

QGTL (renamed Oryx GTL)

01/02/2003

MENA Oil and Gas Deal of the Year 2002

Qatar Petroleum Corporation (QPC (51%)) and Sasol's (49%) \$700 million Oryx GTL gas-to-liquids project reached commercial close in December. When operational in 2005 it will be the biggest and most technically advanced gas-to-liquids plant in the world. The formality of financial close came the day after the awarding of the EPC contract to Technip-Coflexip on January 30.

Against the backdrop of impending war in the Middle East, the deal structure - devised by QPC advisor Royal Bank of Scotland (RBS) - has proved popular with the banking sector, and Abdulrahman Al-Shaibi, manager of QPC's project finance team was pleased with the deal's reception. Initial expectations were that between seven and 10 banks would participate with a final hold of around \$50 million each. But given such strong banking interest 15 leads came in at below final hold with pro rata underwritings of \$46.7 million each.

The gas-to-liquids complex is to be located in Ras Laffan Industrial City. The project will use approximately 330 million cubic feet per day of lean gas from QPC's North Field as feedstock to produce 34,000 barrels per day of liquids (24,000 bl/day of diesel, 9,000 bl/day of naphtha and 1,000 bl/day of liquefied petroleum gas (LPG)). Cost of that feedstock will be around \$0.50 cu ft, which makes the deal economically feasible

GTL technology was first developed in the 1920s by Franz Fischer and Hans Tropsch. The process involves the conversion of natural gas into synthetic crude oil and other hydrocarbon products. GTL differs from LNG in that the conversion into another product is permanent. LNG also requires the use of expensive purpose-built cryogenic carrier vessels for distribution - GTL products can be taken to market in conventional oil tankers at reduced cost. On the down side, GTL technology is highly complex, initial outlay is high and maintenance can be expensive because of the nature of the cutting edge technology used. Oryx GTL's technology is based on the slurry phase distillate process already developed and commercialised by Sasol in South Africa.

QPC is covering the technology risk during the 3.5 year construction period and for 1.5 years thereafter. During that period the loan margins will be lowered to 75bp. EPC contractor Technip-Coflexip will be responsible for engineering, procurement and construction on the plant.

Stockmarket and industry attitudes are split over GTL. Analysts claim there is no upside for Sasol stock on the deal until the plant is seen to be running. But despite the difficult technology, GTL is widely tipped by oil majors as the way forward for countries looking to use their stranded gas reserves, reduce emissions and diversify into non-gas energy markets. Around 60% of global gas reserves are thought to be stranded (extraction and transportation is either economically or physically not viable). GTL makes gas transportation not only viable, but also uses existing oil storage infrastructure. Similarly, GTL is likely to make it viable for developing nations to put an end to gas flaring - in effect waste-to-energy. According to Michael Crosland, head of advisory at Royal Bank of Scotland, "the banks see this as the first gas-to-liquid project financing and a dry run for future deals."

Lenders are having to take on board the concept of oil market risk (which they are familiar with) for a gas project whilst

taking comfort from the fact that GTL does not have the high distribution costs associated with traditional LNG and gas piped deals. Lead arrangers on the deal include Abbey National Treasury Services, Arab Banking Corporation, Apicorp (joint regional bookrunner); Bank of Tokyo-Mitsubishi (BoTM), BNP Paribas (documentation and facility agent); Credit Lyonnais, Credit Agricole Indosuez (international bookrunner); Gulf International Bank (joint regional bookrunner); HSBC Investment Bank (security trustee); HypoVereinsbank; KBC Ireland (pre-financial close technical); Mizuho Financial Group (pre-financial close insurance); Qatar National Bank, RBS and Sumitomo-Mitsui Banking Corporation.

The project has a tenor of 14 years, although average life will depend on how the repayment schedule unfolds: average life is 10 years under the base case but could push to 12 years if market conditions are not ideal. The same mechanism was used on the \$750 million Q-Chem deal in 1999 which has also clearly influenced pricing of bids on Oryx GTL - all bids came in close to, but under, Q-Chem.

Pricing is the keenest yet for Qatar with a step-up structure of 75bp over Libor during construction; 115bp for the first three years of operation (to year seven); 135bp to year 10; and 150bp to year 14. The deal comes with a balloon mechanism that ranges from 15% to 25% depending on performance during the repayment schedule. A cash sweep mechanism of 50% of distributable dividends is used to prepay the balloon at end of year seven. This rises to 100% of distributable dividends in year 11. Consequently, if Sasol and QPC are expecting dividends, the deal will almost certainly refinance during year seven.

The deal is important for Qatar in terms of monetizing its gas reserves whilst diversifying its product range. QPC was careful in its choice of partner. Sasol developed GTL technology during the apartheid years in a bid for South African fuel self-sufficiency and has a number of plants in South Africa. Sasol is also co-sponsor, along with ChevronTexaco and NNPC, on the other immediate GTL deal in the market - Nigeria's 34,000 barrel per day Escravos project. With six more GTL deals planned in Qatar alone Oryx GTL is not going to be a one-deal wonder. All the oil majors are looking at the technology, with Shell looking particularly aggressive in its pursuit.

Oryx GTL

Status: Commercial close December 2002, financial close January 31, 2003

Sponsors: Qatar Petroleum; Sasol

Description: Development of biggest GTL complex to date

Financial advisor: Royal Bank of Scotland

Total project amount: \$700 million

Pricing: step-up structure of 75bp over libor during construction; 115bp for the first three years of operation (to year seven); 135bp to year 10; and 150bp to year 14.

Lead arrangers: Abbey National; Arab Banking Corporation; Apicorp; Bank of Tokyo Mitsubishi (BoTM); BNP paribas; Credit Lyonnais; Credit Agricole Indosuez; Gulf International Bank (GIB); HSBC Investment Bank; HypoVereinsbank; KBC Ireland; Mizuho Financial Group; Qatar National Bank; Royal Bank of Scotland (RBS); Sumitomo-Mitsui Banking Corporation

Documentation and facility agent: BNP Paribas

International bookrunner: Credit Agricole Indosuez

Regional bookrunners: Apicorp; GIB

Technical bank: KBC

Security Trustee: HSBC

Legal counsel to sponsors: Linklaters

Legal counsel to lenders: Skadden Arps

EPC contractor: Technip-Coflexip

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