

# Peru: US\$3.8bn Peru LNG Project

29/01/2009

The US\$2.05 billion debt financing for the landmark Peru LNG project reached financial close on 26 June 2008, marking the largest foreign direct investment in the country's history.

The US\$3.8 billion plant - the first LNG export facility in Latin America [[Projects Database](#)] - forms part of the Camisea II gas chain. It involves the construction of:

- 4.45 mpta liquefaction plant at Pampa Melchorita, around 170km south of Lima
- two 130,000CM storage tanks
- marine loading terminal 170km south of Lima
- gas-processing plant in the Amazonian town of Malvinas
- LPG and condensate separation facilities at Pisco
- a 408km gas pipeline from Ayacucho in the Andes mountains to Pampa Melchorita to connect to the existing Transportadora de Gas del Peru (TGP) gas pipeline

The Peru LNG sponsor consortium is divided as follows:

- Hunt Oil Company - 50 per cent and operator
- Repsol YPF - 20 per cent and off taker
- SK Energy of South Korea - 20 per cent
- Marubeni Corporation of Japan - 10 per cent

Spain's Repsol has full marketing rights for the LNG off-take, which it will use to supply the Manzanillo import terminal in Mexico.

The facility, which is being constructed by Chicago Bridge & Iron (CB&I), will source 620 million cubic feet per day of gas from the Camisea gas field in the Amazon Rainforest and is slated to go online in 2010.

## The financing

The US\$3.8 billion LNG project closed with a 54:46 debt-equity ratio, with the Peru LNG project consortium injected US\$1.75 billion in equity into the project.

It received financing from five export credit agencies (ECA) and multilateral institutions:

- IFC - US\$300 million loan
- Inter-American Development Bank (IDB) - US\$400 million A-loan and US\$400 million B-loan
- Export-Import Bank of the United States (US Ex-Im Bank) - US\$400 million
- Export-Import Bank of Korea (K-Exim Bank) - US\$300 million
- Sace - US\$250 million

All A-loans and guarantee facilities have a 2024 final maturity while the syndicated loans B-loans mature in 2022.

The US\$400 million B-loan, guaranteed by IDB, was syndicated among seven banks.

MLAs:

- BBVA - US\$80 million
- Société Générale - US\$65 million

Participants:

- Calyon - US\$70 million
- ING - US\$50 million
- Sumitomo Mitsui Banking Corporation (SMBC) - US\$50 million
- Bank of Tokyo-Mitsubishi UFJ - US\$45 million
- Mizuho - US\$40 million

The pricing on the B-loan starts at Libor +75bps prior to operation, rising to:

- Libor +100bps for the first three years of operation
- 112.2bps for years four to six
- 125bps for years seven to nine
- 137.5bps for years 10+

The MLA tranche was structured to accommodate a US\$200 million local bond tranche - to be arranged by Banco del Credito Peru - and launched in 2009.

K-Exim kept US\$165 million of its US\$300 million loan on its own account and guaranteed the remaining US\$135 million, which was taken by:

- BBVA - US\$45 million
- Calyon - US\$45 million
- Societe Generale - US\$45 million

Société Générale acted as financial adviser to the Peru LNG project company while Skadden Arps acted as the international legal adviser and Miranda & Amado Abogados as local adviser. Milbank acted as international legal adviser to the lenders, while Roselló Abogados was the local legal adviser.

Merlin Associates provided independent technical advice to the banks while Aon Risk Services was the independent insurance adviser.

#### Conclusion

The US\$3.8 Peru LNG project marks a significant step towards realising Peru's ambition to become a net hydrocarbons exporter.

The investment will add an average of around 0.5 per cent to the country's GDP during the life of the project, chiefly through job creation and export revenues.

It is not a typical integrated LNG project; neither the upstream or midstream infrastructure are part of the development. Its complex structuring involved over 50 key project documents that had to be negotiated separately over several years with more than 20 counterparties, including:

- seven gas suppliers
- different EPC contractors and suppliers
- a gas transportation company with its own project lenders

The group of senior lenders - a combination of US Exim, SACE, K-Exim, IDB, IFC and commercial banks - is unprecedented for a project finance transaction in Latin America.

The transaction benefitted from record-levels of financing from the development banks; the combined US\$800 million IDB senior lending is the largest A&B loan in the IDB's history and the IFC's US\$300 million financing is the largest A loan it has provided in the region.

The project, as the first LNG export facility in Latin America, had no legal precedent and required the creation of first-of-its-kind legal and regulatory framework to facilitate the plant's development, including an investment agreement and a separate tariff regime for the transportation of the plant's gas.

In addition, despite the sheer scale and complexity of the development, the diversity of the sponsor and lender groups - some of whom had never worked in Peru or on an LNG project - and the lack of precedent for financing a deal of this nature, the project reached a swift financial close; financing was signed just 13 months after hitting the debt market.

The project at a glance

|                               |                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|-------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Project Name                  | Peru LNG                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Location                      | Pampa Melchorita, around 170km south of Lima, Peru                                                                                                                                                                                                                                                                                                                                                                                      |
| Description                   | 4.45 mpta liquefaction plant at Pampa Melchorita, around 170km south of Lima<br>two 130,000CM storage tanks<br>marine loading terminal 170km south of Lima<br>gas-processing plant in the Amazonian town of Malvinas<br>LPG and condensate separation facilities at Pisco<br>a 408km gas pipeline from Ayacucho in the Andes mountains to Pampa Melchorita to connect to the existing Transportadora de Gas del Peru (TGP) gas pipeline |
| Sponsors                      | Hunt Oil Company - 50 per cent<br>Repsol YPF - 20 per cent<br>SK Energy - 20 per cent<br>Marubeni Corporation - 10 per cent                                                                                                                                                                                                                                                                                                             |
| Operator                      | Hunt Oil Company                                                                                                                                                                                                                                                                                                                                                                                                                        |
| EPC Contractor                | Chicago Bridge & Iron                                                                                                                                                                                                                                                                                                                                                                                                                   |
| Off-take                      | Repsol has full marketing rights for the LNG off-take, which it will use to supply the Manzanillo import terminal in Mexico                                                                                                                                                                                                                                                                                                             |
| Total Project Value           | US\$3800 million                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Total equity                  | US\$1750 million                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Total senior debt             | US\$2050 million                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Senior debt breakdown         | IFC - US\$300 million<br>IDB - US\$400 million A-loan and US\$400 million B-loan<br>US Ex-Im Bank - US\$400 million<br>K-Exim Bank - US\$300 million<br>Sace - US\$250 million                                                                                                                                                                                                                                                          |
| Senior debt pricing           | Pre-operation: Libor +75bps<br>First 3 years of operations: Libor +100bps<br>Years 4 - 6: Libor +112.2bps<br>Years 7 to 9: Libor +125bps<br>Years 10+: Libor +137.5bps                                                                                                                                                                                                                                                                  |
| Debt:equity ratio             | 54:46                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| Export credit agency support  | US Ex-Im Bank - US\$400 million<br>K-Exim Bank - US\$300 million<br>Sace - US\$250 million                                                                                                                                                                                                                                                                                                                                              |
| Mandated lead arrangers       | BBVA<br>Société Générale                                                                                                                                                                                                                                                                                                                                                                                                                |
| Participant banks             | Calyon<br>ING<br>Sumitomo Mitsui Banking Corporation<br>Bank of Tokyo-Mitsubishi<br>Mizuho                                                                                                                                                                                                                                                                                                                                              |
| Legal Adviser to sponsor      | Skadden Arps                                                                                                                                                                                                                                                                                                                                                                                                                            |
| Financial Adviser to sponsor  | Société Générale                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Legal adviser to banks        | Milbank                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Isurance adviser to the banks | Aon Risk Services                                                                                                                                                                                                                                                                                                                                                                                                                       |

Technical adviser to the banks  
Date of financial close

Merlin Associates  
26 June 2008

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