

PROJECT ABSTRACT

Project number	PE-0216
Project name	Graña & Montero Bond Guarantee
Country	Peru
Originators	G&M S.A.A. and subsidiaries
Total bond value	US\$50.0 million
IDB participation	Up to US\$10.0 million
Total Guarantee	Up to US\$20.0 million
Department	Private Sector Department
Status	Approved
Date	May 14, 2003

Project Description

- The G&M Bond Guarantee transaction is a partial credit guarantee for a whole business securitization bond for certain subsidiaries of Graña y Montero S.A.A. (G&M). IDB and FMO will guarantee up to US\$10 million each for a bond issue in the amount of US\$50 million by Graña & Montero S.A.A., a leading engineering and contractor in Peru. The bond will be issued through a securitization trust formed under applicable Peruvian Law. The bonds will be backed by future flows of the G&M non-construction subsidiaries (GMD, GMP, GMI, CONCAR). These subsidiaries provide services in infrastructure concessions, fuel and oil services, and IT and engineering services. The transaction will support G&M's investment program over the next five years. The investment program includes the execution of existing backlog work contracts, investment in computer equipment for GMD contracts with Peruvian institutions, investment in its Peruvian concession program, and the upgrade and maintenance of terminal facilities to comply with environmental and safety requirements.
- The originator is the Graña & Montero Group, the leading engineering services and contracting company in Peru. Since its establishment in 1933, it has a long and successful history of sound technical and commercial performance in the local market place. G&M is involved in key projects related to the transportation, mining, energy, gas and petroleum sectors, which will have an important contribution to economic growth of Peru.
- The bond size is US\$50 million with a tenor of 8 years and will be placed with local institutional investors through a public offering. IDB, together with the Netherlands Development Finance Company (FMO), will provide a partial credit guarantee for a maximum of 40% of the face value of the bond on a several basis. This guarantee is intended to raise the rating of the bond up to a target level of AA-/AA, as required by the local institutional investors. The arrangers of this transaction are Ernst & Young (Peru) and Banco Internacional del Perú (Interbank).

Project Benefits

- This bond will be the first transaction with a partial credit guarantee from an international AAA rated multilateral institution that will be issued in the Peruvian capital markets. Moreover, this process could help to set a precedent for future credit enhancement transactions in the local and regional capital markets by: (i) providing a benchmark for local investors; (ii) increasing local investors' understanding of these types of structured transactions; and (iii) allowing local rating agencies to apply newly developed criteria for "partial credit guarantees", which is distinct from

the 100% wrap commonly provided by monoline insurers.

IDB Participation

- The project is consistent with the Bank's strategy in Peru through its Financial Sector Reform II (PR-2415) to strengthen the Peruvian financial system and to assist the development of local capital markets. In addition, this project is consistent with local capital market development initiative presented in documents GN-2196-1 and GN-2196-2 "Review of the Use of Partial Credit Guarantees for the Private Sector" dated February 19, 2002.
- IDB's participation impacts both capital market development and also development for local infrastructure. Through this transaction, the Bank will increase accessibility to the capital markets for a local issuer, who would otherwise have limited access to the capital markets. Further, this transaction will provide an innovative long-term fixed income security for local investors who have restricted access to long-term securities. This bond will also be the first capital market transaction for a private sector issuer, with a partial credit guarantee from an international AAA rated multilateral institution that will be issued in the Peruvian market. Also, by facilitating access to long term financing for G&M, the transaction would enhance the strength of a key player in infrastructure development in the Peruvian economy.

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