

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))

MINISTER OF FINANCE'S CONCURRENCE TO VRS BORROWING LIMIT FOR 2019/20 AND 2020/21

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

TCTA's SENS Announcements of 26 March 2019 (titled: *Expiry Of The Current VRS Borrowing Limit and Interim Arrangements until the Approval of the Next*) and 10 April (titled: *Further Disclosures and Clarifications - Expiry Of The Current VRS Borrowing Limit and Interim Arrangements*) on the VRS Borrowing Limit have reference.

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 previous Borrowing Limit was approved by the Minister in October 2013 and concurred to by the Minister of Finance on 22 April 2014, it expired on 31 March 2019:

Previous VRS Borrowing Limit (millions of rand)

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

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.

Concurrence of Minister of Finance to the VRS Borrowing Limit for 2019/20 and 2020/21

Following correspondence between the Minister of Finance, the Minister, DWS, National Treasury, the Office of the Chief State Law Adviser and TCTA concerning whether there was a legal requirement for the Minister of Finance's concurrence; the Minister of Finance issued his concurrence to a borrowing limit of R17.7 billion for the 2019/20 year and R20.6 billion for the 2020/21 year. This is significantly lower than TCTA's request.

VRS Medium Term Borrowing Limit (millions of Rand)

Years ending 31 March	2020	2021	2022	2023	2024
Requested Borrowing Limit	40 311	45 208	48 979	49 026	49 219
Approved Borrowing Limit	17 700	20 600	-	-	-

The Minister of Finance decided to concur to a shorter Borrowing Limit period than requested in order to

allow discussions and a conclusion around the funding of AMD LTS (the Long-Term Solution to Acid Mine Drainage in the Witwatersrand).

In April 2014, the then Minister of Finance had concurred to the funding of AMD from the same funding program as LHWP, and the Minister gave TCTA the directive to fund and implement AMD LTS in line with this in May 2016. National Treasury now believes that these arrangements should be revisited.

Effect on TCTA's ability to fund LHWP-2

At this stage, the reduced Borrowing Limit is not expected to have a negative impact on the funding of LHWP-2 as tariff cash flows and existing cash resources are expected to be sufficient to fund CAPEX and Operations over the current and next financial years.

VRS Medium Term Cash Flow Projections (millions of Rand)

	Opening Balances	2019/20	2020/21	2021/22
Tariff Revenue & AMD O&M Reimbursement (excl. VAT)	-	5 445	6 487	6 966
CAPEX	-	-2 130	-3 461	-2 955
OPEX (LHWP Royalties, Admin, LHWP & AMD O&M)	-	-1 818	-2 049	-2 089
Net Interest	-	-1 056	-1 093	-1 366
Capital Repayments	-	-182	-297	-9 634
Projected Net Cash Flows	-	259	-413	-9 078
Cash	1 358	1 617	1 204	-7 874
Total Debt	13 364	13 182	12 884	3 806

However, the lowered borrowing ceiling reduces TCTA's ability to manage the combination of potential LHWP-2 cost increases and the debt raising which will be required to refinance the WSP5 (9% May 2021) that matures in the 2021/22 financial year.

TCTA will engage DWS and National Treasury on these potential risks and will update Noteholders of any further updates on the matter.

The Minister of Finance's Letter of Concurrence can be found on TCTA's website at www.tcta.co.za under Media & News/Investor Relations/Sens Announcements.

23 May 2019

For further information please contact

Nyiko Mageza, TCTA Sponsor +27 12 683 1334