

General Announcement

Reference No **KG-110725-63712**

Company Name : **KNM GROUP BERHAD**
Stock Name : **KNM**
Date Announced : **25/07/2011**

Type : **Announcement**
Subject : **OTHERS**
Description : **HEADS OF AGREEMENTS WITH ZECON BERHAD AND GULF ASIAN PETROLEUM SDN BHD**

Announcement Details/Table Section :

1. Introduction

KNM Group Berhad (“KNM”) is pleased to announce that on 25 July 2011, KNM and Zecon Berhad (“Zecon”) had entered into the following Heads of Agreements (“HOAs”) with Gulf Asian Petroleum Sdn Bhd (“GAP”) towards *inter alia* the following:-

- a. to undertake the Engineering, Procurement, Construction and Commissioning (“EPC”) Contract for the 150,000/200,000 bpd Petroleum Refinery and 400,000/525,000 mtpa Polypropylene Unit for GAP (“the Refinery/Polypropylene Project”) with a total Project Value of USD5.0 billion (equivalent to about RM15.0 billion based on the exchange rate of USD1.00 : RM3.00); and
- b. to undertake the Engineering, Procurement, Construction and Commissioning (“EPC”) Contract for the Petroleum Product Storage Terminal Facility comprising 4 Terminals with a total storage capacity of 2.328 million cubic meters, complete with supporting infrastructure and auxiliaries including the jetty (“the Storage Project”) with a total Contract Value of RM2.0 billion.

Both the Refinery/Polypropylene Project and Storage Project are located at Teluk Ramunia, Johor.

2. Information on KNM, Zecon and GAP

KNM is a public listed company listed on the Bursa Securities Malaysia Berhad (“Bursa Securities”) and is a worldwide process equipment manufacturer and turnkey solutions provider in the oil and gas, petrochemical, power, mineral processing, biofuels, renewable energy and environmental industry. KNM is working with various project

developers as Engineering, Procurement, Construction and Commissioning (EPC) contractor with different business strategy on equity ownership, project financing and operating structure.

Zecon, a public listed company in Bursa Securities is principally involved in Construction, Infrastructure, Toll Concession and Property Development. ZECON which has expertise in Design & Build and Geotechnical Engineering is one of the leading Construction, Infrastructure and Property players in Malaysia.

GAP is owned 50% by Mubadala Capital Sdn Bhd ("MCSB") and 50% by Mr. Abdul Aziz Hamad Al-Dulaimi ("AAHD"). GAP is established to build and operate an Integrated Petroleum Complex that consists of the said Refinery Project and Storage Project located at Teluk Ramunia, Johor.

GAP had on 30 April 2010, obtained an approval from the Malaysian Industrial Development Authority ("MIDA") for the manufacturing licence for the integrated petro-chemical plant.

MCSB's controlling shareholder is Datuk Hj Zainal Abidin Bin Hj Ahmad ("Datuk Zainal"). Datuk Zainal is the Group Managing Director / Chief Executive Officer and controlling shareholder of Zecon.

AAHD has 18 years of experience at Qatar General Petroleum Corp. ("QGPC"), the Qatar national oil corporation. Before his departure in 1994, AAHD had been the Executive Manager for the integrated body of QGPC's Onshore & Offshore Operations. He is currently the President of Gulf Petroleum Limited, an integrated oil and gas group based in Doha, Qatar whose shareholders include the Qatar General Insurance and Reinsurance Company, Al-Mana Group, National Petroleum Group and the banking arm of Al-Sari Group.

3. Salient Terms of the HOAs

The Refinery/Polypropylene Project:-

- i. KNM together with Zecon and/or a Korean/Chinese Contractor shall form a Consortium ("the EPC Consortium") to undertake the EPC Contract for the Refinery/Polypropylene Project.
- ii. The EPC Consortium will take up to 20% equity in GAP estimated at USD180 million (equivalent to about RM540 million based on the exchange rate of USD1.00 : RM3.00).
- iii. The Project will be funded by 30% equity and the balance will be funded through Project Financing using Export Credit Agencies and/or other financial instruments including Sukuk issuance
- iv. The Parties agreed to finalise the EPC Contract within three (3) months of the HOA and subject to financial close.
- v. The Parties target to complete the Project within 40 months from financial close.

vi. The Parties have agreed not to be liable to each other for any loss or damages in the performance of this HOA.

The Storage Project:-

i. KNM will form a consortium with Zecon to undertake the EPC Contract of about RM2.0 billion.

ii. The Parties agreed to form a Special Purpose Vehicle (“SPV”) Company to undertake the Storage Project, whereby, KNM intends to subscribe for up to 30% of the equity structure of the SPV Company. The balance shall be held by GAP and/or its nominated parties. The estimated equity value for the SPV Company is RM200 million.

iii. KNM shall be entitled for Board Member seats proportional to its equity participation.

iv. GAP has entered into HOAs with international suppliers of crude oil and petroleum products subject to financial close for the Supply and Off-Take Agreements.

v. KNM and GAP shall form a joint venture company to undertake the operation and maintenance of the facilities upon Project completion for period of 25 years with the first five (5) years having a reputable operator as its partner.

vi. The Parties agreed to commence preliminary works for the Project development immediately upon this Agreement with the target to achieve financial close within three (3) months and completion of total Project 18 months after financial close.

vii. The Parties agreed that GAP will arrange for financial guarantee from a local investment fund for up to RM1.5 billion during the construction period to be converted into long term loan thereafter and a facilitation fund of up to RM300 million while KNM will arrange a Sukuk issuance of up to RM1.5 billion to cover project financing during construction.

The Johor State Government has approved 650 acres of land in Teluk Ramunia for the Projects and GAP is in discussion with the State Government for its equity participation which has yet to be finalized.

GAP has appointed Evercore Partners New York as its financial adviser.

Further announcements will be made by KNM once the EPC Contract, the final definitive Consortium Agreement and the Shareholders Agreement are executed.

4. Directors' and major shareholders' interest

None of the directors or major shareholders of KNM, or any persons connected to them, has

any direct or indirect interest in the above Projects.

5. Approvals Required

Approval from the shareholders of KNM may be required for the proposed investment in GAP.

Approval from the shareholders of Zecon will be required for the EPC Contract and its proposed investments in the equity of GAP as it is a related party transaction.

6. Effect of the Projects

The Projects are expected to contribute positively to KNM Group's earnings for the financial years ending 31 December 2012, 31 December 2013, 31 December 2014 and 31 December 2015, subject to financial close.

7. Risk Factors

The Projects are subject to certain risks mainly in the oil, gas, petrochemical, and energy industries. These include changes in general economic conditions such as, but not limited to inflation, taxation, foreign exchanges, interest rates, labour and material supply, changes in business and operating conditions such as, but not limited to government and statutory regulations and deterioration in prevailing market conditions. The Project may not achieve financial close.

The Projects do not alter the risk profile of KNM as KNM Group is already operating in these industries and hence would continue to be exposed to risk factors that they currently face whilst operating in the industry.

Although KNM Group with its vast experience may undertake efforts to mitigate the various risks, there is no assurance that any change in the above factors will not have a material adverse effect on the business and operations of KNM/KNM Group.

This announcement is dated 25 July 2011.