

Private & Confidential

**Proposal to provide 10-year
financing**



February 2019

ANNEXURE 1

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PRE-FINANCING PROPOSAL

1. Background

- Zimbabwe has a significant backlog of infrastructure and related projects that have not been financed due to lack of medium to long term funding. Access to medium/long term financing for infrastructure projects allows the cash flow generation profile of the project to be matched to the financing repayment period
- Zimbabwe is also facing challenges to access foreign currency which has impacted Government's ability to provide basic critical goods and services consistently
- Most financing structures that are currently under consideration have short maturity profiles and are therefore not optimal for deployment into the infrastructure projects that require the bulk of the funding.
- The objective of this proposal is to raise \$600m offshore and \$600m locally, as long-term financing for identified development projects by Government.

2. The Proposal

The structure proposed below resolves some of the challenges outlined above:

- a) Sotic enter into a take or pay arrangement with NOIC
- b) The key terms of the take or pay will include the following, amongst other terms:
 - i. Sotic will guarantee a minimum throughput of 130 million litres of petroleum products per month
 - ii. Sotic will pay an agreed throughput fee as part of the long-term funding structure
 - iii. The throughput commitment will be for 10 years
 - iv. **NOIC will continue to own and manage the pipeline as is currently the case**
 - v. NOIC will receive payments from traders through escrow accounts, and proceeds will be remitted to Sotic.
- c) On the back of the throughput agreement, Sotic will make a pre-payment to NOIC as follows:
 - i. Sotic will prepay for 10 years of pipeline usage
 - ii. The pre-payment amount will be approximately \$1.2 billion (with \$600m being paid from onshore and \$600m being paid from offshore)

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- iii. The amount pre-paid will be self amortising over 10 years through Sotic's usage of the pipeline
- d) Government will therefore be able to access 10-year financing through NOIC for identified development projects.
- e) Sotic anticipates raising \$600m in foreign currency of which 50% will be allocated to SOTIC, and the other 50% allocated to RBZ to support other government priority projects.
- f) The funds raised from offshore will be utilized by Sotic for critical national projects as follows:

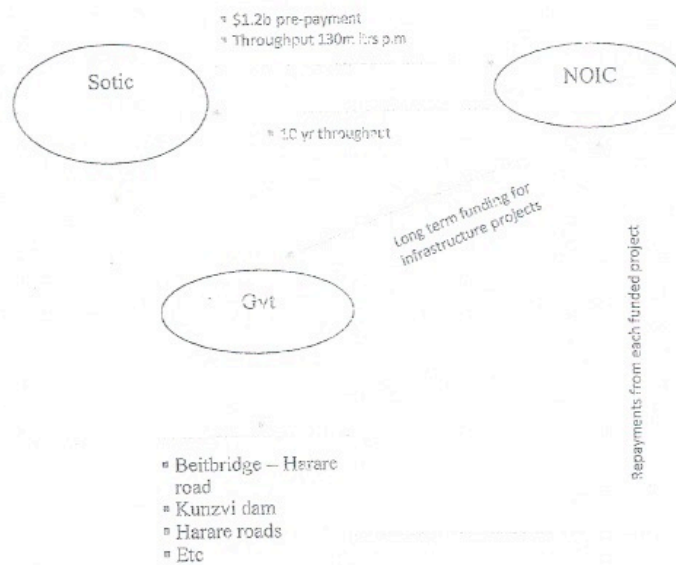
Project	Amount	%	Impact
SOTIC Foreign currency generating capital projects	\$300m	50%	The country will generate an additional \$400m in foreign currency annually
RBZ Priority Government Projects	\$300m	50%	Government priority needs requiring foreign currency (not necessarily basic goods)
Total	\$600m	100%	

- g) As part of the offshore financing, Sotic will secure funding commitment for NOIC's monthly obligation to CPMZ.

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h) A summarized schematic of the structure is set out below:

Stage 1 – Local Prepayment for Capital projects



3. What the Proposed Structure Achieves

The proposed structure achieves the following:

- Government will secure long term funding with a maximum tenure of 10 years. Government has been unable to secure such long-term financing in the last 20 years
- Critical infrastructure projects will be financed in a sustainable way
- Nostro funding will be secured for part of the facility, thereby ensuring other key needs that require foreign currency are met
- Investment will be made into key projects that have already been identified, which will result in more than \$250 million in additional foreign currency being generated annually by the country

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- e) Jobs will also be created through the financing of capital projects
- f) NOIC's monthly obligations to CPMZ will be guaranteed, thereby correcting the current arrears position

4. Implementation

Sotic is ready to implement this structure immediately. We propose the following steps:

- Execution of attached term sheet
- Securing any required approvals (all internal to Government)
- Execution of relevant agreements and documents
- Pre-payment