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THE DEAL BOOK 2008

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FULBRIGHT & Jaworski L.L.P. Attorneys at Law

Editors Letter

I would like to welcome you all to the eighth Infrastructure Journal Awards Night, being hosted once again in London's magnificent Natural History Museum.

We at IJ enjoy bringing together the great and the good of the global infrastructure and project financing community to celebrate the achievements of the past year and reward the stand-out transactions to make it to financial close.

This last year – 2008 – will live long in our memories as the year when the wheels fell off the global economy and it's tempting to say that everyone in the museum on 12 March 2009 is a winner by dint of actually still being in business.

However, we can't hand out prizes to one and all for still having a job and in the past few months our industrious awards team has been feverishly compiling submissions for categories and marshalling our judging team of industry experts.

This year, we have an interesting selection of award winners that pick out the truly exceptional deals to have made it through to financial close in 2008, as well as the top bankers and advisers who made it all happen.

The days of cookie cutter deals are behind us as we all have to get smarter about turning a buck in this market. This is reflected in the choice of Deal of the Year – Yemen LNG – which our judging panel deemed the most impressive to have made it away on many levels, location not being the least of those.

The line-up of winners, I believe, represents an excellent selection of some of the most imaginative deals to close in 2008. These range from the likes of FSTA which saw a bank-only financing structure brought to bear on a deal that had been designed to rely on bond financing, to Havsnäs Wind which saw innovations in financing in the Renewables sector.

The Transport winner – Virginia's Capital Beltway – did well to beat off competition from Liefkenshoek in particular which was a truly exceptional deal that saw the first realistic allocation of risk in such a constrained market.

The shortlisted Power deals were all outstanding – as indeed was the entire longlist. It is a pity that only one of these fantastic deals could receive an award, though Angamos was voted a clear winner on the judging day.

This year, more than any year in recent times, saw our judging panel agonise over their decisions with such a fine selection of deals to consider.

In a constrained global financing environment, project finance and infrastructure stands out as "the right sort of investment" as the Flash Harries are exposed and the good, solid tenets of asset-backed investments get the credit they deserve.

Angus Leslie Melville
Editor
Infrastructure Journal

Power Deal of the Year

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The Infrastructure Journal Power Deal of the Year was Angamos, the project finance of a coal-fired power plant in Chile. The two shortlisted transactions for this category were also stand-out deals for 2009 – Ras Laffan C and Tata Mundra UMPP.

AES Angamos

As other big-ticket deals in the global project finance sector were delayed, heavily reworked or simply floundered amid the credit crunch last autumn, the two underwriters on AES' Angamos coal-fired power project in Chile were able to sell nearly US$1 billion of debt in an oversubscribed syndication.

Infrastructure Journal power reporter Chaminda Jayanetti explores a deal that showed method amid the market madness.

The project

Angamos is a greenfield coal-fired power plant with a gross capacity of 518MW. The project is located in Mejillones, II Region, and will supply two coal mines owned by BHP Billiton via separate PPAs:

- Escondida mine – 340MW for 18 years
- Spence mine – 90MW for 15 years

Korean firm Posco is EPC contractor under a turnkey deal, and will build two units. The project is expected to come online in 2011.

The plant seeks to reduce Chile's dependence on gas supplies from neighbouring Argentina. The facility will be connected to the Northern Interconnected Grid (SING) and includes a 140km transmission line of 220kV.

The financing

The project cost a total US$1.34 billion, and was financed on a 72:28 debt-equity ratio excluding the letter of credit facility.

Equity investment was US$353.3 million, provided via project SPV Empresa Electrica Angamos (EEA), which is itself owned by AES Gener. AES owns 80 per cent of the equity in AES Gener, with the remaining 20 per cent held by Chilean public shareholders.

Total debt financing was originally US$1.03 billion, equally underwritten by ABN Amro and BNP Paribas and structured as:

- US$715m KEIC-covered term loan
- US$270m commercial term loan
- US$75m LC facility

However, come financial close the total debt had shrunk to US$988.5 million, broken down as follows:

- US$675m KEIC-covered tranche
- US$233.5m uncovered commercial term loan
- US$80m LC facility

Tenors were unchanged throughout, with 17 years on each term loan and a five-year LC facility.

Syndication of the deal was launched in mid-July, in an attempt to get the deal into the market before the August slowdown. When syndication closed, the following banks had purchased tickets:

Bookrunners and joint lead arrangers:

- ABN Amro – US$104.25m (US$70m KEIC; US$19.25m commercial; US$15m LC)
- BNP Paribas – US$104.25m (US$70m KEIC; US$19.25m commercial; US$15m LC)

MLAs:

- Fortis – US$100m (all KEIC)
- Calyon – US$100m (US$69m KEIC; US$31m commercial)
- HSBC – US$100m (US$69m KEIC; US$31m commercial)
- Dekabank – US$100m (US$69m KEIC; US$16m commercial; US$15m LC)
- DZ – US$100m (US$69m KEIC; US$16m commercial; US$15m LC)
- SMBC – US$100m (US$69m KEIC; US$16m commercial; US$15m LC)

Lead arrangers:

- Dexia – US$70m (US$50m KEIC; US$20m commercial)
- KfW – US$60m (US$40m KEIC; US$15m commercial; US$5m LC)

Participants:

- Helaba – US$30m (all commercial)
- ING – US$20m (all commercial)

It should be noted that the top tier banks are not defined as MLAs, as is common practice in Latin America.

As the syndication was oversubscribed, all banks in the top two tiers saw their commitments scaled back from US$110 million each. Lead arrangers and participants did not see their overall tickets scaled back.

The debt was launched at Libor +135-190bp on the uncovered tranche and Libor +90bp flat on the KEIC tranche. This was flexed up to Libor +175-220bp and Libor +120bp flat respectively, and then flexed again to its final level.

The deal closed with the KEIC tranche priced at Libor +150bp, while the uncovered term loan is priced:

- construction – Libor +205bp
- years 1-4 – Libor +220bp
- years 5-8 – Libor +230bp
- years 9-11 – Libor +240bp
- years 12-14 – Libor +250bp

The LC facility is priced in accordance with the first five years of the uncovered tranche. DSCR is 1.35.

Advisers on the deal were:

- Vinson & Elkins – international counsel to sponsor
- Claro & Compania – local counsel to sponsor
- Shearman & Sterling – international counsel to lenders
- Morales y Besa – local counsel to lenders

The deal reached financial close on 22 October. First drawdown is expected in December.

Commentary

The global power sector is still seeing projects reach financial close – but not with oversubscribed syndications. Angamos is virtually alone in that respect since the debt market went into meltdown in September.

The deal did not escape unscathed, however, with pricing flexed twice before financial close. Part of the difficulty in setting margins was that this was the first big ticket Latam power deal to hit the market since the credit crunch started to bite – meaning there was no solid precedent to rely on.

Two factors impacted on pricing. First was the simple issue of banks' cost of funds, which were rising all the time. A fundamental problem was that Libor was not a reliable indicator of banks' cost of funds.

"In recent months there's been a disconnect in the Libor rate as reported by the British Bankers' Association, and what certain banks are in reality able to borrow at from other banks in the interbank market," says Gregory Tan of Shearman & Sterling, which acted as lenders' international counsel.

Essentially, banks were wary of declaring their true cost of funds for fear of appearing in trouble during the traumatic month of September.

The cost of funds issue was addressed both by flexing pricing and by incorporating a mechanism whereby if a specified majority of banks in the deal declare that their cost of funds has risen above Libor, the sponsor will pay them the shortfall.

The figure is set as a percentage rather than number of banks so as to be flexible in the event of future changes to the size of the bank group down the line.

"The pricing was necessary for syndication, but we still had to devise an acceptable solution to all parties to address the market disruption/cost of funds concerns of the banks," says Shearman's Tan.

"We had to balance the concerns of the lenders to ensure that the interest rates are reflective of the lending syndicate's actual cost of funds at the time plus their expected margin, but we also had to safeguard the interests of the project (and, consequently, its lenders) from excessive interest rates that are unduly skewed by the much higher funding costs for any individual bank in the syndicate," Tan adds.

In addition to cost of funds, the bookrunners were aware the deal was competing against other projects for limited capital within prospective participant banks. Thus pricing was raised not just to cover cost of funds, but also to make the deal genuinely attractive to credit committees faced with various projects desperate for cash.

The political and commercial insurance provided by KEIC for much of the financing made the deal attractive to banks, as did the healthy debt service cover ratio of 1.35.

Indeed, while other credit crunch deals – such as the Suez Glow IPP in Thailand – have reduced their debt tranches due to banks' lack of funds, the oversubscribed Angamos debt was reduced to preserve the DSCR at 1.35. The increased pricing meant debt service would cost more, and changing the DSCR would throw a spanner in the various financial models, so the DSCR was maintained by having less debt to cover.

The September meltdown also impacted on the make-up of the syndicate group, with stricken German group Hypo pulling out of the deal late on, to be replaced by KfW.

Away from debt market issues, Angamos is a flagship deal as it represents Korean ECA KEIC's first project finance transaction in the Americas. Backing EPC contractor Posco, KEIC's involvement is seen as heralding a strategic move into the Americas, having established itself – and its contractors – in the Middle East.

Latam powers up

While power sector project finance has ground to a virtual standstill in some regions – not least North America – the Latam sector continues to move, slowly for now, but with a heavy pipeline of deals in the offing.

Part of the driver for this growth is the heavy need for power in Latin America, in particular the industrial demand in South America. Meanwhile, the heavy involvement of institutions such as the IFC, the Inter-American Development Bank (IDB) and the Brazilian development bank BNDES make it much easier to access financing for such projects.

AES itself is developing three more power plants in Chile:

- Alto Maipo – 531MW run-of-river hydro
- Campiche – 270MW coal-fired
- Los Robles – 700MW coal-fired

Of these, Campiche is most advanced and nearing the debt market – AES is expected to start looking for banks after first drawdown on the Angamos loans.

AES is also likely to explore a swift expansion of Angamos to meet industrial power demand, particularly after Transfield Services Infrastructure Fund decided this year to withdraw from the Kelar power plant project – which was due to supply power to the Escondida mine.

Outside Chile, AES is also developing the 250MW Fonseca coal-fired project in El Salvador, which has mandated ABN Amro, WestLB and HSBC as MLAs. Posco is EPC contractor on Fonseca, which is likely to bring more KEIC assistance.

AEI – formerly Ashmore Energy – is developing the Jaguar Energy project, a 275MW coal-fired facility in Guatemala. IFC and IDB are leading the financing, with BNP Paribas, Mizuho and Scotia Bank MLAs on the syndicated debt.

Brazil's power sector is also growing strongly – MPX has a large pipeline of coal-fired projects, while BNDES is leading the financing of the giant Santo Antonio and Jirau hydro plants.

Further down the line, SN Power is conducting a feasibility study into the 168MW Chaves hydro plant in Peru. A final investment decision is expected early this year [2009].

However, not all the deals will be straightforward. It will be a while before the debt markets fully stabilise, and sponsors may find it harder to attract banks to buy into one-off projects in smaller markets – such as El Salvador and Guatemala – than countries with large pipelines such as Chile.

Conclusion

Angamos proves that it is possible to close an oversubscribed syndication in a tight financing market – as long as sponsors are willing to pay for it.

The pricing is likely to act as a benchmark for Latam power projects for the duration of credit crunch, or at least for the mature markets in the sector.

The emergence of KEIC may see Korean contractors increasingly in vogue among developers, as a large regional project finance pipeline tries to clear the credit crunch blockage from its path.

The project at a glance

Project Name	AES Angamos
Location	Mejillones, II Region, Chile
Description	Greenfield coal-fired power plant with 518MW gross capacity
Sponsors	AES (via subsidiary AES Gener)
EPC Contractor	Posco – two units on a turnkey structure
PPA	Project will supply two BHP Billiton mines via separate PPAs: ■ Escondida mine – 340MW for 18 years ■ Spence mine – 90MW for 15 years
Total Project Value	US$1.34bn
Total equity	US$353.3m
Equity Breakdown	AES Gener – 100 per cent
Total senior debt	US$988.5m

Senior debt breakdown	US$675m 17-year KEIC-covered tranche US$233.5m 17-year uncovered commercial term loan US$80m 5-year LC facility
Senior debt pricing	KEIC tranche: Libor +150bp Uncovered tranche: ■ construction – Libor +205bp ■ years 1-4 – Libor +220bp ■ years 5-8 – Libor +230bp ■ years 9-11 – Libor +240bp ■ years 12-14 – Libor +250bp LC facility follows first five years of uncovered pricing
Debt:equity ratio	72:28
Export credit agency support	KEIC commercial and political cover across part of the debt
Mandated lead arrangers	Fortis – US$100m (all KEIC) Calyon – US$100m (US$69m KEIC; US$31m commercial) HSBC – US$100m (US$69m KEIC; US$31m commercial) Dekabank – US$100m (US$69m KEIC; US$16m commercial; US$15m LC) DZ – US$100m (US$69m KEIC; US$16m commercial; US$15m LC) SMBC – US$100m (US$69m KEIC; US$16m commercial; US$15m LC)
Participant banks	Lead arrangers: ■ Dexia – US$70m (US$50m KEIC; US$20m commercial) ■ KfW – US$60m (US$40m KEIC; US$15m commercial; US$5m LC) Participants: ■ Helaba – US$30m (all commercial) ■ ING – US$20m (all commercial)
Legal Adviser to sponsor	Vinson & Elkins (international) and Claro & Compania (local)
Legal adviser to banks	Shearman & Sterling (international) and Morales y Besa (local)
Date of financial close	22 October 2008