

## **AEP Energy Africa Limited**

Incorporated in the Republic of South Africa

(Registration number: 2017/024904/06)

JSE share code: AEY

ISIN: ZAE000241741

("AEP" or "the Company")



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## **ACQUISITION OF VIABLE ASSET, SPECIFIC ISSUE OF SHARES FOR CASH AND WITHDRAWAL OF CAUTIONARY ANNOUNCEMENT**

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### **1. INTRODUCTION**

Further to the cautionary announcement dated 13 December 2017 and subsequent renewal of cautionary announcements, the last of which was dated 12 June 2018, the board of directors of AEP ("the Board") is pleased to advise shareholders that AEP has entered into an agreement ("the Sale and Purchase Agreement") with First Independent Power (Kenya) Limited ("the Seller") and Global Power Generation Sociedad Anónima (as "Guarantor" in certain circumstances) to acquire 100% of the issued share capital of IberAfrica Power (East Africa) Limited ("IberAfrica"), together with all shareholders' claims against IberAfrica, for a maximum aggregate purchase consideration of US\$61 569 066 (being ZAR835 492 226 at a ZAR/USD exchange rate of ZAR13.57/USD1 at the date of this announcement ("the Exchange Rate")) ("the Transaction").

### **2. JSE LISTINGS REQUIREMENTS PERTAINING TO THE TRANSACTION**

The Transaction will qualify as an acquisition of a viable asset pursuant to the special purpose acquisition company ("SPAC") requirements of the JSE Limited's ("JSE's") Listings Requirements ("Listings Requirements") and will, in terms of the Listings Requirements, be treated as a category 1 transaction. The Company will no longer be regarded as a SPAC following implementation of the Transaction.

### **3. OVERVIEW OF IBERAFRICA AND THE KENYAN POWER MARKET**

IberAfrica owns and operates the 103.57MW diesel-fired Nairobi South Power Plant ("NSPP") comprising two units with power generating capacity of 51.07MW ("NSPP 1") and 52.50MW ("NSPP 2"), respectively. IberAfrica has an existing power purchase agreement ("PPA") with Kenya Power & Lighting Company Limited ("KPLC") for NSPP 1 and NSPP 2. KPLC is the sole utility licensed to purchase and distribute grid connected electricity in Kenya. KPLC is listed on the Nairobi Stock Exchange, with 50.1% of its shares held by the Government of Kenya.

IberAfrica accounts for approximately 5% of the total installed electricity generation capacity in Kenya. It is located in Nairobi South, a major industrial, middle and low income residential, zone in Kenya. Nairobi accounts for approximately 50% of all electricity consumed in Kenya with Nairobi South accounting for approximately 50% of Nairobi's electricity consumption. IberAfrica's location in Kenya's highest electricity demand regions makes IberAfrica strategic to Kenya's and Nairobi's electricity security.

IberAfrica's PPA is structured on a plant availability basis, comprising of plant availability revenues, electricity generation revenues, and fuel cost recovery revenues, all of which are denominated in US dollars. The revenues derived from plant availability comprise the majority of IberAfrica's revenues in normal years, meaning that IberAfrica's income is relatively predictable year on year, provided that its generating capacity is well maintained and is kept within contracted parameters. Since start up in 1997, IberAfrica has maintained plant availability at levels in excess of 90%, well above the 85% minimum

availability stipulated in its PPA. In abnormal years, where Kenya's hydro capacity has been diminished by drought, IberAfrica may earn more in energy generation revenues, but always in addition to plant availability revenues. The company's predictable revenues translate into predictable earnings before interest, tax, depreciation and amortisation ("EBITDA") since asset depreciation and operating and maintenance costs are easily measured and strictly controlled, and any fuel costs incurred are directly reimbursed by the company's sole customer, KPLC.

#### **4. AEP'S STRATEGY AND RATIONALE FOR THE TRANSACTION**

As stated in AEP's Prospectus dated 9 May 2017, AEP's vision is to significantly increase access to, and use of, a variety of clean energy products by African countries, their industries and their citizens. The Company intends to achieve this by owning and operating a network of energy assets such as power plants, fuel terminals and distribution logistics which produce, transport, store or handle for profit, under long-term supply contracts, products such as electricity, steam, biomass and natural gas.

The Transaction, if implemented, presents an opportunity for AEP to convert the currently diesel-fired engines of NSPP1 and NSPP2 to run on Liquefied Natural Gas ("LNG"), thereby enhancing long-term return on investment whilst taking a first step towards entering the LNG value chain, in line with its strategy as outlined above.

#### **5. INFORMATION RELATING TO THE SELLER**

The Seller is owned and controlled by the Guarantor, which is an incorporated joint venture between Gas Natural SDG Sociedad Anónima (trading as Gas Natural Fenosa) and the Kuwait Investment Authority (through its subsidiary Wren House Infrastructure Management Limited, a company incorporated in the United Kingdom).

#### **6. FUNDING ARRANGEMENTS AND SPECIFIC ISSUE OF SHARES FOR CASH**

The Transaction and related costs will be funded from a 12-month loan facility with Barak Fund SPC ("the Barak Facility"), access to which is conditional on, *inter alia*, the Transaction going unconditional.

It is anticipated that the Barak Facility is to be repaid from the proceeds of a specific issue of shares for cash, authority for which is to be sought at the general meeting of shareholders convened to approve the Transaction ("the Specific Issue"). In terms of the Specific Issue, the Board will seek authority to issue new AEP shares for the purposes of raising up to the South African Rand equivalent of US\$100 million. Further details in respect of the Specific Issue will be announced in due course. The proceeds of the Specific Issue will partly be used to repay the Barak Facility, with the balance earmarked to part-fund further acquisitions, as and when identified, in furtherance of AEP's stated strategy.

#### **7. SHAREHOLDER SUPPORT**

AEP has received support from the Public Investment Corporation SOC Limited ("the PIC"), which holds approximately 49% of the AEP shares in issue, in respect of:

- a shareholder vote in favour of the requisite resolutions to give effect to the Transaction; and
- the proposed equity issue to repay the bridge financing facility as mentioned above.

#### **8. CONDITIONS PRECEDENT**

The Transaction remains subject to fulfilment and/or, where applicable, waiver, of the certain conditions precedent, including, *inter alia*:

- written approval for the implementation of the Transaction from the Kenyan Competition authorities;
- written consent for the implementation of the Transaction from the Energy Regulatory Commission of Kenya;

- written consent for the implementation of the Transaction from KPLC in terms of the lease agreement with IberAfrica;
- submission by the Seller of a request to the Government of Kenya to issue a letter of support in favour of IberAfrica as an independent power producer;
- approval of the Transaction by the Financial Surveillance Department of South African Reserve Bank; and
- approval of the Transaction by AEP shareholders at a general meeting to be convened by AEP.

AEP, the Seller and Guarantor have committed to engage with the relevant authorities and other stakeholders in order to ensure the conditions are fulfilled as soon as possible

## **9. OTHER ASPECTS OF THE SALE AND PURCHASE AGREEMENT**

### **9.1 Effective date**

The effective date of the Transaction will be the first business day that is 15 business days after the date on which all conditions precedent to the Transaction are fulfilled and/or, where applicable, waived (“the Effective Date”).

### **9.2 Retention amount**

AEP shall be entitled to retain \$1 569 066 (R21 292 226 at the Exchange Rate) of the purchase consideration from the Seller, to be held in escrow for a maximum period of 24 months from the Effective Date, as security for any amounts which may become payable by the Seller to AEP as a result of any breaches by the Seller of its warranties and indemnities.

### **9.3 Warranties and Indemnities**

Warranties and indemnities in favour of AEP that are standard for agreements of this nature are contained in the Sale and Purchase Agreement.

## **10. FINANCIAL INFORMATION RELATING TO THE TRANSACTION**

IberAfrica reported audited revenue of US\$60 million, EBITDA of US\$23.2 million and net profit after tax of US\$5.8 million for the 12 months ended 31 December 2017, net assets of US\$28.8 million and shareholder indebtedness of US\$35.2 million as at 31 December 2017, being the last financial year-end of IberAfrica.

The above financial information is based on IberAfrica’s audited Annual Financial Statements for the financial year ended 31 December 2017, which have been compiled in accordance with International Financial Reporting Standards and the Kenyan Companies Act 2015 in terms of accounting policies consistent with those of AEP.

## **11. CIRCULAR TO SHAREHOLDERS**

A circular containing, *inter alia*, additional information relating to IberAfrica, further details in respect of the Transaction, details of the proposed Specific Issue and a notice of general meeting to be convened for the purpose of approving the Transaction and the Specific Issue, will be dispatched to shareholders in due course.

## 12. ARTICLES OF ASSOCIATION OF IBERAFRICA

In compliance with section 9.16 of the Listings Requirements, AEP undertakes to ensure that nothing contained in the articles of association of IberAfrica will frustrate AEP in any way from compliance with its obligations in terms of the Listings Requirements or relieve AEP from compliance with the Listings Requirements.

## 13. WITHDRAWAL OF CAUTIONARY ANNOUNCEMENT

Shareholders are advised that, as a consequence of the details disclosed in this announcement, caution is no longer required to be exercised by shareholders when dealing in the Company's securities.

26 June 2018

Johannesburg

**Corporate Advisor and Designated Advisor:**



Questco Corporate Advisory Proprietary Limited

**Legal Advisor:**



Bowman Gilfillan Inc.

**Joint Financial Advisors:**



LiquidAfrica Proprietary Limited

A M & ASSOCIATES

THE DAVIDWORTH GROUP

AM & Associates