IPP PROCUREMENT PROGRAMMES

JUNE 2020

mineral resources & energy
Department:
Mineral Resources and Energy
REPUBLIC OF SOUTH AFRICA

EVALUATION OF SELLER REFINANCING NOTICES

REFINANCING PROTOCOL / GUIDELINE

The Republic of South Africa

Department of Mineral Resources and Energy

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GUIDANCE NOTE 1

27 JULY 2020

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1. **Introduction**

1.1. The Department of Mineral Resources and Energy issued the Refinancing Protocol dated June 2020 ("the Protocol").

1.2. This Guidance Note is issued to clarify/amend certain provisions of the Protocol.

1.3. Unless otherwise expressly stated, or the context otherwise requires, words and expressions defined in the Protocol shall bear the same meanings in this Guidance Note.

2. **Purpose of the Guidance Note**

The purpose of this Guidance Note is to:

2.1. Provide guidance on the CPI indexation rate applicable to Refinancings;

2.2. Provide for inclusion of Letters of Credit introduced in substitution of reserve accounts;

2.3. Deal with the utilisation of the Base Case IRR as contained in the Financial Close Model and the exceptions thereto; and

2.4. Deal with the deletion of Clause 4.1.2(a)(ii).

3. CPI Indexation Rate

3.1. Given the significant changes in the South African economy and the consequential changes in the Consumer Price Index ("CPI") rate the historic CPI bench mark of 5.7% (five comma seven percent) per annum is no longer considered appropriate for the calculation of the Refinancing Gain.

3.2. For the purpose of calculating the Refinancing Gain IPPs must use a CPI rate of 4.5% (four point five percent) per annum throughout the entire period modelled in their post-Post Refinancing Model.

4. Inclusion of Letters of Credit

4.1. Letters of Credit obtained in substitution for the release of cash balances from reserves accounts be it debt service cover or maintenance forms part of the scope of a Refinancing as outlined in the Protocol.

5. Base Case Equity IRR

5.1. The Department's view remains that the Base Case Equity IRR as agreed at Financial Close remains, in general, as the most appropriate discount rate to be used for the purposes of applying the Protocol.

5.2. The utilisation of the Base Case Equity IRR is in line with generally accepted practise based largely upon National Treasury's work within the ambit of Standardised PPP Provisions with further aspects adapted from the Guidance Notes issued by the United Kingdom's HM Treasury.

5.3. The Department is however willing, given the number of secondary transactions concluded, to consider the application of a revised Equity IRR where one or more secondary transactions has taken place, some or all of the original shareholders have been replaced and the new Equity IRR, applicable to the most recent transaction can be evidenced through the applicable secondary transaction Financial Model.

5.4. Confirmation and evidence of the revised Equity IRR must be provided in the model audit letter to be submitted as part of the Refinancing Notice.

5.5. The revised Equity IRR derived in accordance with para. 5.3 is only to be used for the purposes of calculating the Refinancing Gain in respect of IPPs who concluded secondary transactions.

5.6. The Base Case Equity IRR remains applicable for all other purposes as defined in the Implementation Agreement.

5.7. For the avoidance of doubt any change of this nature must not result in an increase in contingent liabilities over and above the level established as at Financial Close.

6. Deletion of Clause 4.1.2(a)(ii)

6.1. Clause 4.1.2(a)(iii) stating "Without consideration to the impact, if any, of any secondary transaction in respect of Equity executed by the Sellers shareholders" is deleted from the Protocol;

6.2. Clause 4.1.2(a)(iii) to be renumbered as clause 4.1.2(a)(ii).

END