**NATIONAL ASSEMBLY**

**WRITTEN REPLY**

**PARLIAMENTARY QUESTION NO 1300**

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**Dr M J Cardo (DA) to ask the Minister of Economic Development:**

What (a) political and (b) commercial considerations led the Industrial Development Corporation (IDC) to strike a restructuring deal with a certain company at a reduced interest rate of prime plus 2% given that the specified company defaulted on its first R250 billion loan to the IDC?                                                             NW1448E

**REPLY**

I have been furnished with a statement by the CEO of the Industrial Development Corporation, Mr Geoffrey Qhena, on the matters covered by the question.

The statement by the IDC follows:

“(A) There were no political considerations associated with the restructure;

(B) The restructuring was done purely on commercial terms as set out below;

(C) Point of correction – the amount is R250 million and not R250 billion.

The original R250 million loan is expected to be fully repaid, as R137,5 million has already being received to date and R112,5 million is outstanding as at 30 April 2016. The next instalment of R37,5 million is payable by end of June 2016, with intention of the full capital being repaid by 31 March 2018.

The interest of R257 million being from 14 April 2010 to 31 May 2014 (the date on which the amount converted was determined) was converted into shares when the entity was listed (at a 10% discount to the listing price).

The additional interest (after conversion) of prime plus 2% will be repaid as a lump sum on 31 March 2018.

The risk profile of the company at the time of our initial investment compared to the risk profile of the company at the time of restructuring differed materially. At the time of the acquisition, the mine was under care and maintenance and the company was not generating any revenue which needed to be brought back into production.  The turnaround strategy of the company was based on an improvement in operational efficiencies and productivity. The IDC initially viewed the asset as a pure uranium play (the gold potential was not considered at the time due to level of accuracy of the information) compared to the time of restructuring, there was a demonstrable open cast gold reserve with a proven operationalrecord. At the time of the acquisition, the “perceived” risks were higher, hence the equity type return of 10% Real After Tax Internal Rate of Return (RATIRR).

Our pricing mechanism always takes into account both the level of risk and developmental impact and the repayment profile mirrors the anticipated cash flow generation of the asset/project.

At the time of the restructuring, IDC demanded that the company part settle R100 million of the original facility before the restructuring of the facility. In addition the main shareholder had injected an additional R293 million and the company was generating positive cash flows from the gold production concomitant with now a demonstrable operational track record from the gold production. Moreover, the IDC facility was reduced by R100 million and the balance of the original capital continued to be secured by the assets of the company, giving the IDC a security cover of more than one times – hence the prime plus two percent post the restructuring. It is not the first time that the IDC has done a restructuring of this nature where a debt facility is converted into equity. Ordinarily both the interest and capital is converted into equity. The difference in this instance is that only the interest portion was converted retaining the capital for it to still be repaid thus putting us in a better position.”

MG Qhena, 23 May 2016

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