Department of Finance

DRAFT TECHNICAL SPECIFICATIONS FOR COMMENT ONLY

South Africa will be issuing the inflation-linked bond during the current fiscal year. The proposed specifications are as follows:

TECHNICAL SPECIFICATIONS FOR CPI BONDS ISSUED BY THE REPUBLIC OF SOUTH AFRICA

1. INTRODUCTION

This document is intended only to describe certain technical specifications pertaining to a possible issue of “CPI-linked” bonds by the Republic of South Africa. This description is intended only to solicit comments from participants in the South African bond market, and does not constitute any binding obligation whatsoever upon the Republic of South Africa.

2. INTERPRETATION

In these specifications, unless inconsistent with the context, the following expressions shall have the following meanings:

“BESA” means the Bond Exchange of South Africa, a financial exchange licensed in terms of the Financial Markets Control Act, 1989;

“Bondholder” means a person whose name is entered into the Register as the holder of any Bonds;

“Bonds” means the Bonds issued pursuant to these Specifications;

“Business Day” means any day (other than a Saturday, Sunday or official public holiday in the Republic of South Africa) on which banks generally are open for business in the Republic of South Africa;

“Calculation Agent” means the Republic of South Africa

“Capital Value” means the capital value of the Bonds as determined pursuant to clause 4 below;

“Consumer Price Index” or “CPI” means the weighted average of the consumer price index in respect of all areas and for all items as published by Statistics South Africa (Statistical release P0141.1) from time to time, or such amended or replacement index as may be determined by the Calculation Agent;

“Coupon” means ....;

“Date” means, where used in connection with any valuation or determination of any amount, the date as of which the amount is to be valued or determined;

”Index $\text{Ratio}_{\text{Date}}$” means the Reference CPI on the Date divided by the Reference CPI on the Issue Date, provided that as from the Redemption Date the Index $\text{Ratio}_{\text{Date}}$ shall be no less than 1 (one).

“Interest Date” means .... and ...... each year that the Bonds are in issue;

“Interest Period” means the 6 (six) month period commencing on the day after an Interest Date and ending on the next Interest Date, provided that the first Interest Period shall be from the date of issue of the Bonds to the first Interest Date thereafter, and the last Interest Period shall end on the Redemption Date;

“Issue Date” means ....;

“Issuer” means The Republic of South Africa;

“Principal Amount” means, in relation to any number of Bonds, the number of such Bonds multiplied by R1 000 000 (one million Rand);

“Redemption Date” means ...;

“Reference CPI” or “Ref CPI_{Date}” means, in relation to Date:

- if Date is the first day of a calendar month, Ref CPI_{Date} is the Consumer Price Index for the fourth last calendar month preceding the calendar month in which Date occurs;

- if Date occurs on any day other than the first day of any calendar month, then Ref CPI_{Date} shall be determined in accordance with the following formula:

$$Ref\ CPI_{Date} = Ref\ CPI_J + \left(\frac{t-1}{D}\right) x\ (Ref\ CPI_{J+1} - Ref\ CPI_J\ )$$

Where:

(i) Ref CPI_J is the Reference CPI for the first day of the calendar month in which Date occurs;

(ii) Ref CPI_{J+1} is the Reference CPI for the first day of the calendar month immediately following the calendar month in which Date occurs;

(iii) t is the calendar day corresponding to Date;

(iv) D is the number of days in the calendar month in which Date occurs;

"the Register" means the register of Bondholders to be kept by the Issuer;

"Registered" means to have been entered into the Register;

"Settlement Agent" means a Settlement Agent as envisaged in the rules of BESA;

"Specifications" means these specifications;

"**/**" means divided by;

"*****" means multiplied by.

3. **DENOMINATION**

The minimum denomination of each Bond is R1 000 000 (one million Rand).

4. **CAPITAL VALUE**

The Issuer's indebtedness in respect of the Bonds shall be the Capital Value plus accrued interest thereon as determined pursuant to the Specifications. The Capital Value of the Bonds is the adjusted Principal Amount thereof, where the Principal Amount is adjusted with reference to any increase or decrease in the Consumer Price Index, provided that as from and including the Redemption Date the Capital Value shall not be less than the Principal Amount. The Capital Value of the Bonds as at any Date shall be as determined in accordance with the following formula:

$$\text{Capital Value} = P * \text{Index Ratio}_{\text{Date}}$$

where "P" means Principal Amount.

5. **REDEMPTION**

On the Redemption Date the Issuer shall pay the Bondholders the Capital Value of the Bonds on that Date.

6. **INTEREST**

6.1. The Bonds shall bear interest at the Coupon on the Capital Value of the Bonds from time to time in accordance with the Specifications.

6.2. The interest in respect of each Interest Period shall be determined as at the Interest Date in that Interest Period (i.e the last day of the Interest Period) in accordance with the following formula:

$$(c/2)*e$$

where:

6.2.1. "c" is the Coupon; and

6.2.2. "e" is the Capital Value of the Bonds on the Interest Date in the Interest Period.

6.3. The interest in respect of each Interest Period shall be payable on the Interest Date in that Interest Period or if that date is not a Business Day then on the next following Business Day.

6.4. Interest in terms of this clause 6 shall cease to accrue on the Bonds as from the Redemption Date.

7. CALCULATION AGENT

7.1. Any determination or redetermination by the Calculation Agent in respect of any matter to be determined or redetermined by the Calculation Agent in terms of these Specifications shall be final and binding on the Issuer and the Bondholders and shall be carried into effect.

7.2. The Calculation Agent shall not be liable to any Bondholders for any loss or damage arising from any act or omission on the part of the Calculation Agent in the performance of its duties contemplated in these Specifications, provided that the loss or damage is not attributable directly to wilful error or gross negligence by the Calculation Agent.

8. ROUNDING

For calculation purposes in terms of these Specifications all amounts shall be rounded down to 5 (five) decimal places. Any amount payable under these Specifications shall be rounded to the nearest R1 (One Rand).

9. ADJUSTMENTS TO CONSUMER PRICE INDEX

9.1. In the event that the CPI is reset, then a new Reference CPI that is applicable for the Issue Date will (if necessary) be calculated by the Calculation Agent in such a way that the Capital Value of the CPI Bond is the same immediately before and after the reset.

9.2. If, as a result of a delay in the publication of the CPI, the CPI is not available in order to make a determination in accordance with these Specifications, then, subject to 9.3 below, a substitute CPI value, calculated as follows, will be used:

Let the CPI value for the month m that is required be denoted by CPI_m.

Then, in the event of a one month delay, CPI_m shall be determined in accordance with the following formula:

$$CPI_m = CPI_{m-1} * (CPI_{m-1} / CPI_{m-13})^{1/12}$$

And, in the event of a delay of more than one month (the number of months being denoted by “n”), CPI_m shall be determined in accordance with the following formula:

$$CPI_m = CPI_{m-n} * (CPI_{m-n} / CPI_{m-n-12})^{m/12}$$

9.3. The Calculation Agent may redetermine the Consumer Price Index if, in the opinion of the Calculation Agent:

9.3.1. the Consumer Price Index is not available or is no longer published in a manner necessary to give full effect to these Specifications;

9.3.2. there is a change in the basis of calculation of the Consumer Price Index that is material to the interests of any Bondholder; or

9.3.3. due to a change in circumstances the Consumer Price Index is no longer representative.

10. INITIAL PRICING AND TRADING FOR NEW ISSUE

The bonds shall be traded and settled in the following manner:

10.1. The buyer and seller of the bond shall agree on a "Real Yield"

10.2. The bonds shall be traded for value "t+3", as per the South African bond market convention;

10.3. The consideration that is paid on any Date for the bond shall be determined as follows:

$$\text{Index Ratio}_{\text{Date}} * \text{JSE Bond Pricing Formula(Real Yield)}$$

Where "JSE Bond Pricing Formula(Real Yield)" is the amount of money that is calculated by using the JSE Bond Pricing Formula, with the Real Yield, nominal value of the bond, Coupon, Date and the Interest Dates of this CPI Bond as input parameters.

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