

infrastructure

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Word on the Street

Terry A. Newendorp, Taylor-DeJongh

We find that it is an extremely busy year in structured finance in the energy sector, particularly in global oil & gas, including LNG and petrochemical projects. Taylor-DeJongh is involved in 4 current Atlantic LNG projects; Marathon's Equatorial Guinea LNG Project, Angola LNG (with ChevronTexaco, ExxonMobil, BP, Total and Sonangol), Jamaica LNG Receiving Terminal and QatarGas II in the capacity as advising ECA lenders to that transaction. It is interesting to note that in the US market, because of the surplus of receiving terminal in development for the North American market, "LNG project" to most bankers means a receiving terminal, whereas in the European bank market, "LNG project" generally means a liquefaction plant, probably in West Africa, the Middle East or North Africa. Any way you define it, these large capital intensive highly structured financings are keeping many bankers busy, and especially Taylor-DeJongh.

The level of investment by the international oil companies (IOCs) throughout the West Africa offshore area, is also leading to substantial amount of structured finance activity for such mid stream and down stream projects such as NGLs (natural gas liquids), methanol, ammonia/urea fertilizer plants, and even major industrial facilities fueled by natural gas.

TDJ is involved in 4 current Atlantic LNG projects: Equatorial Guinea LNG, Angola LNG, Jamaica LNG Receiving Terminal and QatarGas II

While we are talking about the gas sector, North America has at least 23 LNG receiving terminals proposed, on top of expansion already underway for 2 of the 4 existing LNG terminals in the US (Elba Island and Lake Charles).

Our analysis of the actual demand for receiving terminals, would indicate that far fewer than the proposed 23 are going to be needed, although it is certainly possible that a couple of these receiving terminal projects would get built and financed with less than 100% capacity link up with an existing LNG production facility. This could lead to opportunity for additional flexibility (one hesitates to speculate on the spot market just yet) from surplus capacity production from certain low cost producers targeting the US gas market in the years beyond 2007-08.

Otherwise, in the North American market, the uncertainty with respect to merchant power plants, and the slow process in getting even foreclosed assets transferred to the lending banks, continues to make for a lot of talk but not particularly very many transactions in the distressed power asset marketplace.

There is some activity taking hold in the acquisition of certain power assets, but the bulk of the "ownership transfer" that has been predicted for over 18 months, is still yet to occur. Nevertheless, structuring acquisition bids has certainly kept Taylor-DeJongh quite active in this marketplace over the past 6 months.

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In the Middle East, at least based upon the extensive level of activity of Taylor-DeJongh, there is a tremendous amount of structured and project financing going on and coming down the pipe in 2004. There continue to be excellent opportunities for project and structured financing in Abu Dhabi in connection with the power and water sector, including the ADWEA divestiture of a portion of its holdings in distribution companies and subsequently in some of the IWPPs that have become operational under their landmark program in the UAE.

In addition, there are substantial petrochemical project opportunities, as witnessed by the extremely successful refinancing of the SADAF (Shell/SABIC polyethylene joint venture) that Taylor-DeJongh and APICORP executed earlier this year, and the Oman projects in the market (Sohar refinery and gas pipeline). In the industrial sector, the Aluminium Bahrain (ALBA) financing has closed, at a remarkable 100% debt financing. This highly structured, extremely efficient multi-tranche financing was advised by Taylor-DeJongh and has efficiently drawn on all appropriate sources of debt finance for the considerable benefit of the borrower ALBA: local bonds, international commercial banks, regional Islamic bank facility, ECA financings and a metal linked hedge - \$1.7 billion at extremely excellent term in the market. Other similar structured financings, such as the Dolphin energy project, look to continue the trend of accessing multiple different pools of capital in a combined financing in order to meet the massive capital needs for some of these projects (Dolphin is a \$3.5 billion gas pipeline from Qatar to Dubai). All of this calls for an extensive amount of structuring and major call on effective financial advisors.

Even North Africa has turned quite busy in the structured finance area, with projects such as the Samir Refinery in Morocco (Taylor-DeJongh and BMCE advising), and, of course,

Sonatrach's proposed LNG program expansion.

In terms of other geographic areas where there is an intense level of structured finance activity, is Russia, where Taylor-DeJongh's joint venture with Vneshtorgbank, the largest balance sheet bank in Russia, is targeting a full range of commercial and investment banking solutions for the metals and mining sector, oil & gas transactions, ports and airports in Russia. Despite the recent problems of the Yukos' CEO, Russia is an area of intense investment interest and extensive requirement for structure financing and is a market that we are extremely active in.

Finally, with respect to Latin America, we continue to have involvement in the restructuring of a number of power projects throughout the region. New investment activity in that area does not appear to be picking up nearly to the extent that we see West Africa, Middle East, and even Russia.