

Trans-Caledon Tunnel Authority (TCTA)

WSP4 (LHWP) ZAG000020009
WSP5 (LHWP) ZAG000020017

As established by Notice No 2631 in Government Gazette No 10545 of 12 December 1986, which was replaced 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 (PFMA) entity.

1. TCTA REPLACES FITCH RATINGS AS THE RATINGS AGENCY FOR ITS PROJECTS; 2. MOODY'S INITIATES RATINGS ON 5 TCTA PROJECTS: ASSIGNS Ba1/NP AND Aa2.za/P-1.za; NEGATIVE OUTLOOK

TCTA Replaces Fitch Ratings as rating agency on its projects

TCTA's SENS Announcement of 20 February 2019 titled: *Fitch Affirms 5 TCTA Projects at 'AA+(zaf)'; Outlooks Stable* has reference.

As stated therein, TCTA embarked on a process of replacing Fitch Ratings as its ratings agency due to the FSCA's deregistration of Fitch Ratings for SOEs and sovereign ratings from 31 December 2019. This process has culminated with the replacement of Fitch Ratings by Moody's Investor Services as its ratings agency. Lenders whose loan agreements required their consultation with regards to the change in ratings agency, were consulted about the change and no objections were received.

The Fitch Ratings for TCTA's projects will terminate as at 15 November 2019.

Moody's Initiates Ratings on 5 TCTA Projects: assigns Ba1/NP and Aa2.za/P-1.za; negative outlook

Moody's Investors Service announced on 14 November 2019 that it assigned first time ratings on 5 TCTA Projects at:

| | Long-Term | Short-Term |
|------------------------|-----------|------------|
| Global Scale: | Ba1 | NP |
| National Scale: | Aa2.za | P-1.za |
| Outlook: | Negative | |

The projects are:

- Berg Water Project (BWP);
- Vaal River Eastern Sub-System Augmentation Project (VRESAP);
- Mooi-Mgeni Transfer Scheme phase 2 (MMTS-2);
- Komati Water Scheme Augmentation Project (KWSAP); and
- Mokolo Crocodile River (West) Water Augmentation Project (MCWAP)

The projects are funded through long term loans with liquidity support from revolving credit facilities and unlisted Commercial Paper Programs.

Outstanding amounts on Commercial Paper at 12 November 2019 were:

- **BWP:** R nil of a R450 million Program;
- **VRESAP:** R275 million of a R500 million Program;
- **MMTS-2:** R311 million of a R400 million Program;
- **KWSAP:** R nil of a R500 million Program; and
- **MCWAP:** R nil or a R nil Program

TCTA's Vaal River System Water Resources Development Projects (VRS) Incorporating the Lesotho Highlands Water Project (LHWP) and Acid Mine Drainage (AMD) issues explicitly government guaranteed debt and is not rated.

| New Moody's National Scale Ratings compared to old Fitch National Scale Ratings | | |
|--|-----------------------|---------------------|
| Project | Moody's Rating | Fitch Rating |
| BWP | Aa2.za/P-1.za | AA+(zaf)/F1(zaf) |
| VRESAP | Aa2.za/P-1.za | AA+(zaf)/F1(zaf) |
| MMTS-2 | Aa2.za/P-1.za | AA+(zaf)/F1(zaf) |
| KWSAP | Aa2.za/P-1.za | AA+(zaf)/F1(zaf) |
| MCWAP | Aa2.za/P-1.za | AA+(zaf)/F1(zaf) |

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15 November 2019

The statement from Moody's is quoted below:

https://www.moodys.com/research/Moodys-assigns-Ba1NP-and-Aa2zaP-1za-issuer-ratings-to-five--PR_413326

Rating Action: Moody's assigns Ba1/NP and Aa2.za/P-1.za issuer ratings to five Trans-Caledon Tunnel Authority projects; negative outlook

14 Nov 2019

London, 14 November 2019 -- Moody's Investors Service (Moody's) has today assigned first time Ba1 long-term global scale issuer ratings, NP short-term global scale issuer ratings, Aa2.za long-term national scale issuer ratings and P-1.za short-term national scale issuer ratings to the following five projects of the Trans-Caledon Tunnel Authority (TCTA):

- TCTA - Berg Water Project
- TCTA - Vaal River Eastern Sub-System Augmentation Project
- TCTA - Komati Water Scheme Augmentation Project
- TCTA - Mooi Mgeni Transfer Scheme Phase 2
- TCTA - Mokolo Crocodile Water Augmentation Project

The outlook on the ratings is negative.

TCTA is a 100% state-owned enterprise mandated with financing and implementing bulk raw water infrastructure projects of national importance. It is an agency of South Africa's (Government of South Africa, Baa3 negative) National Department of Water and Sanitation (DWS). Each rated project is implemented on behalf of DWS and backed by contractual undertakings of DWS to step in and meet the project's debt obligations. These undertakings bind the National Revenue Fund in accordance with section 70 of the Public Finance Management Act No. 1 of 1999.

RATINGS RATIONALE

Moody's views the projects as government-related issuers (GRIs) and the ratings reflect a top-down notching from the Government of South Africa's rating based solely on support. Moody's considers it is not possible to meaningfully assess the TCTA projects' credit profile on a standalone basis, given the close operational and financial linkages with the Government of South Africa and TCTA's public policy mandate with limited autonomy.

The Ba1/NP and Aa2.za/P-1.za ratings reflect the following credit strengths: (1) each TCTA project's status as a wholly state-owned enterprise undertaking water projects of national importance on directive from the Minister of Human Settlements, Water and Sanitation; (2) contractual undertaking of DWS to step in and meet each TCTA project's debt obligations in the event of TCTA's failure to perform or early termination of the project; (3) tariff framework providing for full cost recovery from end users to ensure project debt can be repaid, updated annually to account for changes in water demand, funding costs, inflation, regulatory environment, amongst others.

The ratings also reflect the following credit challenges: (1) the lack of an explicit on-demand guarantee from the DWS or National Treasury, reflected in the one notch rating differential between the TCTA projects and the Government of South Africa; (2) the arrangements setting out DWS (and, by extension, National Treasury in the event DWS has insufficient funds) obligations to lenders have not been tested, and may be subject to delays; (3) broader stress at South African state-owned enterprises, notably Eskom (Eskom Holdings SOC Limited, B3 negative), which may cause the government to take a more selective approach to the provision of support; and (4) the projects are exposed to a degree of liquidity risk, albeit manageable in Moody's view.

Moody's highlights the following linkages between TCTA projects and the government: (1) TCTA's activities as an agency of DWS are bound by directives issued by the Minister and its operational and financial discretion is restricted under its Notice of Establishment; (2) the rated projects pass all operating risks to DWS, which undertakes the operations directly as part of the broader national water network; (3) each project is entitled to receive a tariff designed to ensure it can meet its debt obligations, and the tariff is revised on an annual basis and payable by DWS irrespective of whether DWS collects payments from the end water users or passes on increases in the tariff; and (4) each project's business model is not designed to create profits, surplus or reserves as the tariff is set to ensure break-even.

RATIONALE FOR NEGATIVE OUTLOOK

The outlook is negative, reflecting the negative outlook on the Government of South Africa's sovereign bond rating.

WHAT COULD CHANGE THE RATING UP/DOWN

The global scale ratings follow the Government of South Africa's sovereign bond rating, and a downgrade/upgrade of the sovereign bond rating would result in a downgrade/upgrade of the ratings on the TCTA projects. Additionally, Moody's could downgrade the ratings of the TCTA projects if there are signs of DWS and/or National Treasury being unable or unwilling to provide timely support to the projects in periods of financial stress.

ISSUER PROFILE

The projects comprise water-storage dams and transport pipelines together with associated infrastructure. The projects are implemented by TCTA, a 100% state-owned enterprise mandated with financing and implementing bulk raw water infrastructure projects, on behalf of South Africa's National Department of Water and Sanitation (DWS). TCTA is listed as a "major public entity" under Schedule 2 of South Africa's Public Finance Management Act 1 of 1999. TCTA's mandate is set out in (i) the Notice of Establishment in 1986 (Notice 2631 in Government Gazette No. 10545, dated 12 December 1986) and amended in 2000 (Notice 277 in Government Gazette No. 21017), and (ii) directives issued from the Ministry from time to time in terms of Section 103(2) of the National Water Act (Act No. 36 of 1998). Moody's considers the projects to have a single credit profile, as each one benefits from contractual undertakings of DWS to step in and meet its debt obligations.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Government-Related Issuers published in June 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Moody's National Scale Credit Ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks. NSRs differ from Moody's global scale credit ratings in that they are not globally comparable with the full universe of Moody's rated entities, but only with NSRs for other rated debt issues and issuers within the same country. NSRs are designated by a ".nn" country modifier signifying the relevant country, as in ".za" for South Africa. For further information on Moody's approach to national scale credit ratings, please refer to Moody's Credit rating Methodology published in May 2016 entitled "Mapping National Scale Ratings from Global Scale Ratings". While NSRs have no inherent absolute meaning in terms of default risk or expected loss, a historical probability of default consistent with a given NSR can be inferred from the GSR to which it maps back at that particular point in time. For information on the historical default rates associated with different global scale rating categories over different investment horizons, please see http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1174796

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