



Review of Master Lease Competitive Bid Process

February 14, 2011

BMO Process Summary

- BMO solicited approximately 80 firms for their interest in a master lease at the Port of Galveston
- Targeted parties included international and domestic stevedoring entities, real estate investors and financial sponsors with the financial resources and experience necessary to grow the Port
- Marketing consisted of publication of an opportunity summary, a 50-page Information Memorandum available to parties that signed a Confidentiality Agreement with BMO and other various outreach efforts
- 17 firms signed Confidentiality Agreements with BMO and began due diligence on the Master Lease
- Several limitations were cited by bidders, including:
 - Complexity of the asset offered (Master Lease structure has never been attempted by US landlord port),
 - The size of the existing business (too small for the large infrastructure funds but too big for smaller stevedores and terminal operators),
 - The requirement that the bidder commit to capital expenditures, and
 - The large array of business lines at the Port
- Only one bidder was determined to be sufficiently qualified and willing to offer a sufficient return to the Trustees in exchange for the 75 year master lease

Preferred Bidder Summary

- **Hutchison Port Holdings and The Carlyle Group propose a 50/50 Joint Venture**

THE CARLYLE GROUP

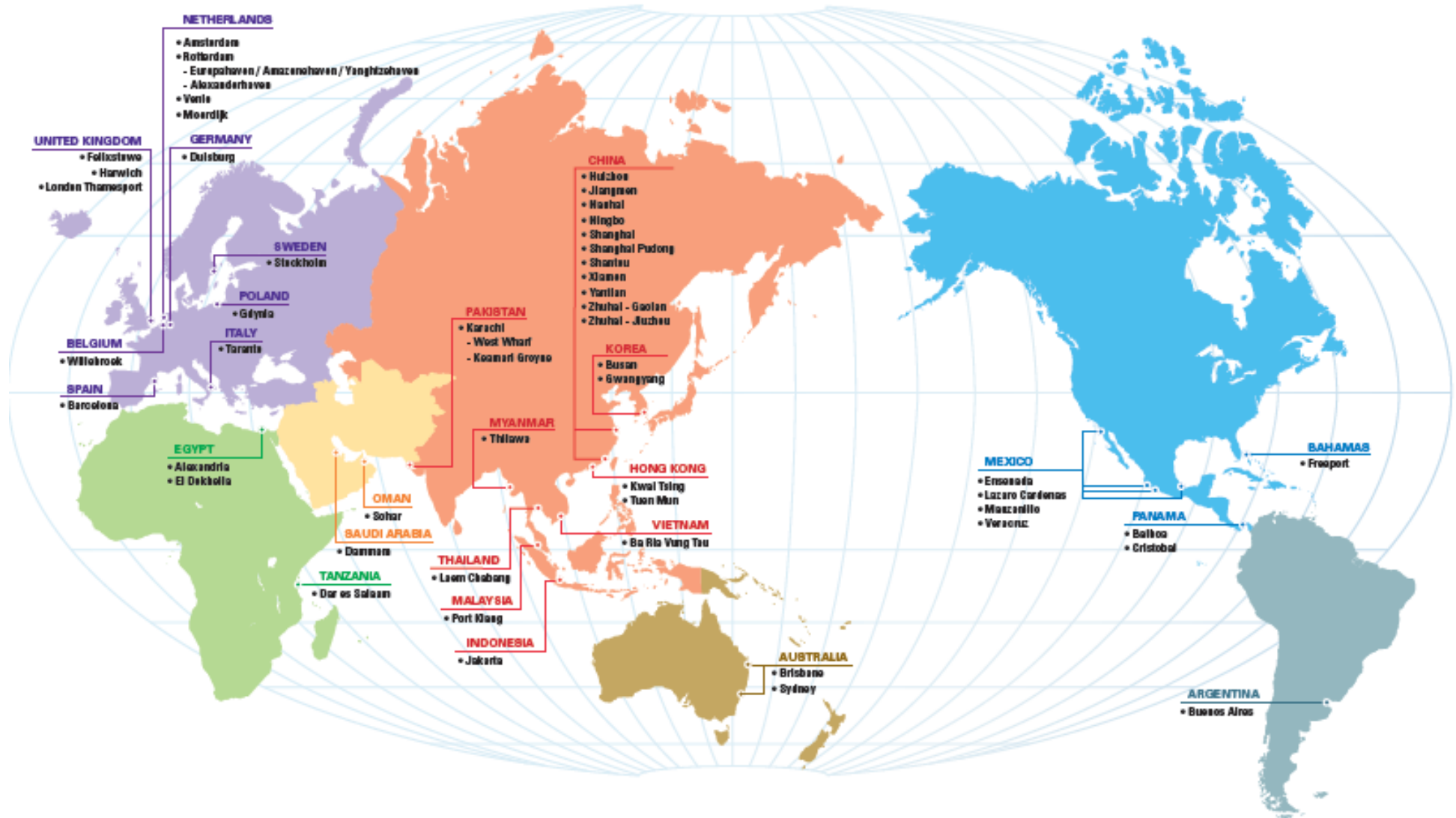
GLOBAL ALTERNATIVE ASSET MANAGEMENT

- US Private Equity Fund based in Washington DC
- Nearly \$50 billion in capital raised in the last 5 years
- Currently count around 1,000 corporate entities and real estate investments as part of their global portfolio.
- Sample entities Carlyle has previously purchased or partnered with include:



- Established in 1863 by British entrepreneur John D. Hutchison
- World's largest stevedore / terminal operator with operations in over 50 ports in 25 countries
- Handles approximately 10-15% of the global container market
- Also operates cruise, logistics and airport investments
- Wholly-owned subsidiary of Hutchison Whampoa, which is a publicly-traded company based in Hong Kong

HPH Global Terminal Locations



Preferred Bid Summary (DRAFT – Subject to Final Negotiation)

- HPH and Carlyle propose a 75-year master lease including:
 - Existing leased assets
 - 100-acre terminal to be developed on the west end of the south side of Galveston Ship Channel (“West End Terminal”)
 - 20-acre Ro-Ro terminal to be developed on the east end of the south side of the Galveston Ship Channel (“East End Terminal”)
 - Jointly developable land on Pelican Island (“Pelican Island”)
 - The cruise terminals and associated assets and operations of the Port
- Contractually Obligated Port Compensation would include:
 - **100% Debt Defeasance (including City supported debt)**
 - **Up-Front Cash and Release of Port Funds**
 - **10 Year Mandatory Capital Expenditures**
 - **Annual Expense Provision**
 - **Cruise Revenue/Profit Sharing**
 - **Freight Revenue/Profit Sharing**