



Funding Options?

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Agenda

1. Global Implications
2. Local
3. Back to basics
4. Way forward

What is the global situation currently?

Turbulent times

Virtually all industries and geographies have been impacted

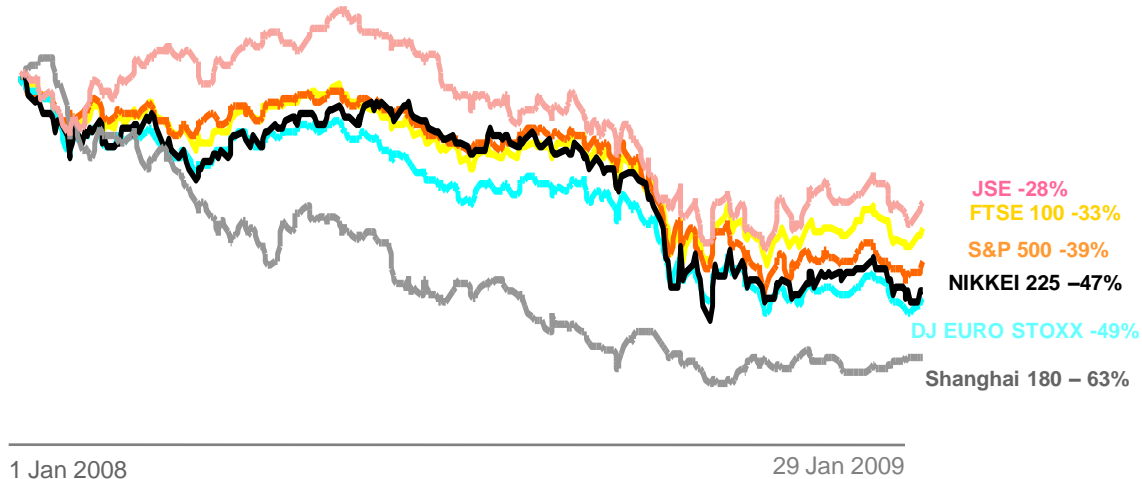
- ▶ Lack of credit
- ▶ Declining asset valuations
- ▶ Rising defaults
- ▶ New risks for all entities, from financial services to manufacturers, retailers, not-for-profit etc.

Unprecedented number of bankruptcies, take-overs and government interventions

Extraordinary volatility in global stock markets and currencies

Massive refinancing overhang of bank debt in the market - global markets will need to absorb \$1 trillion of refinancing in the next 3 years (with the UK's top 350 companies needing to refinance £200 billion over the next 5 years)

Stock market decline



Government interventions helped stabilize the stock markets, highlighting the severity of the fall in investor confidence

How did it get there?

Long period of economic growth, low interest rates, strong residential real estate market, high levels of liquidity

Global exposure beyond the US through investment in funds or structured products (Europe, Asia)

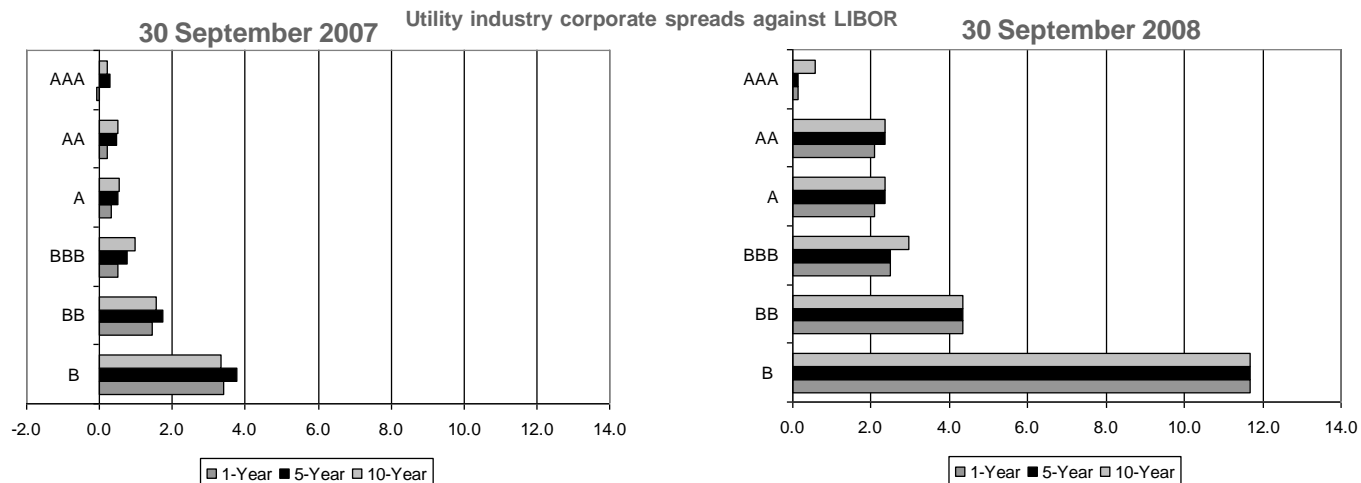
- ▶ Boom in sub-prime originations with risky affordability and payment options
 - ▶ Aggressive competition among mortgage originators with low or no documentation loans and low start adjustable rates
 - ▶ Affordability structure and terms 'pushed the envelope'
- ▶ Consumer/corporate debt and leverage expanded significantly
 - ▶ Move towards using asset value instead of cash flow to build leverage
- ▶ Rapid growth and widespread use of mortgage-backed securities and other structured vehicles
 - ▶ Complex credit markets with several levels of securitization; strong investor demand chasing yield; rating agencies willing to rate complex instruments
- ▶ Credit agencies began downgrading certain asset-backed securities
 - ▶ Growth in illiquid, infrequently-traded assets led to uncertain valuations
- ▶ Credit default swaps
 - ▶ "Interlink" risks among the Financial institutions; unknown trading volume and pricing methods, with the market estimated at more than global GDP

What this is producing in the market

- ▶ Asset write downs
- ▶ Lack of confidence in counter-parties
- ▶ Liquidity problems
- ▶ Diminished access to credit
- ▶ Decline in asset values

How has the current global financial crisis impacted utilities around the world?

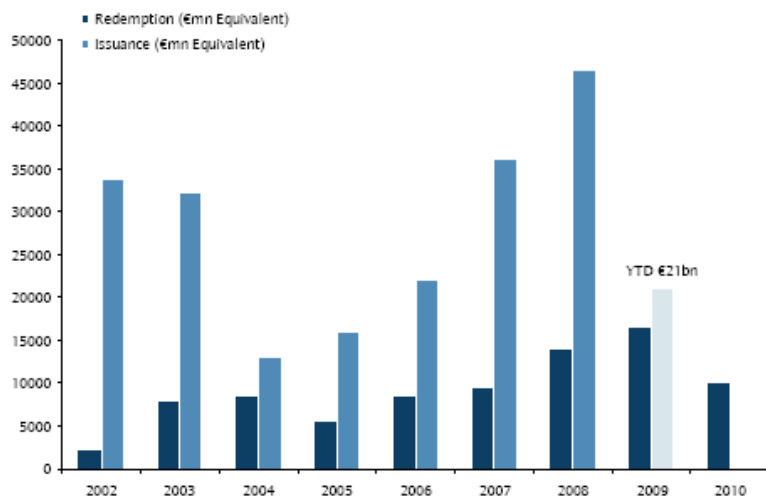
- ▶ Impact on electricity demand – demand is reducing, but extent is limited, so far <2%
- ▶ Access to credit is tight
 - ▶ Banks “closed for business”, fewer debt / equity investors
 - ▶ Commercial paper markets have remained open to utilities, but credit is becoming much harder to obtain (BBB or better) and at much higher cost
 - ▶ Utilities are having to reconsider how they raise finance and their use of banks as financial intermediaries.
- ▶ Cost of finance has increased significantly (when available)



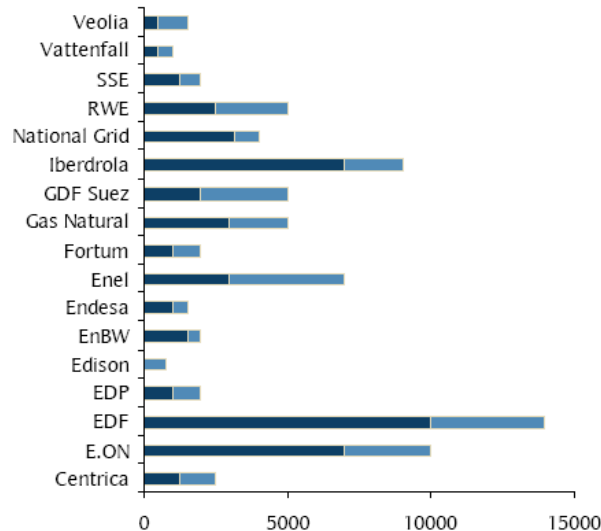
Despite market turmoil, commercial paper markets have remained open to utilities

- ▶ According to Barclays Capital, European utilities issued new debt of €46.5 Billion in 2008 – mainly utilities with strong balance sheets. In Q4 2008, debt issuance totalled over €19 Billion (mainly EDF €10 Billion to finance BE acquisition)
- ▶ Anticipation is that 2009 will be more challenging than 2008, and utilities and investors are focusing on how to secure refinance requirements

Utility issuance and redemptions, €mn



Estimated 2009 issuance range by name €mn

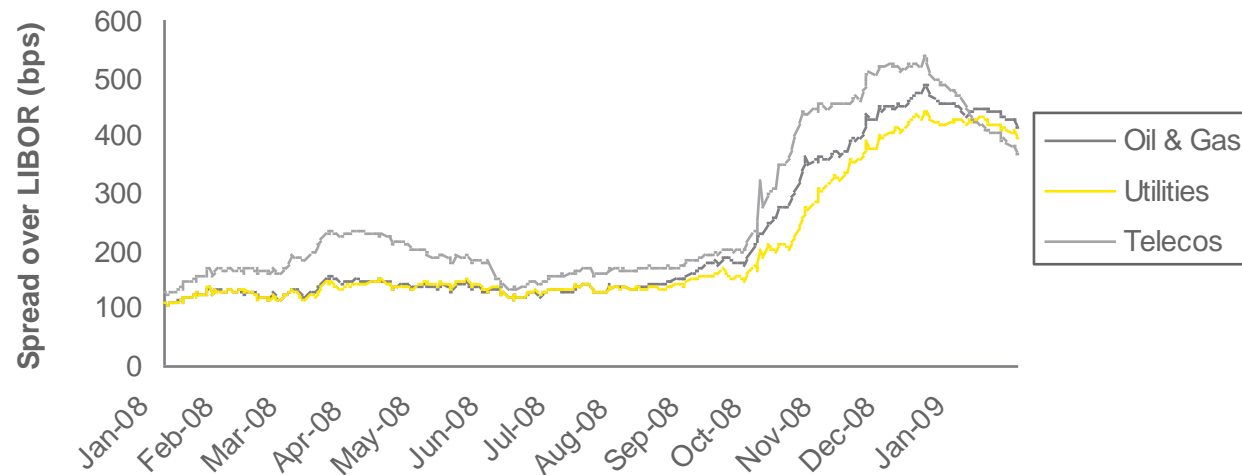


Source – Barclays Capital

.....although pricing has increased significantly in the latter part of 2008


- ▶ Spreads widened very quickly in October 2008, following the collapse of Lehman Brothers, and have maintained an inflated level
- ▶ Utilities have remained resilient but spreads on telecoms have fallen rapidly to below those on utilities over the last month

Spread of Benchmark Indices Relative to USD LIBOR



Source: Bloomberg

How has the crisis impacted South Africa ?

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- ▶ South African exchange controls and banking regulations have resulted in a number of South African banks being largely protected from the world's banking crisis
 - ▶ However, the world has become increasingly interconnected, and many of South Africa's key trading partners have been significantly impacted, which in turn impacts the South African economy
 - ▶ South African GDP growth fell from 4.2% (Q2) to 2.0% (Q4) in 2008
 - ▶ The Manufacturing Volume of Production fell from 5.9% (Q2) to 3% (Q4) in 2008
 - ▶ Unemployment rose by 0.2% from Q2 to Q3 in 2008
 - ▶ CPIX reached a 10 year high level (11.3% in December 2008, after peaking in August 2008 at 13.6%)
 - ▶ Equity markets fell to 2006 levels (fell 28% in 2008)
 - ▶ Gold and forex reserves rose 2.7% in December (SA's reserves have climbed 30% in the past couple of years)
 - ▶ Rand dropped to 10.13 to the US dollar (November 2008), levels not seen since 2002
 - ▶ Interest rates have been cut by 50 basis points to 11.5% in December 2008

Source: Bureau for Economic Research

What Makes A Project Bankable? (1)

1. A Strong and Transparent Enabling Framework

- ▶ A strong legal system with predictable and timely dispute resolution
- ▶ Clear sectoral regulation, based on transparency and independence
- ▶ A stable Political environment, particularly relating to tariffs etc

2. A good / needed project with:

- ▶ A proven social and economic need with strong willingness to pay and strong interest
- ▶ Appropriate sizing and phasing
- ▶ Proven technology

3. A Reliable Public Party

- ▶ Ability to make decisions swiftly to act under contract (governance, non-politicization)
- ▶ Ability to sustain project-related undertaking, eg creditworthiness
- ▶ Adequate involvement of public authorities to manage social and political impact of the project

What Makes A Project Bankable?(2)

1. An Experienced Private Party (Sponsor)

- ▶ Ability to sustain project-related undertaking – track record and solid financials
- ▶ Interest in the success of the project – risk / reward\

2. A Clear Flexible Contract

- ▶ Clear and stable rules
- ▶ Door open for adjustments in the course of the contract, including triggers, methods and process
- ▶ Market benchmarks to allow for flexibility, eg Termination, Force Majeure, Arbitration, Economic-Financial equilibrium

3. A Smart Financing Structure

- ▶ Efficient management and allocation of risks to parties best able to manage them
- ▶ Eliminate FOREX risk to the greatest extent possible
- ▶ Market benchmarks, eg Security Package and O&M and EPC Contracts

Who is out there to finance?

- ▶ DFIs, Multilateral-Organisations, Investment Banks
- ▶ Developers, IPPs
- ▶ Private Equity Funds
- ▶ Infrastructure Funds

Who is out there to Finance

- ▶ Developmental Financial Institutions (DFI's)
 - ▶ International
 - ▶ European Investment Bank (EIB), International Finance Corporation (IFC), Agence France de Development (AFD), African Development Bank (AfDB)
 - ▶ Regional
 - ▶ Development Bank of Southern African (DBSA), Industrial Corporation of South Africa (IDC), Development Bank of Namibia (DBN)
- ▶ Commercial Banks
- ▶ Regional and National
 - ▶ ABSA, NedBank, Standard Bank, Rand Merchant Bank, Investec
- ▶ Developers
 - ▶

What does this mean for local financing?

- ▶ More deals chasing less money
- ▶ Investment criteria may change regularly
- ▶ Only institutions with appetite for risk capital are active in the market.
- ▶ The traditional model of putting a IM together and then talking to potential suitors at later stage needs to be relooked at.
- ▶ Timelines need to be shortened and all relevant stakeholders need to be involved earlier than usual.

Indicative Timing/Process in Acquiring Financing via Project Finance Option

