

Trans-Caledon Tunnel Authority (TCTA)

WSP3 (LHWP)	ZAG000019993
WSP4 (LHWP)	ZAG000020009
WSP5 (LHWP)	ZAG000020017

As established by Notice No 2631 in Government Gazette No 10545 of 12 December 1986, and revised by Notice No 277 in Government Gazette No 21017 of 24 March 2000 (the Notice of Establishment). A Schedule 2 Public Finance Management Act no. 1 of 1999 entity.

VAAL RIVER SYSTEM WATER RESOURCES DEVELOPMENT PROJECTS – VRS (Incorporating The Lesotho Highlands Water Project (LHWP) and Acid Mine Drainage (AMD))

EXPIRY OF THE CURRENT VRS BORROWING LIMIT AND INTERIM ARRANGEMENTS UNTIL THE APPROVAL OF THE NEXT

Noteholders are notified of the following with regards to the Borrowing Limit of the VRS Projects:

Background

In terms of Section 26 of the Notice of Establishment, TCTA may borrow money within a Borrowing Limit approved by the Minister of Water and Sanitation (the Minister) acting with the concurrence of the Minister of Finance.

The current Borrowing Limit was approved by the Minister in October 2013 and concurred to by the Minister of Finance on 22 April 2014. It will expire on 31 March 2019:

Current VRS Borrowing Limit

Years ending 31 March	2015	2016	2017	2018	2019
Borrowing Limit (millions of Rand)	24 500	29 700	36 900	36 800	42 500

Total Current borrowing under the borrowing limit is R14.3 billion:

VRS Borrowing at 28 February 2019 (Millions of Rands)

Facility	Facility Size	Outstanding	% Utilisation
WSP3 (May 2019)	-	32	-
WSP4 (May 2020)	-	97	-
WSP5 (May 2021)	-	9 633	-
JSE-Listed Bonds	21 000	9 762	46%
Long Term Loans	4 532	3 927	87%
Long Term Facilities	25 532	13 689	54%
Commercial Paper (Unlisted)*	4 000	77	2%
Revolving Credit Facilities	2 500	500	20%
Liquidity Support Facilities	6 500	577	9%
Total Debt	32 032	14 266	45%

Expiry of the current Borrowing Limit

The current Borrowing Limit will expire on 31 March 2019. There is as yet no new approved Borrowing Limit to cover the period starting 1 April 2019.

TCTA's application for a new Borrowing Limit for the five years from 1 April 2019 was submitted to the Department of Water and Sanitation (DWS) in May 2018, and was approved by the Minister and

forwarded to the Minister of Finance for concurrence in October 2018 – clarification questions were received from National Treasury and responded to in November 2018.

TCTA is confident that the National Treasury processes will be finalised and the Minister of Finance’s concurrence will be received shortly. However, at this stage there is no indication as to the exact timing of this.

The Position of TCTA’s VRS Borrowings in the absence of a Borrowing Limit after 1 April 2019

TCTA is of the view that:

1. The temporary absence of the Borrowing Limit, in so far as it relates to a timing issue between DWS and National Treasury processes rather than the withdrawal or refusal of the Minister of Finance’s concurrence to the Borrowing Limit, is an administrative matter which should not be construed as the breach of any covenant under any debt agreement.
2. TCTA continues to comply with the provisions of Section 66 of the PFMA in that its borrowings are:
 - i. properly authorised by its Board as per S66(3)(a), and
 - ii. its borrowing programme for 2019 has been submitted to the Minister of Finance as per S66(7)
3. However, in terms of Section 26 of the Notice of Establishment, any borrowings entered into after 1 April 2019 and before the approval of a new Borrowing Limit will not be authorised and as such TCTA will not be undertaking any new borrowing until the VRS Borrowing Limit is regularised.

Risks Arising from the absence of a Borrowing Limit after 1 April 2019

The risks arising from the absence of a Borrowing Limit are:

- a. **Liquidity** – as per (3) above, TCTA will not be able to raise any funding for the VRS Projects after 1 April and before the approval of a new Borrowing Limit, this raises the liquidity risk of the VRS projects.

Based on projections of expected short-term cash flows TCTA believes that liquidity risk very low. Current cash resources and expected cash inflows over the next 6 months exceed expected cash outflows over the next 6 months by a healthy margin, which allows room for significant increases in expenditure and/or decreases in revenue without the need for borrowing:

VRS Short-Term Cash Flow Projections (Millions of Rands)

	Cash Balances	TCTA Vaal River Tariff	Opex & VAT	Capex (LHWP2 & AMD STI)	Interest	Capital Repayments	Surplus/ (Shortfall)
6m to Sep 2019	1 300	3 450	-1 000	-1 600	-650	-650	850
12m to Mar 2020	1 300	6 500	-1 650	-3 000	-1 300	-750	1 100

- b. **Legal** – some VRS lenders might hold a view opposed to TCTA’s opinion that the temporary absence of the Borrowing Limit is a purely administrative matter and could view it as a breach and/or Material Adverse Change. At this stage, the possibility of this is seen as remote:
 - o the VRS loans are with domestic banks with whom TCTA has long and constructive relationships and with whom TCTA is in discussion about the current Borrowing Limit lapse;
 - o temporary losses of Borrowing Limits due to DWS/National Treasury timing differences have occurred before (for instance between April and June 2014 on TCTA’s MCWAP project) and have been treated by lenders as temporary administrative lapses rather than substantive breaches.

Should TCTA’s appreciation of these risks prove to be too sanguine, lenders have the protection of the R21 billion Government Guarantee to the Noteholders, the R4 billion Government Guarantee to the holders of Commercial Paper and the R6.5 billion Government Guarantees to the bank lenders.

TCTA will update Noteholders promptly when there are further updates on this matter.

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For further information please contact

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