LKA

TRANSACTIONS & ENGAGEMENTS

Infrastructure Commodity Risk Management

Independent Treasury, Hedging & Capital Markets Adviser

Major South African Toll Road Concession

EXECUTIVE SUMMARY

Lionel Kruger provided independent treasury, hedging and capital markets advisory services to a major South African toll road concession over a **14-year advisory relationship**.

The concession formed part of South Africa's programme to privatise existing national roads under long-term public-private partnership concessions, enabling major upgrades and ongoing improvements to be financed on a **user-pays** basis.

The concessionaire was responsible for maintaining, rehabilitating and progressively upgrading approximately **450 kilometres of strategic national road infrastructure** throughout the concession period of motorway throughout the concession period, creating recurring exposure to diesel and bitumen price volatility.

Because neither commodity exposure could be hedged using directly matching financial instruments, bespoke proxy hedging methodologies were developed. For bitumen, this included designing a methodology that aligned available financial market instruments with the **Civil Engineering Industry Materials Price Adjustment Formula (CPAF)** used by the South African civil engineering industry.

The knowledge and methodologies developed during this engagement subsequently led to similar advisory assignments on other South African toll road concession projects.

COMMERCIAL CONTEXT

Unlike greenfield infrastructure projects, toll road concessions require continuous investment throughout the concession period. **Unlike conventional construction projects, commodity price exposure arose repeatedly over many years as maintenance, rehabilitation and improvement works were commissioned throughout the concession period.**

Maintenance obligations, pavement rehabilitation and periodic capacity enhancement projects—including widening sections of motorway to freeway standard—created recurring demand for diesel and bitumen over many years.

Managing this exposure required treasury solutions that balanced procurement flexibility, commercial practicality and market execution, while remaining consistent with the contractual pricing mechanisms used within the construction industry.

LKA's ROLE

• Identification and quantification of diesel and bitumen price exposures.

• Development of bespoke proxy hedging methodologies where no directly matching financial instruments existed.

• Design of a bitumen hedging methodology aligned with the **CPAF** materials price adjustment formula.

• Independent assessment of hedge structures and bank pricing.

• Procurement timing and implementation advice.

• Ongoing treasury support throughout the concession period.

COMMERCIAL OUTCOME

The engagement is believed to have represented the **first structured bitumen hedging programme implemented for a South African toll road concession**.

Because no directly matching financial instrument existed, LKA developed a bespoke proxy methodology combining available financial market instruments with the industry's contractual **CPAF** pricing mechanism, **creating a commercially robust hedging methodology where no directly matching market instrument existed.**

Independent commercial analysis and negotiation improved the bank's proposed pricing on the initial bitumen hedge by **more than 10%**.

The success of the engagement led to similar commodity price risk management advisory assignments on other South African toll road concession projects.

LKA PERSPECTIVE

Infrastructure risk management is rarely about finding a perfect financial instrument. More often, it requires understanding the commercial exposure well enough to develop a practical proxy that reflects how costs are actually incurred, recovered and managed. By integrating financial markets with procurement strategy and contractual pricing mechanisms, treasury advice can create commercially robust solutions where standard hedge products do not exist.

Career Note: This engagement was undertaken by Lionel Kruger prior to the establishment of Lionel Kruger & Associates Limited. It forms part of his personal professional advisory track record, which continues through the firm's current infrastructure, treasury and capital markets advisory engagements.