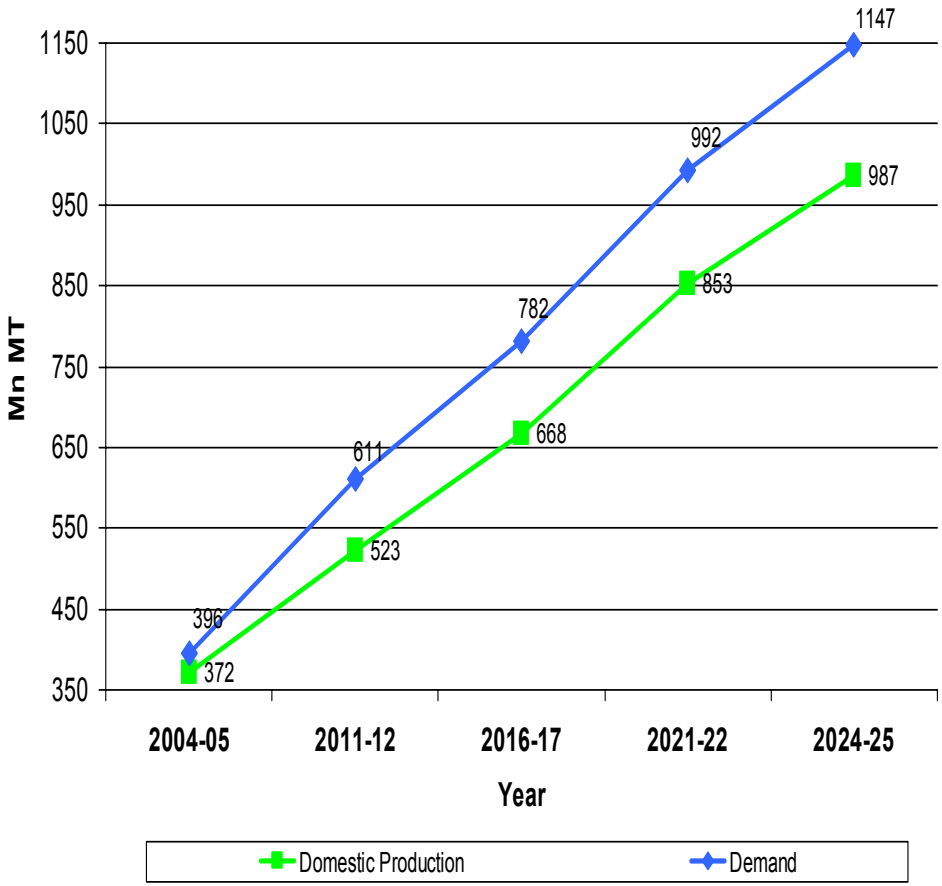
Section IX:

Coal Bridge Project

Demand v/s Domestic Production

(Mn MT)

Year	2004-05	2011-12	2016-17	2021-22	2024-25
Demand					
Coking		53	67	84	97
Non Coking		558	715	908	1050
Total Demand	**396**	**611**	**782**	**992**	**1147**
Domestic Production					
Coking		33	38	57	67
Non Coking		491	630	796	920
Total Domestic Production	**372**	**523**	**668**	**853**	**987**
Gap					
Coking		20	29	27	30
Non Coking		67	85	112	130
Total Gap	**24**	**88**	**114**	**139**	**160**



Though India's coal production will continue to expand, a growing portion of its coal needs will be met through imports

Sector Snapshot

- In India, 77% of the Coal demand is from the Power Sector
- The elasticity between Power Demand and GDP is 1.2X. With GDP expected to grow at more than 7.5% p.a.. demand for Power is expected to grow at more than 8.5% p.a.
- Use of Natural Gas as a feedstock for generating Power is increasingly becoming infeasible due to limited availability and high price
- Therefore Coal is expected to continue to remain the major fuel stock for Power Generation
- To meet demand for coal, the Government has been encouraging the private sector to undertake captive mining. Currently Private sector can undertake coal mining for captive use for Power Generation, Iron & Steel and Cement Production
- The captive mining policy did not produce desired results since:
  - The coal blocks on offer were small and economies of scale were not possible
  - Poor quality of geological information resulting in uncertainty of reserves
  - Inadequate infrastructure facilities
- The Government introduced a bill in the Parliament in 2000 to allow for non captive mining by the private sector. The bill is pending approval

Problems with Indian Coal

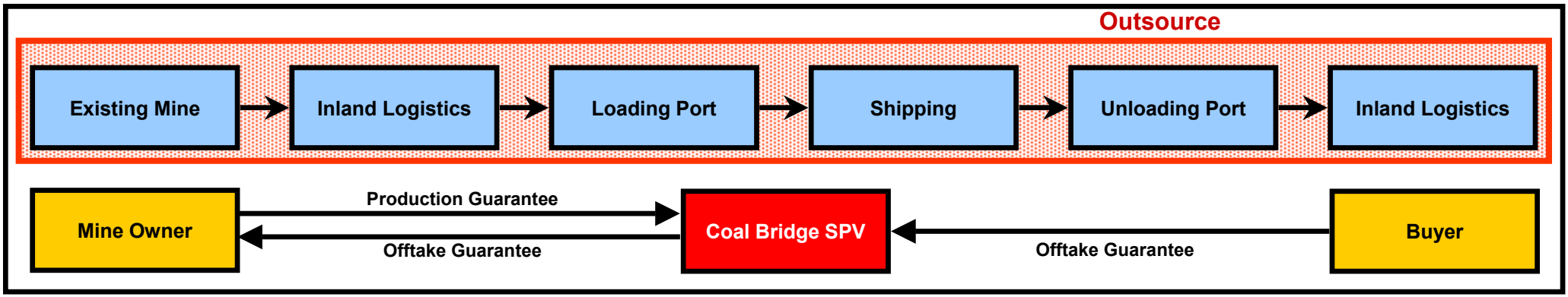
- Low Quality Coal
  - Over 90% of India's coal production is non-coking coal
  - Over 75% of of non-coking coal production has heat value of less than 4200 Kcal/Kg
  - Domestic coal has a high ash and inert content and relatively low calorific value
- Logistics
  - Transportation infrastructure is the key to coal pricing
  - Coal is produced in the eastern and central part of the country while the majority of it is consumed in southern, western and the northern India
  - The inland locations of domestic mines makes Indian coal uncompetitive vis-a-vis imported steam coal, especially at coastal locations
  - In the case of Power Plants located inland, it is more viable to use a blend of imported high quality coal and domestic coal as compared to only domestic coal, due to high cost of inland logistics
- Political Issues
  - Land acquisition and rehabilitation is a major constraint for project implementation
  - Most of Coking coal reserves lie in Jharia coal fields (approx. 14 Bn MT) where the mining conditions are difficult and require large scale relocation (nearly 300,000 families)
- R&R
  - Many coal fields are located in Naxalite prone areas and hence mining and evacuation of coal from these mines is difficult

Objective of the Coal Bridge Project

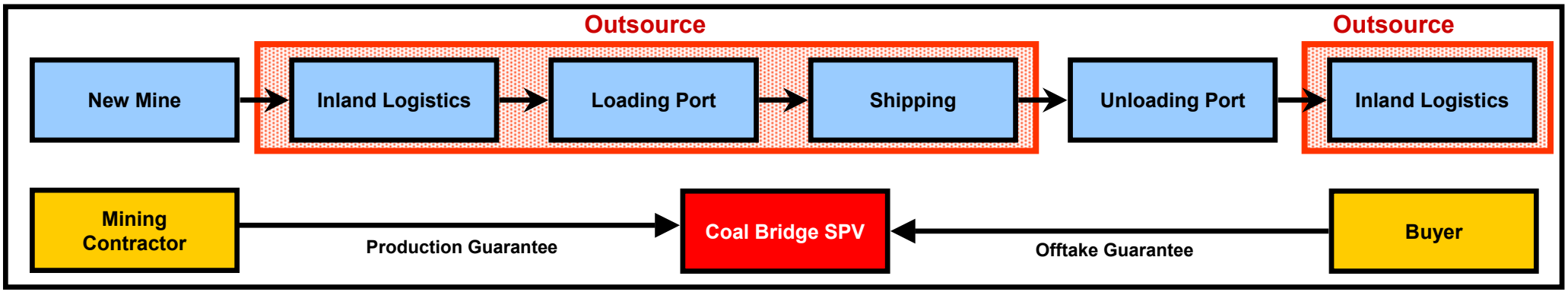
- To develop a “Coal Bridge” between Coal Mines Sources and India by sourcing and transporting coal and delivering it to end users in India in an efficient, cost effective and a sustainable manner
- Objective: Target 20 MTPA of Coal Imports per annum by 2010 in a phased manner:
  - Phase I commences in 3 – 6 Months
    - Arrangement of coal from existing mines for trading companies and end-users on commission
  - Phase II can commence in 6 - 10 months
    - Assistance in financing Greenfield Mines and also establishing long term offtake contracts
  - Phase III can commence in 24 months
    - Co-ownership in mines and local infrastructure assets

Phased Development – Moving up the Value Chain

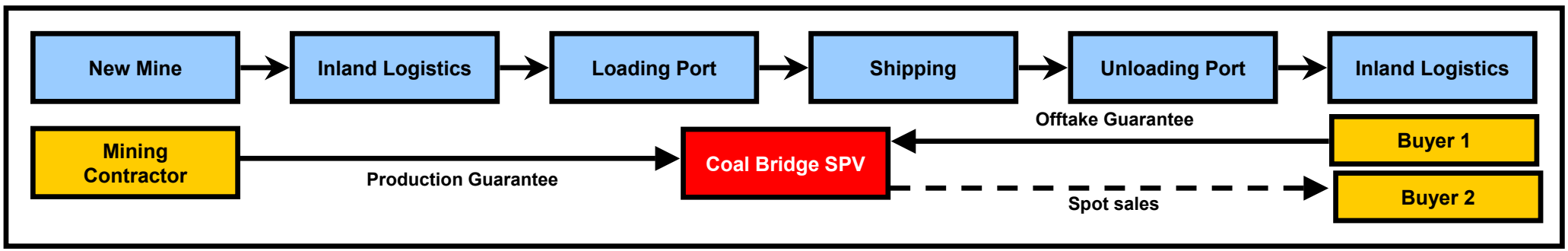
Phase I



Phase II



Phase III

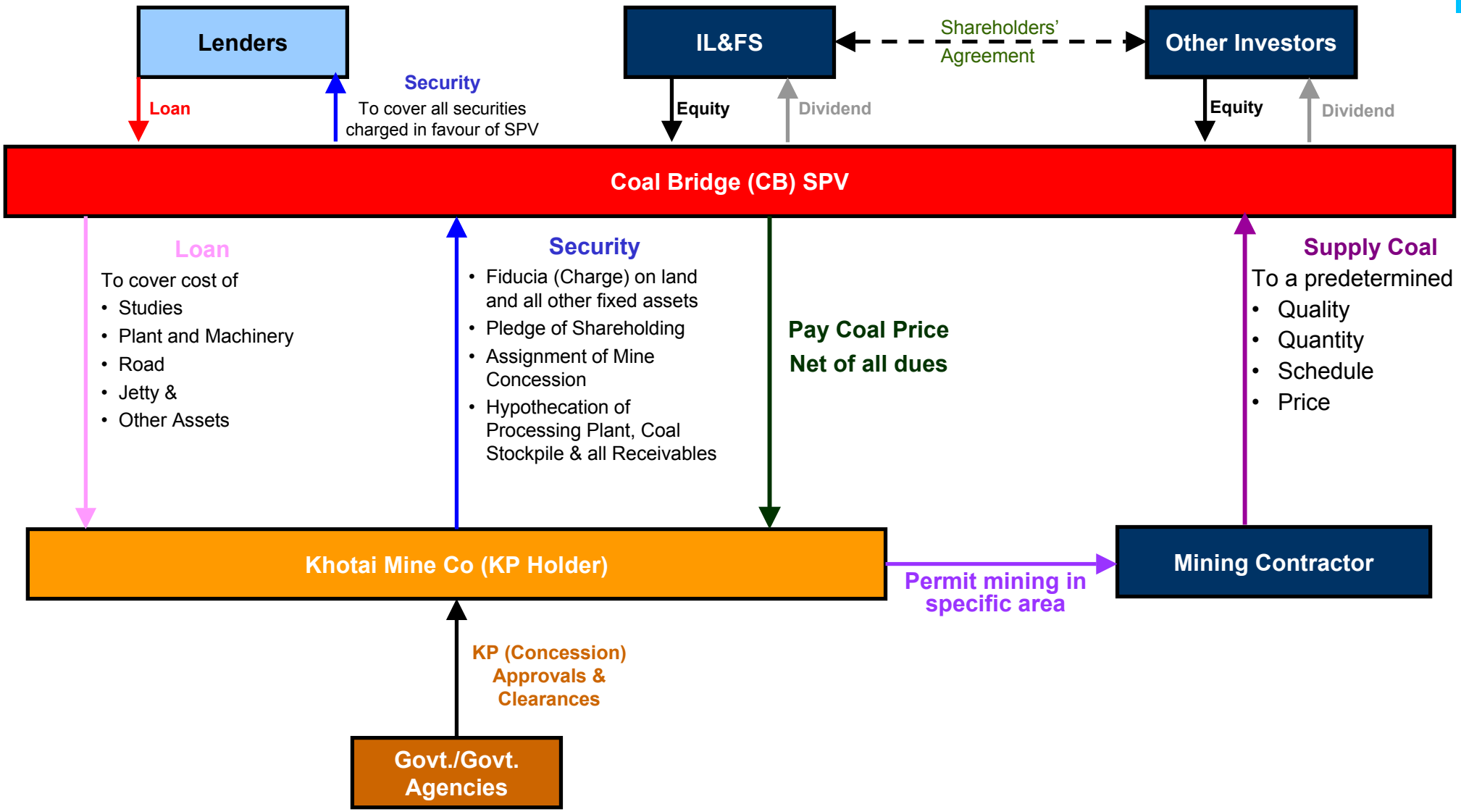


Project Status

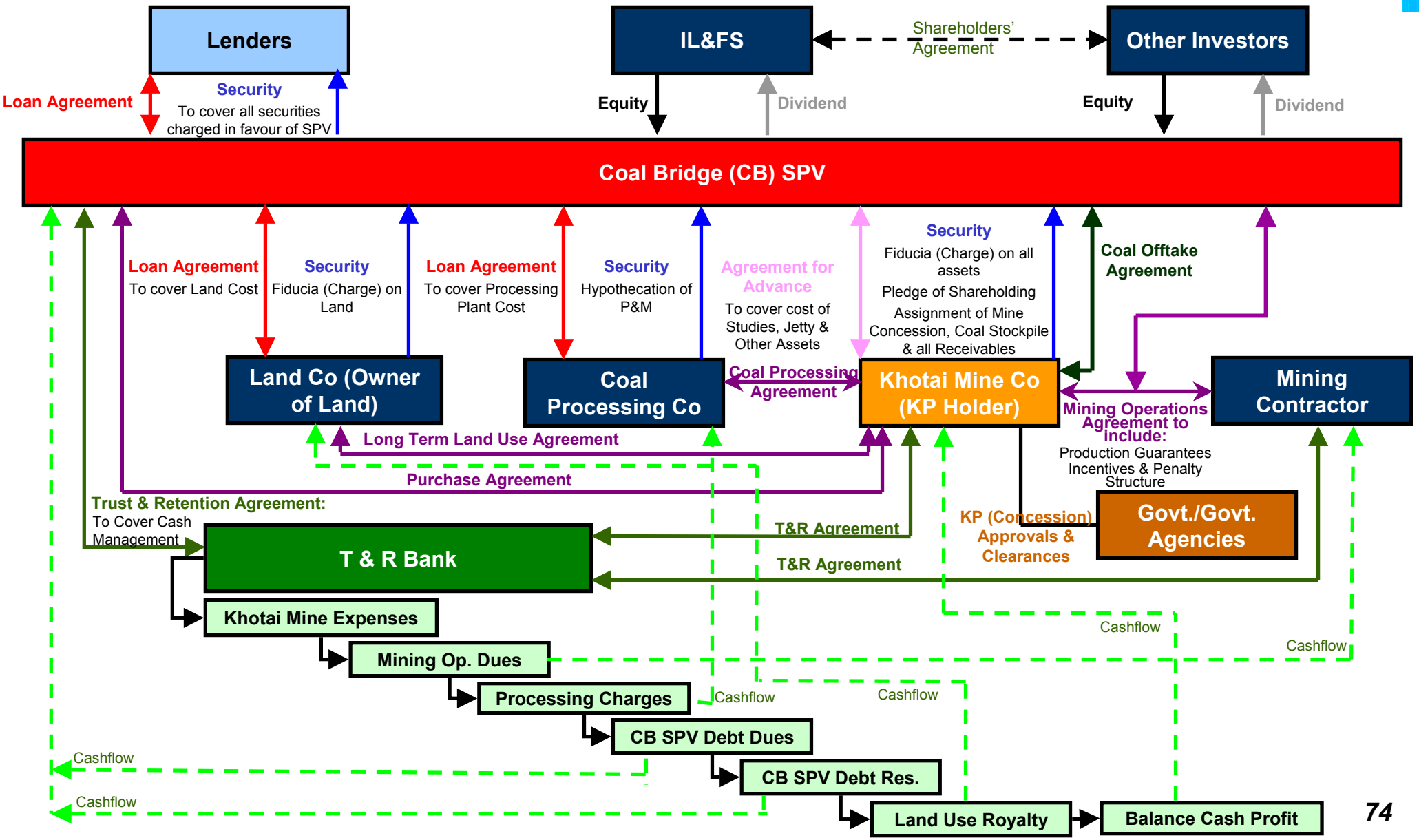
Trading	▪ Few mines in Kalimantan, Indonesia have been shortlisted for trading ▪ Preliminary due diligence is being undertaken for the shortlisted mines ▪ Negotiations ongoing for offtaking 1 MPTA of coal from Merandai Mine ▪ Additional mines being located
Co-Development of Mines	▪ Due diligence and negotiations ongoing for co-developing Khotai Mine having an aggregate production capacity of 4 MPTA ▪ Preliminary due diligence is going on for other shortlisted mines ▪ Additional mines being located
Trade Finance	▪ Proposal received for financing trading of 1.7 MTPA of Coal ▪ Point of Purchase: FOB Barges on Mahakam River in Kalimantan ▪ Point of Sale: FOB Mother Vessels anchored on open sea at designated locations near Kalimantan ▪ Purchasers: Japanese, Taiwanese and Chinese Companies

Transportation	▪ Based on a preliminary assessment, Semboja lying north of Balikappan in Kalimantan identified as a potential site for locating a deep sea Coal Terminal ▪ Alternate option is to make use of current shipping practices and develop an offshore loading rig capable of handling Panamax vessels ▪ Studies to determine the feasible option to be undertaken as part of Phase II
Offtaker	▪ Bid being put in with a partner for supplying coal to MAHAGENCO ▪ Discussions are going on with potential users such as Nava Bharat Ferro Alloys Limited for their Power Plant ▪ In-house requirement for IL&FS Power Plants ▪ Potential off takers are MMTC, PTC, NTPC

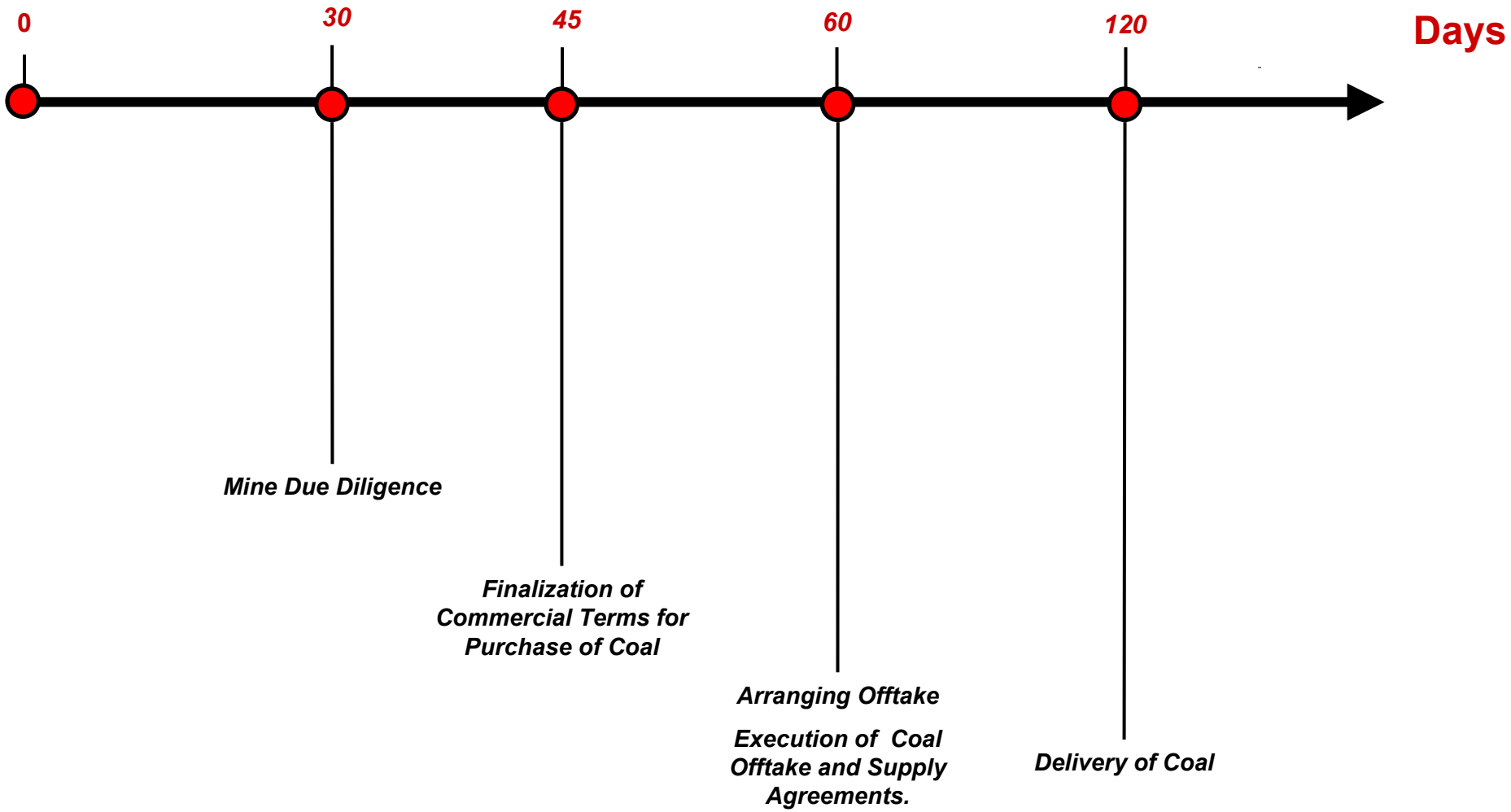
Implementation Structure - Substance



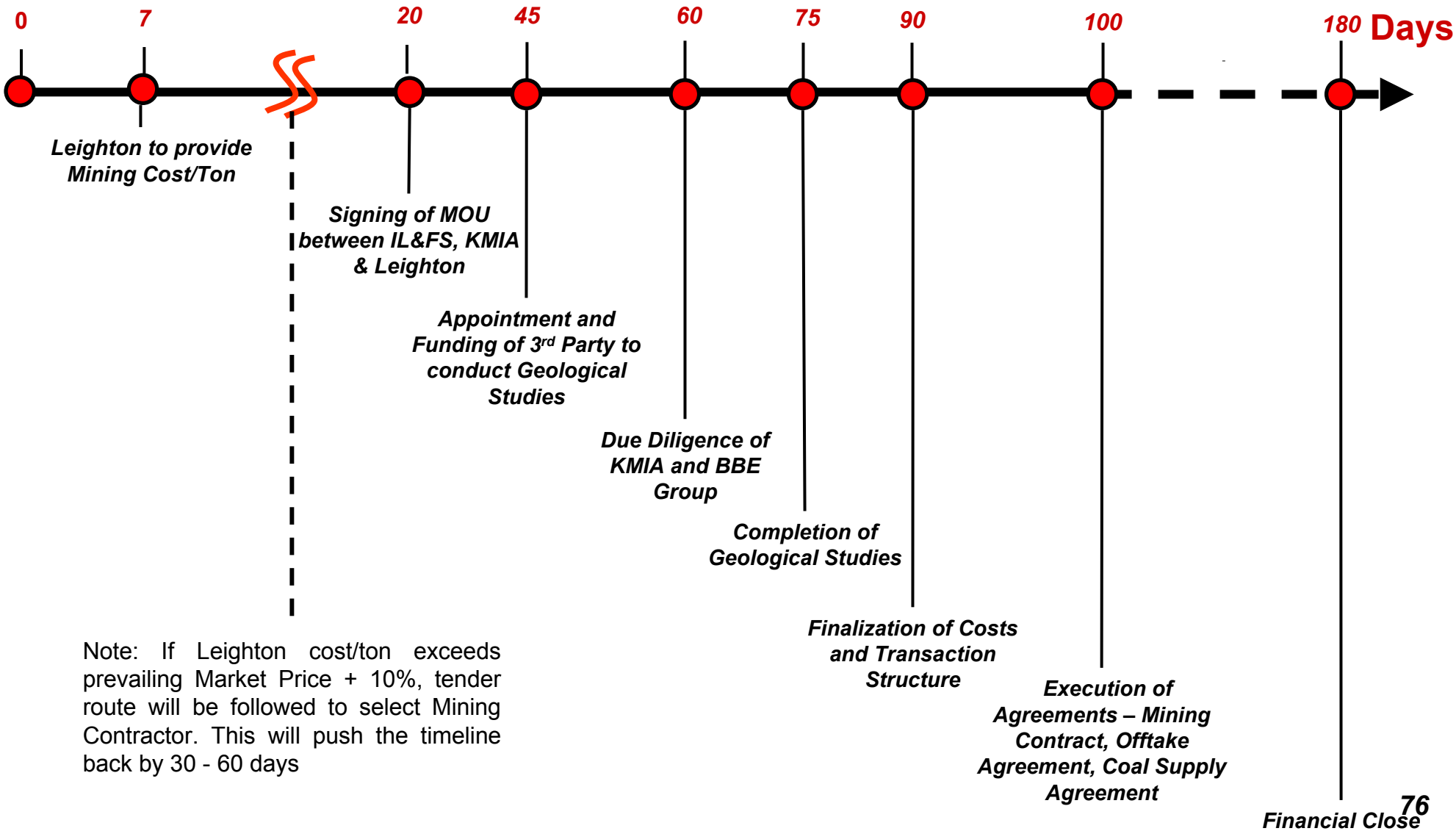
Implementation Structure - Form



Timelines: Trading - Merandai Mine



Timelines: Co-development – Khotai Mine



Note: If Leighton cost/ton exceeds prevailing Market Price + 10%, tender route will be followed to select Mining Contractor. This will push the timeline back by 30 - 60 days

Issues

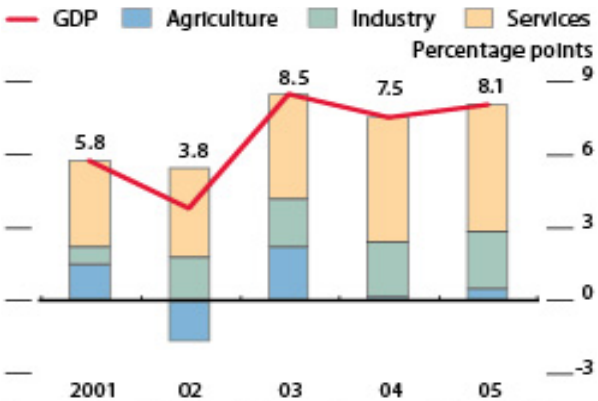
- Coal Pricing
  - Coal Prices are linked to several indices (Newcastle Index, South African Coal Index, etc.) – short term movements of the indices may not be in tandem
  - Coal Prices have been experiencing High Volatility over the last 3 years – making forecasting difficult
  - Long term Price Hedge mechanisms are not available
- Purchase & Sale Agreements
  - Mines Owners insist on certain pass-throughs (fuel costs, government taxes etc) on long term Formulae Based Pricing Contracts
  - Indian Off takers insist on a Fixed Price Contract – a mismatch between the purchase and supply price may expose the Coal Bridge SPV to Price Risk
- Financing
  - Indonesian Debt Markets lack depth and the prevailing interest rates are high - therefore the Project may have to funded through Cross Border Financing
- Weak Legal framework
  - The Indonesian legal system is slow and weak
  - Therefore it may be advisable to:
    - Domicile transactions in Singapore
    - Involve International Banks in the transactions

Great Times Ahead

These are Great Times

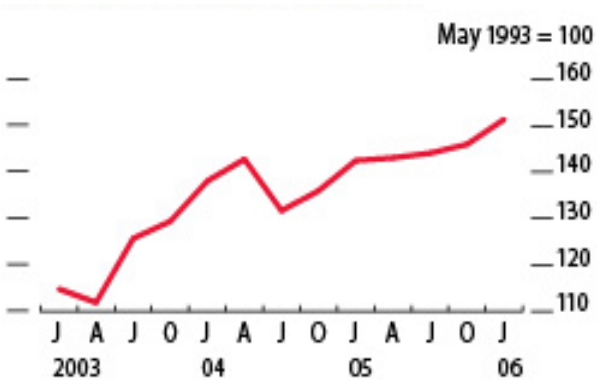
All Economic Indices indicate strong Growth

Growing GDP



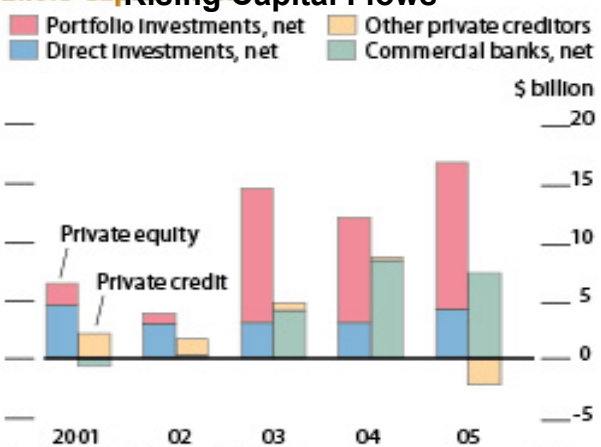
Source: Central Statistical Organization, available: http://mospi.nic.in, downloaded 10 March 2006.

Rising Business Confidence



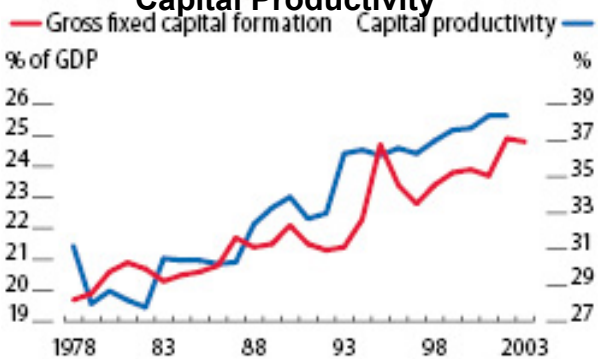
Source: National Council for Applied Economic Research, *Business Expectations Survey*, various issues, New Delhi.

Rising Capital Flows



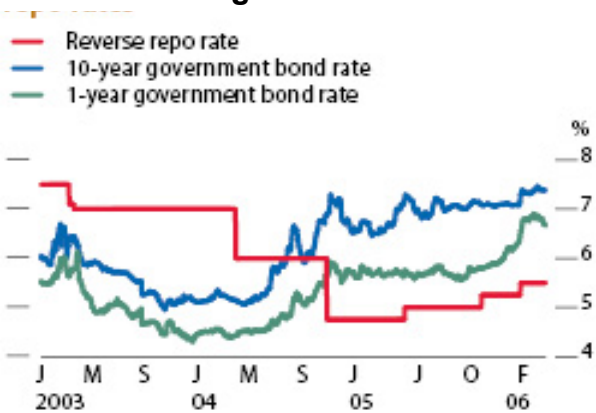
Source: The Institute of International Finance, Inc., available:

Rising Gross Capital Formation & Capital Productivity



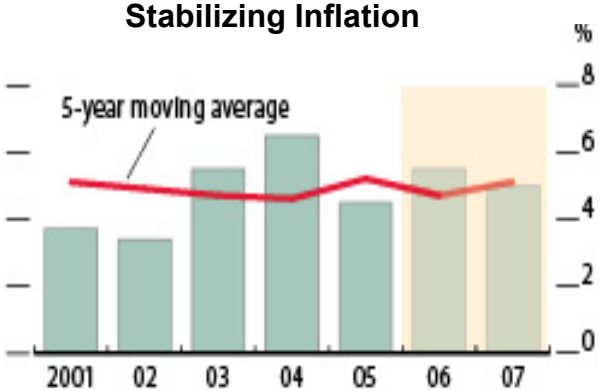
Sources: http://cama.anu.edu.au/Working%20Papers/Papers/Fan_Felipe_222005.pdf, downloaded 10 March 2006; Reserve Bank of India, *Handbook of Statistics on Indian Economy*.

Increasing Interest Rates



Source: Datastream, downloaded 24 March 2006.

Stabilizing Inflation



Sources: Reserve Bank of India Database on Indian Economy, available: https://cdbms1.reservebank.org.in/cdbms1/servlet/

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- Productivity has been increasing – positively impacting capital formation and the manufacturing sector
- All ITNL Candidate Sectors have shown consistent growth over the last 5 years
- Further, these sectors are expected to receive an impetus with specific initiatives of the Government
- Gaining Momentum of the Infrastructure Development Plan
  - Commissioning of the Delhi Metro
  - Bid out of Delhi & Mumbai Airports
  - Announcement of DBFO format by NHAI
  - Implementation of the National Maritime Development Program (NMDP) and the Sethusamudram Project
  - Implementation of the National Rail Vikas Yojana
  - Announcement of 5 Ultra Mega Power Projects

Section X: International Mandates

Argument for International Mandates

- The South Asian Economies are turning around
  - There is firm Political Will and Commitment to attract Foreign Investments
  - There appears to be a Convergence of public policy and public opinion regarding the relevance to PSP in the development of public infrastructure - to propel growth
  - There has been a movement towards the resolution of a number of long pending sector specific regulatory and commercial issues
  - With the addressal of several legal and regulatory aspects coupled with an enabling macroeconomic framework, infrastructure spend is expected to touch US$ 200 billion, with the private sector improving its share
  - The Socio-economic and Political conditions prevalent in South East Asian Countries are similar to those in India 10 years ago
- Middle East is experiencing a revival
- North America is beginning to experience with sale of assets

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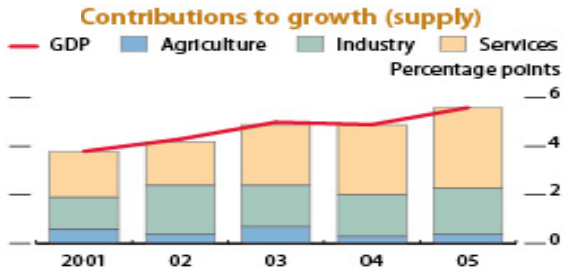
- IL&FS Group development and implementation skills can be translated to the South Asian Economies in a significant way
- This will provide:
  - A first mover advantage
    - Earning a Developer's Premium on investments
    - Access to a larger deal pipeline
    - Possibility of negotiated bilateral mandates
  - Portfolio Diversification:
    - Geographical spread
    - Regulatory regimes
    - Currencies

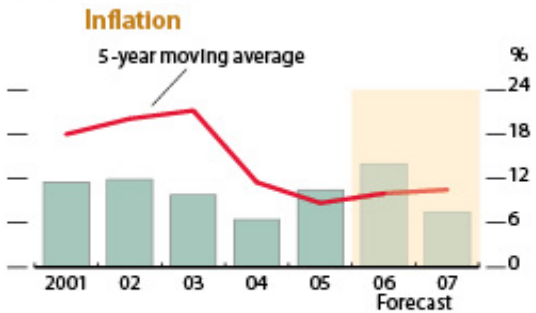
Indonesia Snapshot

- Indonesia was the amongst the worst affected by the Southeast Asian Crisis
- After structural reforms initiated in 2001, macroeconomic and financial stability has been restored in the country
- The economic strategy has produced positive results over time.
- GDP
  - GDP growth up from 3.8% in 2001 to 5.6% in 2005
  - Growth in 2005 noteworthy because it was achieved in the face of several major difficulties, including the aftermath of the December 2004 earthquake and tsunami
  - Construction and services that together accounted for half of the economy, expanded by 8.0% and were largely responsible for GDP growth in 2005
- Inflation
  - Administered prices of fuel products were increased by 29% in March 2005 and a further 50% in October 2005 to reduce subsidies. This pushed up inflation during 2005-06
  - To support the Rupiah and damn inflation, Bank of Indonesia raised the 1 month policy interest rate to 12.75%

Sources: Bank Indonesia, available: http://www.bi.go.id/web/en/Data+Statistik/statcat.htm?head=99&lang=eng&stat=lo, downloaded 1 February 2006; staff estimates.



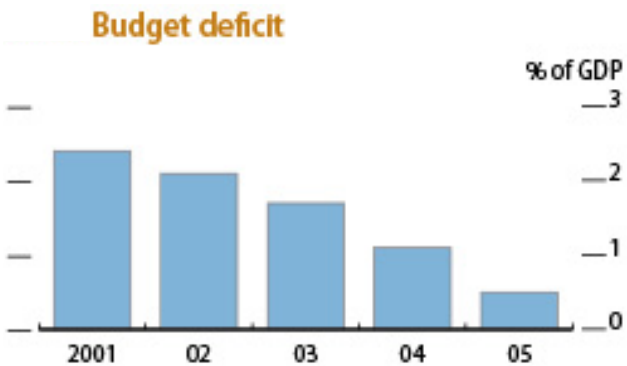
Note: Construction is one of the subsectors in the industry sector.
Source: Bank Indonesia, available: http://www.bi.go.id/web/en/Data+Statistik/statcat.htm?head=97&lang=eng&stat=lo, downloaded 1 March 2006.



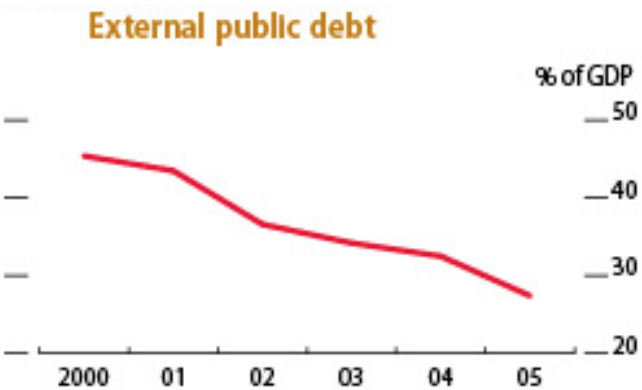
Sources: Badan Pusat Statistik, available: http://www.bps.go.id/sector/cpi/table3.shtml, downloaded 1 February 2006; staff estimates.

- Banks:
  - Rising interest rates hurt the banking sector. Loan growth decelerated and the net NPA ratio rose from 1.9% to 5.0% during 2005 and capital-adequacy ratio declined from 21.7% to 19.6%.
- Fiscal
  - Overall budget deficit narrowed from 2.4% in 2001 to 0.5% in 2005
  - Ratio of external public debt to GDP has steadily declined from about 45% in 2000 to 27% in 2005 with overall public debt also falling
- Foreign Exchange Reserves
  - The rate rise helped strengthened the rupiah and foreign reserves

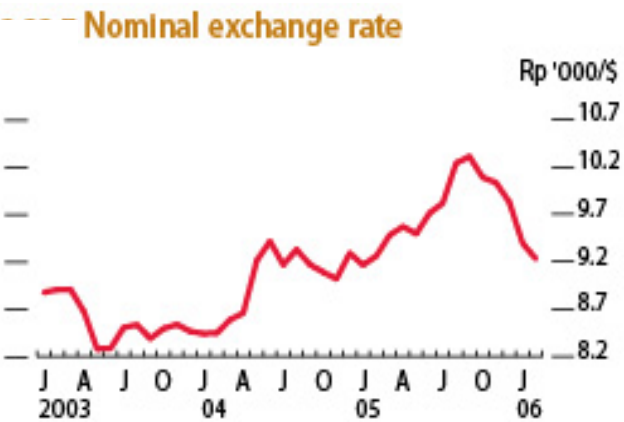
Source: Bank Indonesia, available: http://www.bi.go.id/web/en/Data+Statistik/statcat.htm?head=67&lang=eng&stat=10, downloaded 21 March 2006.



Sources: Ministry of Finance Press Release. *2005 Budget Release, Launching of 2006 Budget, and Government Salaries and Benefits in 2006*, 2 January 2006; *Asian Development Outlook* database.



Source: Bank Indonesia, available: http://www.bi.go.id/web/en/Data+Statistik/statcat.htm?head=82&lang=eng&stat=10, downloaded 1 February 2006.



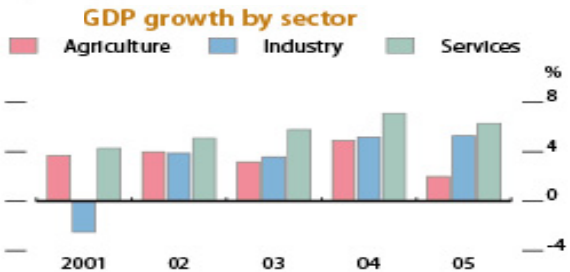
Source: CEIC Data Company Ltd., downloaded 21 March 2006.

- Infrastructure Sector Reforms
  - New Road Law no.38/2004 enacted in 2004 that defines and open and transparent tendering process. The Government has made further changes in the Road Concession Agreement and take up the onus of funding Land acquisition
  - New Water Resource Law no.7/2004 enacted in 2004 that promotes transparency, democratization and decentralization and to invite investors and enable fair competition and stakeholder participation.
  - New Electricity Law that allows Private investors to partner the state-owned power company PLN under an open tender process
  - The Ministry of Finance is considering key financial initiatives to support infrastructure development including the establishment of Infrastructure Funds and involving Pension Funds
- Economic Outlook
  - The Government is expected to raise other administered prices
  - Key Forecast for 2007
    - GDP Growth : 6.0%
    - Inflation: 7.5%
    - Exchange Rate (IDR to 1 USD): 9600

Philippines Snapshot

- The Philippines was less severely affected by the Asian financial crisis than its neighbors. This was in part due to the annual remittances from overseas Filipino workers
- GDP
  - GDP growth has grown from 1.5% in 2001 to 5.1 % in 2005
  - Annual remittances of USD 10.7 billion in 2005 pushed up personal consumption that remained the largest contributor to GDP Growth in 2005. Actual remittances may be substantially higher as considerable amount is sent via informal channel
- Inflation
  - A sharp increase in petroleum-product prices and the impact of the drought on agricultural commodity prices lifted inflation to an average of 7.6% in 2005
  - To keep inflationary expectations in check, the Monetary Board raised key policy rates by 25 basis points in October

Sources: Asian Development Outlook database; National Statistical Coordination Board, available: http://www.nscb.gov.ph/secstat/d_accounts.asp, downloaded 30 January 2006.

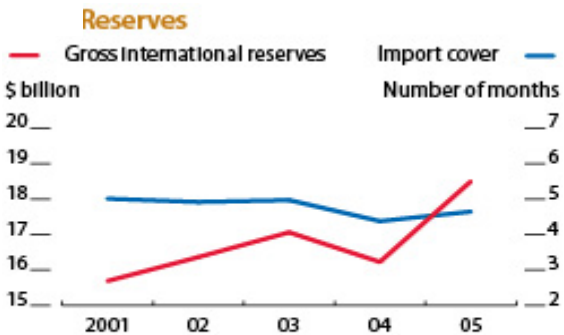


Sources: Asian Development Outlook database; National Statistical Coordination Board, available: http://www.nscb.gov.ph/secstat/d_accounts.asp, downloaded 30 January 2006.

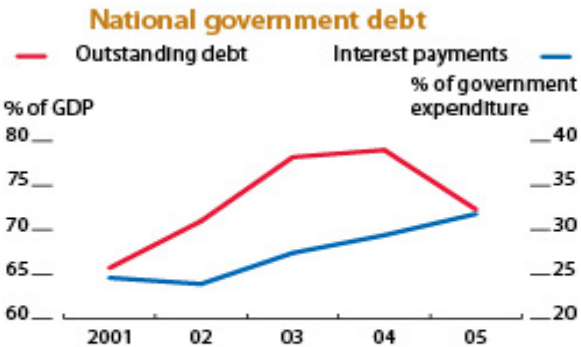
Sources: Asian Development Outlook database; National Statistics Office, available: http://www.census.gov.ph/data/sectordata/2005/cp051201r.htm, downloaded 2 February 2006; staff estimates.

- Banks
  - The Government set up a SPV for parking Bank NPAs
  - This helped Banks strengthen their Balance Sheets. NPAs declined from 13,6% to 8.7% in 2007 and CAR averaged 18% against a statutory requirement of 10%
- Fiscal
  - The Government reduced subsidies by raising Power tariffs of the State owned National Power Corporation and imposed a VAT regime resulting in incremental income
  - This resulted in Government deficient narrowing to 2.7% of GDP

Note: Sovereign risk spreads are yield spreads of sovereign bonds over US treasury bonds. Emerging markets follow the definition of J.P. Morgan, available: http://www.utdt.edu/~ely/Intro_embig.pdf.
Source: Datastream, downloaded 10 March 2006.



Source: Bangko Sentral ng Pilipinas, available: http://www.bsp.gov.ph/statistics/spei/tab5.htm, downloaded 24 January 2006.



Sources: Asian Development Outlook database; Bureau of the Treasury, available: http://www.treasury.gov.ph/statdata/statdata.html, downloaded 13 March 2006.

Sources: Asian Development Outlook database; Bangko Sentral ng Pilipinas, available: http://www.bsp.gov.ph/statistics/spei/tab1.htm, downloaded 28 March 2006.

- Infrastructure Reforms
  - The Government has embarked on infrastructure development using the BOT Act
  - The BOT Law will enable the Private Sector to participate in the financing, construction, operation and maintenance of infrastructure projects. It prescribes a legal and administrative framework for private investment in infrastructure
  - The Government has passed The Electric Power Industry Reform Act that allows for restructuring, re-capitalization and privatization of NPC assets
  - The Government has established an electronic exchange for trading in fixed income securities and derivatives
- Economic Outlook
  - The introduction of VAT has boosted Government revenues and will result in decline in Government's financing requirements
  - This will ease interest rates and free capital for private investment
  - Key Forecast for 2007
    - GDP Growth : 5.3%
    - Inflation: 6.5%
    - Exchange Rate (PHP to 1 USD): 54

International Mandates - Status

Bidding	▪ Nairobi Road Project ▪ Indonesia – 4 Road Projects ▪ STAR Road Project, Philippines ▪ Manila Water Supply Project, Philippines ▪ Manila LRTS – Line 1 South Extension, Philippines
Project Development	▪ LARES Project, Philippines ▪ Pacific City Project, Philippines ▪ North Arhan Power Project, Indonesia ▪ South Sumatra Railway Project, Indonesia ▪ Kalimantan Railway and Port Project, Indonesia ▪ Coal Bridge Project, Indonesia

Challenges

- Risk
  - Regulatory Risk
    - There is lack of transparency and accountability
    - For some sectors the regulatory framework are not conducive for investment
    - Political and Economic Environment continues to be volatile
    - Legal framework for redressing grievances is weak
  - Local land laws not conducive for foreign investment (e.g. Indonesia)
  - Economies are susceptible to foreign exchange risk
  - Overhead / Operational costs are high

- Hurdles
  - Underdeveloped Capital and Debt Market
    - Domestic debt finance inadequate for funding infrastructure Projects
    - Local Capital markets are underdeveloped
    - Cost of Finance is high
    - Cross Border Financing
    - Double Taxation may yield in lower than expected return
  - Local Project Development Experience inadequate. Therefore no appreciation of need for Project Development
  - Local Consultants / Agencies are prone to succumb to local pressures – not trustworthy

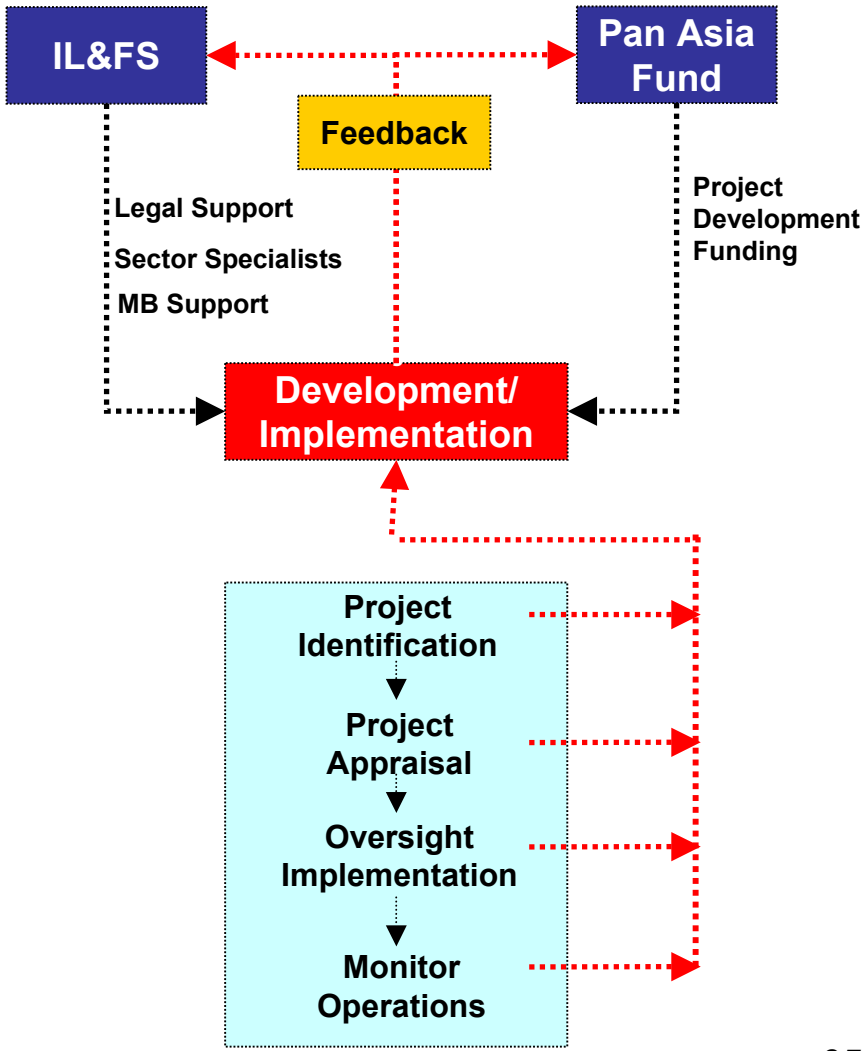
…3

- Operational Issues
  - Local Language acts as a barrier
  - Local Partner
    - Too much dependence on a Local Partner is detrimental. Local Partner may mislead / be exploitive / incompetent
  - Project Development
    - Project Development Cycles are long
    - High Cost of Project Development

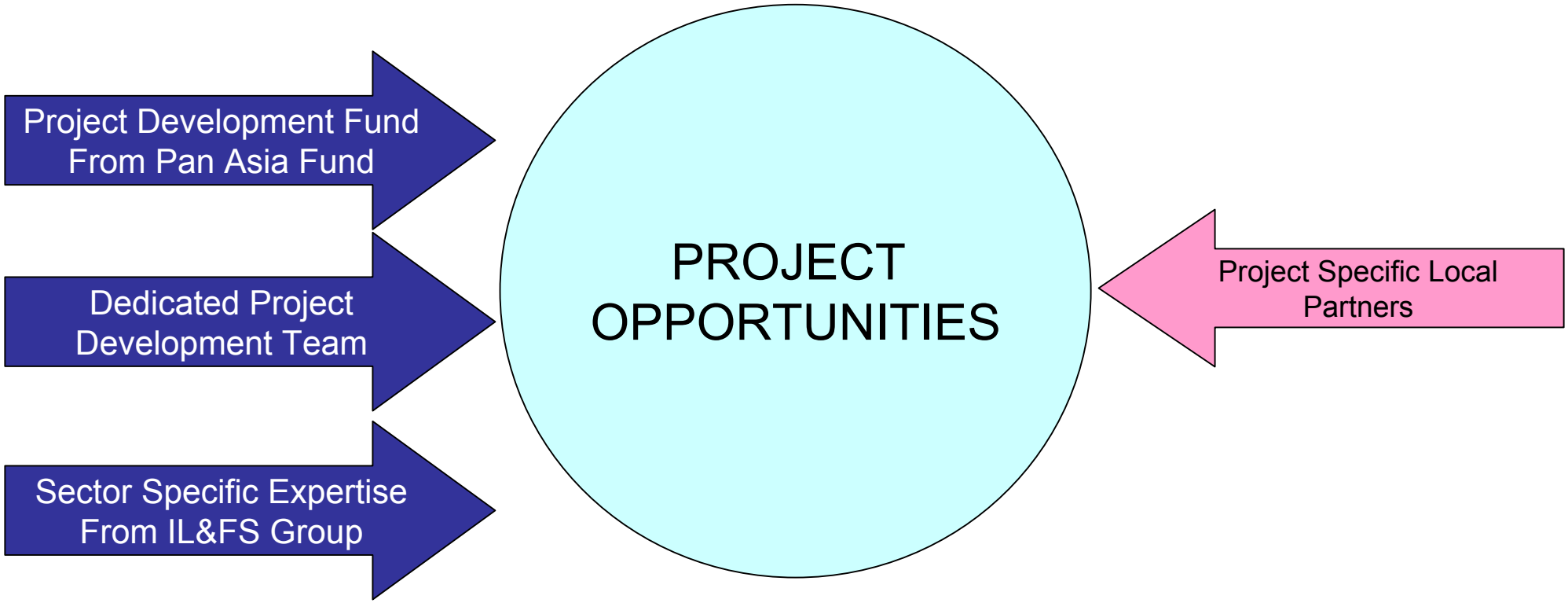
Solutions

- Country Monitoring: Put in place mechanism for tracking Country specific developments on a continual basis
- Minimize investment in immovable assets such as land
- Engage reputed law firm with local presence
- Pursue participation by strong international banks / institutions as mitigation against political risk
- Pursue international financing for Projects
- To the extent possible push bilateral / negotiated deals
- Use International Consultants / Agencies
- Local Support
  - Partnership with strong Local Partners
  - Broad basing Local Partnership
  - Networking and building local relationships
- Close small value transactions / participate in equity to show presence and gain experience
- Establish a Dedicated Project Development Team

- A dedicated Project Development Team needs to be established to execute International Mandates
- The advantages are:
  - Local Presence
  - Networking
  - Consistent Interface
  - Economies of Scale
  - More efficient review and monitoring mechanism
- Depending on the skill set requirements of a Mandate, Sector Specialist from IL&FS will be involved



Development of International Mandates



Section XI

1000 Day Plan

Road Sector

- Commission
  - Western Gujarat Expressway
  - Rajasthan Mega Highway Project
  - Thiruvananthapuram City Road Improvement Project
  - Andhra Pradesh Expressway
- Expand the Road Portfolio
  - Undertake at least 2 New Projects per year
    - 3000 km of roads under construction or implementation in partnership with State Government / their agencies
    - Project awards through Bids / Unsolicited Bids
  - Acquisition
    - Broaden Road portfolio through acquisition of Projects that specifically offer stable and predictable cash flows and future appreciation
  - Capacity Building
    - In-house design capability
    - In-house traffic forecasting capability

Port Sector

- Commission Dighi Port
- Build Port Asset Portfolio
  - Co-develop two green field minor ports / brown field ports
  - Acquire 1 minor port
  - Identify and Develop port related infrastructure assets
    - Shipyards
    - ICDs
- Capacity Building
  - Sector Specialists
  - Develop an appreciation of all disciplines
- Nursing a Port Vertical

Urban Transport

- Develop and Implement 1 MRTS Project
- Assist the Government of Rajasthan in implementing the Urban Transit System Project for city of Jaipur
- Implement Bus Rapid Transit System in smaller towns and cities
- Capacity Building
  - System Integration
  - Costing
  - Operations and Management

Railways

- Develop and implement last mile Rail Connectivity projects to integrate with IL&FS port and coal projects
- Establish at least 1 ICD to cater to the container traffic
- Capacity Building
  - System Integration
  - Costing
  - Operations and Management

International Mandates

- Build Local Partnerships with credible parties
- Pursue Projects through Partnerships, Negotiations and Unsolicited Bids
- Acquire 5 Advisory Mandates
- Acquire 2 Project Mandates
- Capacity Building
    - Legal and Regulatory frameworks
    - Taxation
  - Familiarity with local language, customs and practices

Coal Bridge Project

- Close Trade Finance Transaction for 1.4 MTPA of Coal
- Achieve 10 MTPA of Coal throughput
  - 3 MTPA through long-term Offtake Contracts
  - 7 MTPA through co-development of 2 mines
- Identify suitable site for coal terminal in East Kalimantan, Indonesia to facilitate coal transportation to India
- Capacity Building
  - Geology
  - Coal Price
  - Coal Contracting
  - Freight Pricing

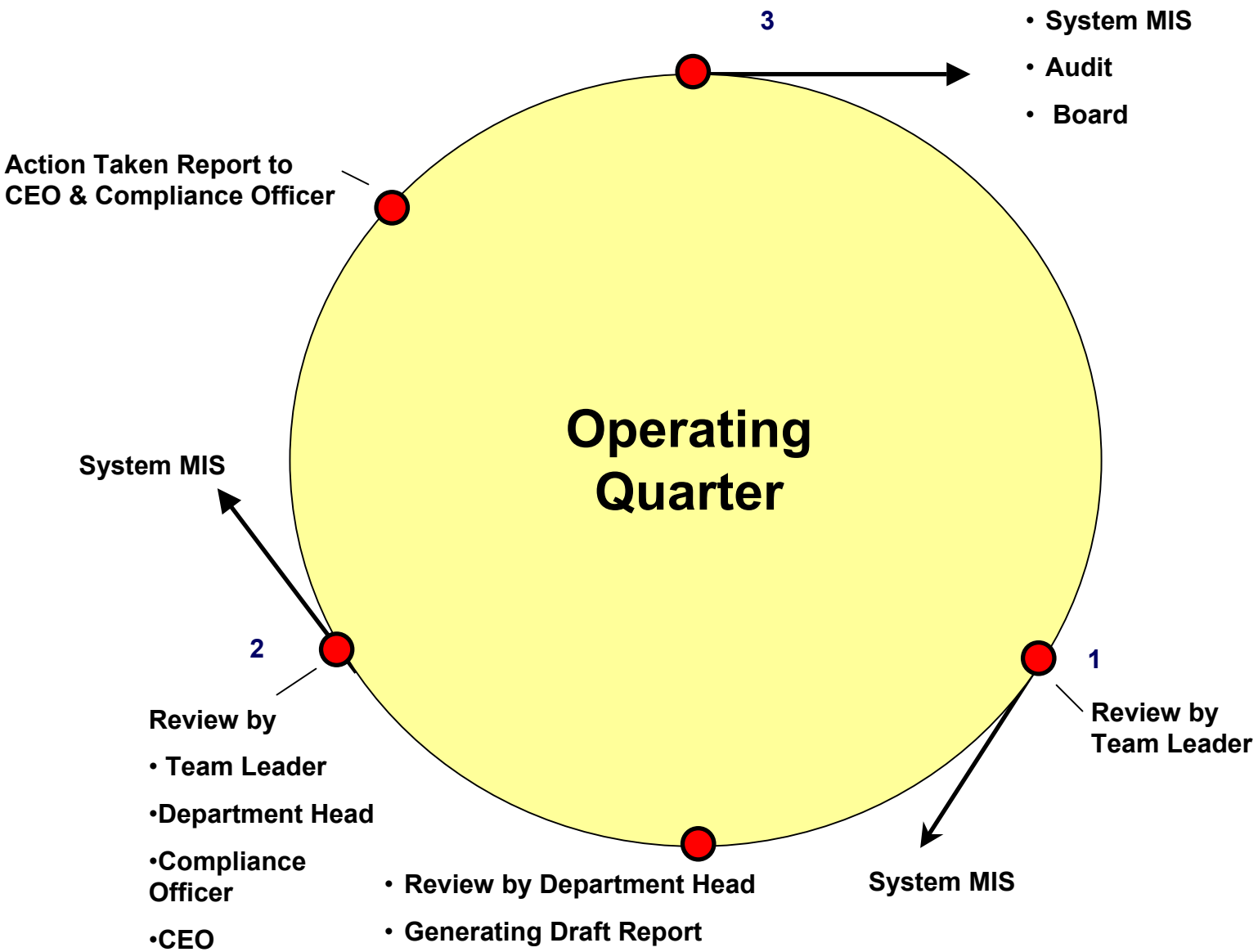
Nursing Sector Verticals

- Providing Sector Focus
- Providing a Profit Centre Perspective
- Domiciling Sector Skills
- Domiciling Sector Investments
- Enabling Sector specific strategic partnerships and investments
- Allowing Consolidation and Diversification of Assets
- Providing a Operations and Management platform

Technology

- ITNL is beginning to engage sectors that will require various disciplinary skills.
- To allow for flexibility and avoid operating within the framework of specific technology regimes ITNL shall :
  - Expand familiarity with the various disciplines related to the sector
  - Enhance its appreciation of various available technologies
  - Develop system integration skills

Compliance and Reporting



Human Resource Development

- Recruitment to a Plan
- Articulating and communicating Company Values to ensure “buy-in”
- Encouraging Entrepreneurship and Innovation
- Inculcating Team Spirit and achievement of common hood
- Providing Motivation through an appropriate “Reward for Delivery Plan” and a Profit Sharing Mechanism
- Reward mentoring
- Putting in place Career Building and Wealth Creation Plan

Section XII:

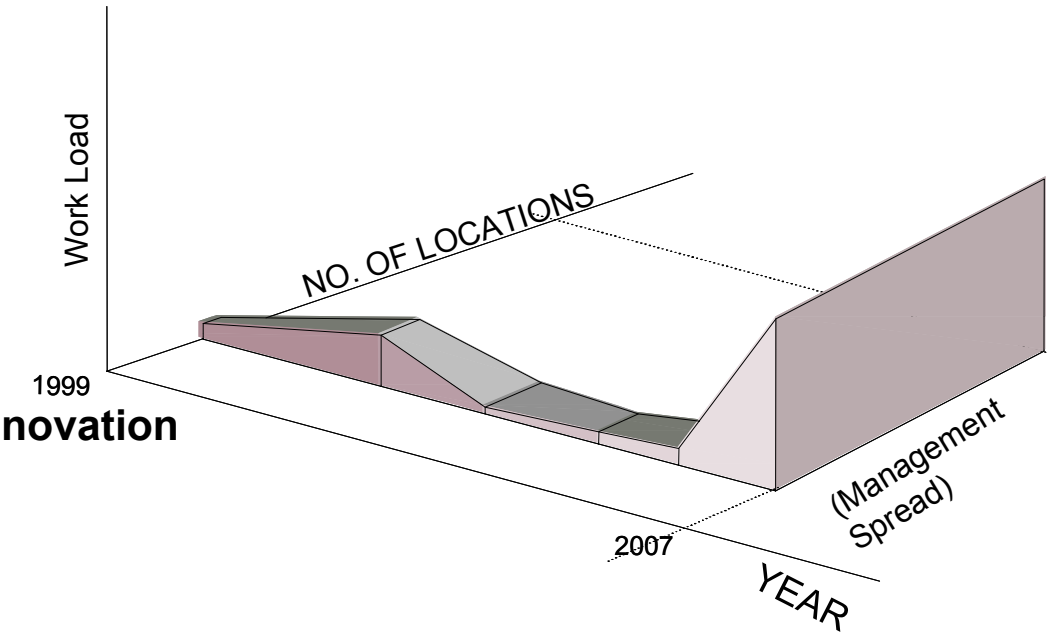
Challenges

The Key to Past Successes

- A Pioneering Spirit
- A Hunger to Succeed
- Early Mover Advantage
- Company's small size
  - Informal Lines of Communication
  - Quick Decision Making
  - Excellent rapport between Personnel
  - Multi-tasking
- Responsive Leadership
- IL&FS Brand

Challenges

- Growth
- Delivery
- Protecting the IL&FS Brand Equity
- Building the ITNL Brand
- Motivation
- Maintaining Entrepreneurship and Innovation
- Business Ethic
- Multiple Shareholders
- Regulators



Thank You