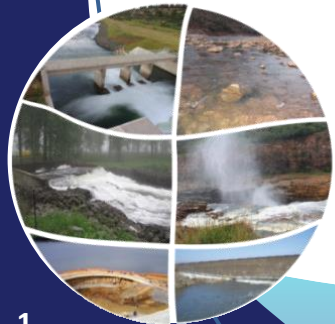


Lender Update:

Funding Implications of VRS Borrowing Limit Expiry

April 2019

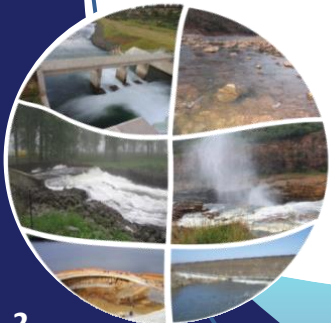


30 Years Unqualified



Contents

- Background
- Short & Medium Term Funding Requirements
- Plan B if the borrowing powers are not renewed
- Impact on new DMTN Program
- Impact on unutilised facilities



Background

SENS Announcement – 26 March 2019

Available on TCTA's website – Tab: Media & News/Investor Relations/SENS Announcements



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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:

- 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.
- TCTA continues to comply with the provisions of Section 66 of the PFMA in that its borrowings are:
 - properly authorised by its Board as per S66(3)(a), and
 - its borrowing programme for 2019 has been submitted to the Minister of Finance as per S66(7)
- 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 regulated.

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

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

- 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

- 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.

26 March 2019

For further information please contact

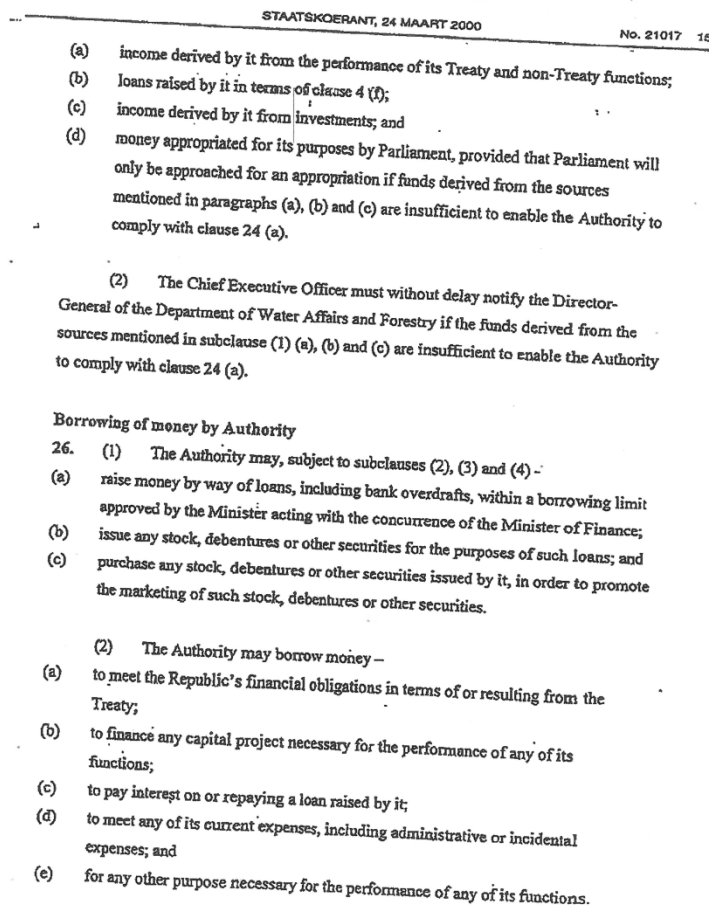
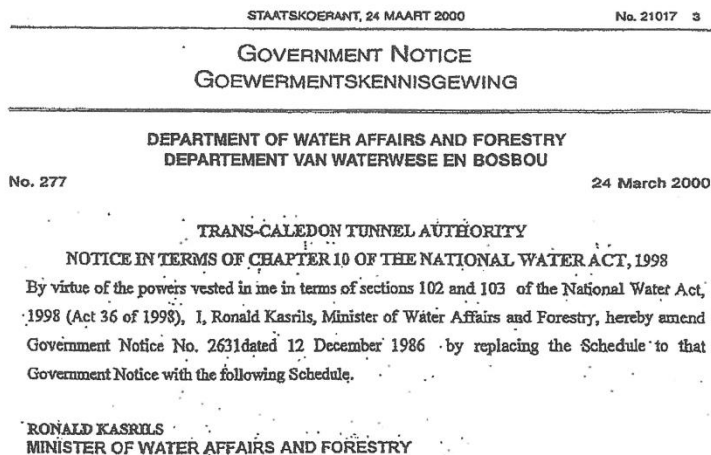
Nyiko Mageza, TCTA Sponsor +27 12 683 1334

Background

The need for a Borrowing Limit

The need for a Borrowing Limit approved by the Minister of Water & Sanitation and concurred to by the Minister of Finance arises from S26(a) of TCTA's Notice of Establishment.

It is not a PFMA Requirement

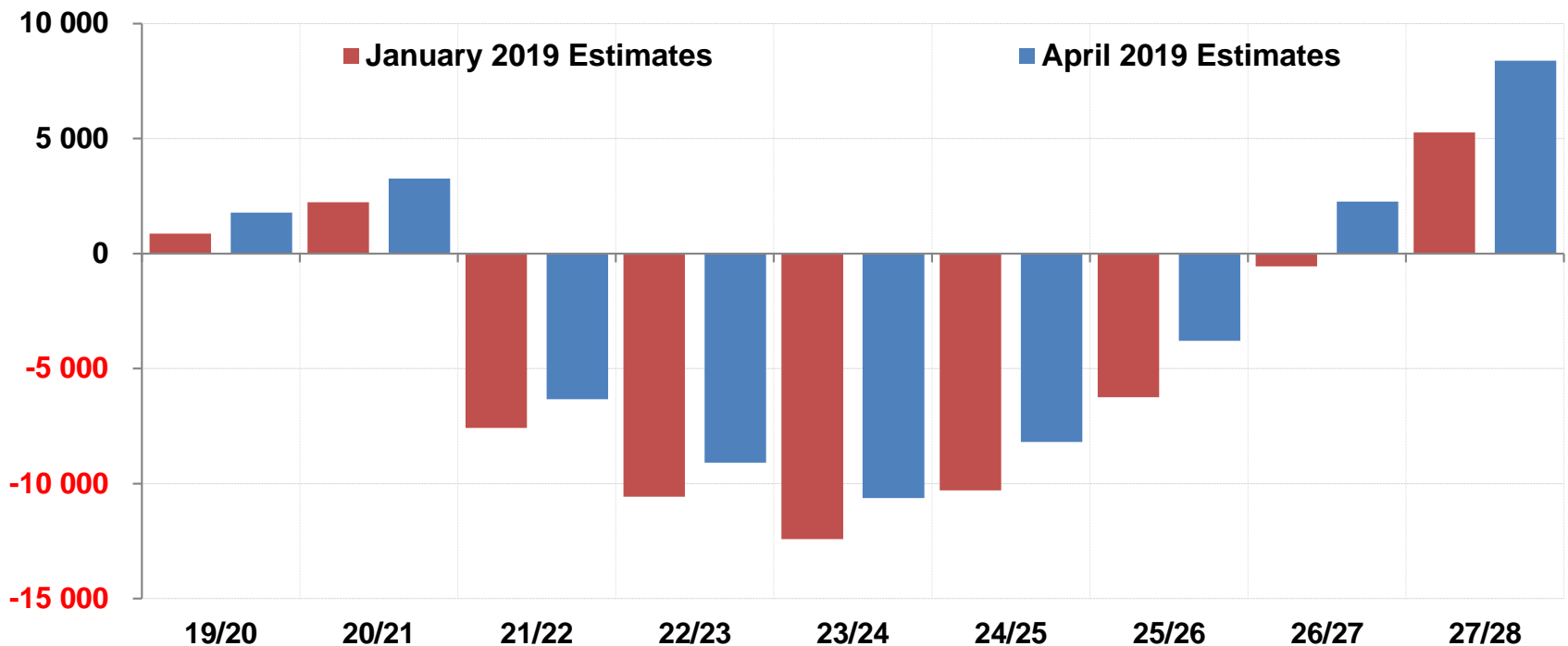


Funding Requirements

Improvement in Funding Requirements

There's a significant positive shift in our funding requirement projections since January

VRS Funding Requirements
(R Millions)



Funding Requirements

Funding Requirement

This is due to a better than expected outcome (in terms of cash balances) for 2018/19 because:

- 1. A significant Acceleration in Payments from DWS**
- 2. Much Better than budget Vaal River System Volumes**

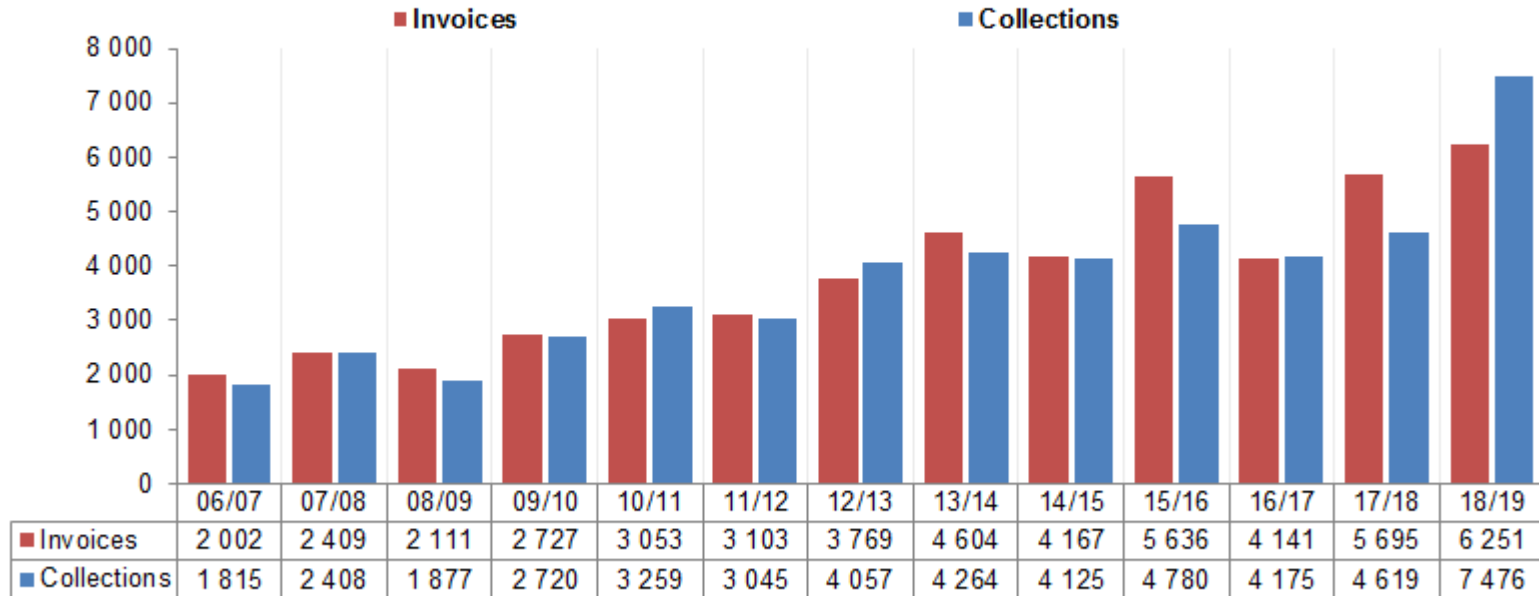
VRS Cash Balances at the end of March 2019 were almost R2 billion, against our projection of R700 million in January.

Funding Requirements

Accounts Receivables

DWS Payments on VRS invoices was up 62% in 2018/19 against 2017/18 (invoices were up 10%). Leading to a R2.3 billion decrease in the DWS Accounts Receivables as it relates to the VRS.

Changes in DWS Receivables: Invoices relative to Collections (R millions)

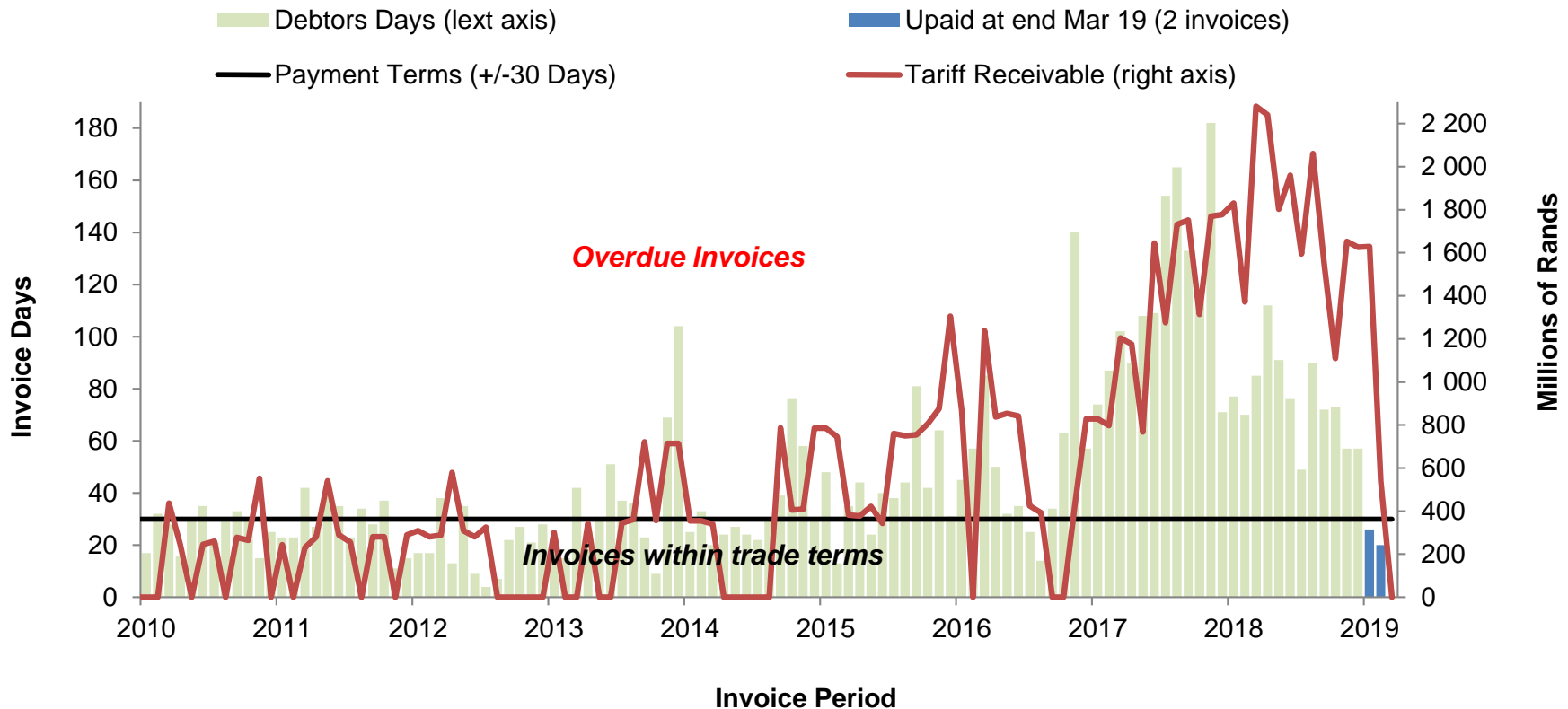


A significant part of this movement happened in Q4 of the financial year (there's a 40% Q/Q change between the Dec quarter and the March quarter).

Funding Requirements

Accounts Receivables

At the end of Dec 2018 we had three invoices due (2 past due), at the end of March 2019 there were two invoices due – both within the 30 day terms.



Funding Requirements

Vaal River Volumes & VRS Revenues

We estimate that Vaal River Volumes were 14% higher than budget (which translates directly in terms of tariff revenue)*

VRS Volume and Revenue Variances

	Budget Volume	Actual Volume	Volume Variance	Rand Value of Variance (Excl VAT)	Budget Revenue	Variance as % Budget Revenue
2010/11	1 489 400 000	1 511 275 963	21 875 963	39 199 537	2 668 855 860	1.50%
2011/12	1 504 200 000	1 534 483 270	30 283 270	60 648 305	3 012 461 340	2.00%
2012/13	1 529 200 000	1 569 610 485	40 410 485	84 053 808	3 180 736 000	2.60%
2013/14	1 552 100 000	1 709 699 665	157 599 665	347 169 998	3 419 059 006	10.20%
2014/15	1 645 000 000	1 747 513 042	102 513 042	237 830 258	3 816 400 000	6.20%
2015/16	1 604 000 000	1 854 779 463	250 779 463	574 284 970	3 673 160 000	15.60%
2016/17	1 606 000 000	1 718 588 662	112 588 662	282 147 187	4 024 636 000	7.00%
2017/18	1 606 000 000	1 720 865 202	114 865 202	311 732 743	4 358 524 397	7.20%
Dec 18 estimate	1 606 000 000	1 758 684 663	152 684 663	466 597 224	4 907 861 238	9.50%
Apr 19 estimate	1 606 000 000	1 831 652 127	225 652 127	689 582 398	4 907 861 238	14.05%

*Metering/Invoicing for March 2019 is not complete yet so it's based on 11 months data

Funding Requirements

Short & Medium-Term Funding Requirement

No funding need until the WSP5 maturity in May 2021:

	Opening Cash Balances	Vaal River Tariff Revenue	AMD O&M Fiscal Transfers	Operating Expenditure	Capital Expenditure	Net Interest	Capital Repayments	Funding Requirement
2019/20	1 976	5 465	239	-1 836	-2 219	-1 110	-732	1 782
2020/21	1 782	5 807	363	-1 964	-1 392	-1 040	-297	3 260
2021/22	3 260	6 199	383	-2 082	-3 273	-1 185	-9 634	-6 432
2022/23	100	6 611	404	-2 191	-6 292	-1 020	-266	-2 754
2023/24	100	7 204	426	-2 304	-5 317	-1 288	-266	-1 545
2024/25	100	7 776	450	-2 419	-1 816	-1 286	-266	2 539
2025/26	2 539	8 351	472	-2 541	-696	-913	-266	6 945
2026/27	6 945	8 946	496	-2 668	-108	-350	-266	12 995

This is after taking into account all items in the 2019/20 budget presented to DWS:

- **LHWP Royalties**
- **LHWP O&M**
- **TCTA, LHDA* & LHWC~ admin**
- **LHWP 2 Capex as per the LHDA Long Term Cost Plan**
- **Interest payments**
- **Debt Capital Repayments**

*Lesotho Highlands Development Agency; ~Lesotho Highlands Water Commission

Plan B if the borrowing powers are not renewed

There can be no Plan B if TCTA does not have Borrowing Powers:

- Having an approved Borrowing Limit is a key administrative requirement of TCTA's founding 'legislation' The Notice of Establishment
- TCTA cannot legally borrow funds to implement projects without Borrowing Limits
- A withdrawal of the Borrowing Powers (*without an amendment to the Notice of Establishment removing the requirement for Borrowing Limits*) is a withdrawal of TCTA's mandate.

Impact on New DMTN Programme

- The VRS DMTN Programme is Currently going through JSE approvals as well as government processes for the approval of the Guarantee
- If these processes are completed before the regularisation of the Borrowing Limit:
 - TCTA can Register the DMTN Programme with the JSE, but
 - Cannot issue new debt under the DMTN Programme until the Borrowing Limit is approved.

Impact On Unutilised or Other Facilities

- **TCTA has unutilised Revolving Credit Facilities and is negotiating new facilities such as the New Development Bank loan that has recently been in the media.**
- **Unutilised facilities cannot be utilised until the regularisation of the Borrowing Limit**
- **Agreements for new facilities can be completed, but funds cannot be drawn down on those facilities until the regularisation of the Borrowing Limit**

Other Projects

Note that the VRS Borrowing Limit matter does not affect TCTA's other funded mandates who's Borrowing Limits are still in place:

<i>R' millions</i>	Total Debt (March 2019)	Borrowing Limit	Expiry
Berg Water Project (BWP)	565	660	31 Mar 2020
Vaal River Eastern Sub-System Augmentaton Project (VRESAP)	3 779	3 936	31 Mar 2021
Mooi-Mgeni Transfer Scheme Phase 2 (MMTS-2)	1 774	1 814	31 Mar 2021
Komati Water Supply Augmentation Project (KWSAP)	1 255	1 399	31 Mar 2021
Mokolo Crocodile River (West) Water Augmentation Project (MCWAP)	1 370	6 934	31 Mar 2020