

**Rating Action: Moody's takes action on 8 South African sub-sovereign issuers**

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01 Apr 2020

Johannesburg, April 01, 2020 -- Moody's Investors Service has today taken rating actions on 8 South African sub-sovereign issuers covering the following sectors: (1) Regional and local governments (RLGs) and (2) Government related issuers (GRI). Today's actions follow Moody's downgrade of the Government of South Africa rating to Ba1 from Baa3 with a negative outlook on 27 March 2020. For additional details on the rationale for the sovereign rating action, please refer to the press release: [https://www.moody.com/research/-PR\\_420630](https://www.moody.com/research/-PR_420630).

Moody's has taken the following actions on the sub-sovereign issuers:

- Downgraded the Baseline Credit Assessment (BCA) of the City of Cape Town, City of Johannesburg and City of Ekurhuleni to ba1 from baa3, and long term Global Scale Ratings (GSR) to Ba1 from Baa3 issuer and debt ratings of the same cities, and maintained the negative outlook.
- Downgraded the BCA of Nelson Mandela Bay Metropolitan Municipality to ba1 from baa3 and long term issuer rating to Ba1 from Baa3, and maintained the negative outlook.
- Affirmed BCA of ba1 and long term GSR of Ba1 for City of Tshwane and changed the outlook to negative from stable.
- Affirmed the BCA of ba2 and the long term GSR of Ba2 for City of uMhlatuze and changed the outlook to negative from stable.
- Downgraded the long term GSR issuer rating to Ba2 from Ba1 for Ekurhuleni Water Care Company and maintained the negative outlook.
- Affirmed the long-term GSR local and foreign currency issuer rating of Ba2 for South African National Roads Agency (SANRAL) and maintained the negative outlook.
- Affirmed all long term NSR ratings for all issuers.
- Downgraded the short-term GSR ratings to NP from P-3 for City of Cape Town, City of Ekurhuleni and City of Johannesburg.

Please click on this link [https://www.moody.com/viewresearchdoc.aspx?docid=PBC\\_ARFTL421854](https://www.moody.com/viewresearchdoc.aspx?docid=PBC_ARFTL421854) for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

**RATINGS RATIONALE**

**RATIONALE FOR DOWNGRADING THE RATINGS OF 4 METROPOLITAN MUNICIPALITIES AND MAINTAINING THEIR NEGATIVE OUTLOOKS**

The one notch downgrade on four metropolitan municipalities (City of Cape Town, Nelson Mandela Bay Metropolitan Municipality, City of Ekurhuleni and City of Johannesburg) reflects the close economic, operational, financial and institutional linkages between the municipalities and their support provider, the Government of South Africa, illustrating the centralised nature of the local public sector. In line with Moody's Regional and Local Government rating methodology, the regional and local government framework limits the ratings on sub-sovereign issuers to be at par or below the credit rating of their support provider, warranting an action on the municipalities rated at the same level as the sovereign. The negative outlook on these municipalities mirrors the weakening of the credit profile of the sovereign.

The affirmation of the national scale ratings of City of Cape Town, Nelson Mandela Bay Metropolitan Municipality, City of Ekurhuleni and City of Johannesburg maintains the individual strength displayed by issuers rated in the country.

Moody's has lowered its extraordinary support assumption from moderate to low for City of Cape Town, City of Ekurhuleni, City of Johannesburg, and Nelson Mandela Bay Metropolitan Municipality. The rationale for lowering the level of extraordinary support from national government towards the metropolitan municipalities reflects our view that there is very limited financial support from the national government to municipalities that are facing financial pressure.

#### RATIONALE FOR DOWNGRADING THE RATING OF EKURHULENI WATER CARE COMPANY AND MAINTAINING THE NEGATIVE OUTLOOK

The rationale for downgrading the global scale rating of Ekurhuleni Water Care Company (ERWAT) reflects its close operational and financial linkages with its support provider, the City of Ekurhuleni. ERWAT's rating is derived from the application of Moody's approach to GRIs rated solely on support. From a credit risk perspective, it is not meaningful to distinguish between ERWAT and Ekurhuleni Metropolitan Municipality because of the intrinsic operational and financial ties between the two. The entity is 97% owned by the city of Ekurhuleni and derives 78% of its total revenue from service charges collected by the City of Ekurhuleni and transferred to the company in equal monthly instalments, ensuring regular cash flow. ERWAT's debt exposure benefit from explicit guarantees from Ekurhuleni, as at 2019 fiscal year 89% of ERWAT's total debt was guaranteed by the City of Ekurhuleni. ERWAT's rating of one notch below its support provider reflects that Ekurhuleni has contingent liabilities on other entities and a smaller portion of ERWAT's debt is not guaranteed. The negative outlook reflects that of the city.

#### RATIONALE FOR THE AFFIRMATION OF RATINGS OF SOUTH AFRICAN NATIONAL ROADS AGENCY AND MAINTAINING THE NEGATIVE OUTLOOK

The affirmation of South African National Roads Agency ratings reflects the close operational and financial linkages between the entity and the sovereign. The affirmation of the Ba2 rating which is now one notch below the sovereign rating reflects the national government's approval of additional financial allocations from non-toll budget to support SANRAL's GFIP while the future of the open road tolling funding model is being decided. The decision to affirm the rating also reflects the fact that in 2019, SANRAL generated 75% of its revenue from non-toll roads (25% from toll roads) and the agency receives both operating and capital grants from the national government for the non-toll business, which shows the level of financial dependence of SANRAL on its support provider. The one notch rating difference from the support provider reflects the fact that national government has contingent liabilities related to other state-owned entities which may constrain its support to SANRAL. The negative outlook mirrors that of the sovereign rating, which may have a direct negative impact on the agency's financial support in case of severe financial constrain from the support provider. SANRAL's rating is derived from the application of Moody's approach to GRIs rated solely on support and is 100% owned by the national government through the department of transport as the sole shareholder. SANRAL's operating and capital requirements are dependent on national government ongoing support, more especially for its Gauteng Freeway Improvement Project (GFIP) which has consistently experienced cash flow pressures due to low GFIP collections. SANRAL has consistently received ongoing financial support from national government including the recent approval of ZAR2.2 billion per annum additional transfer from non-toll budget to support the GFIP from 2019-2022.

#### RATIONALE FOR AFFIRMING THE RATINGS OF CITY OF TSHWANE AND CHANGING THE OUTLOOK TO NEGATIVE FROM STABLE

The affirmation of City of Tshwane's Ba1 ratings reflects improvement in its liquidity profile and declining debt levels. The city's cash and cash equivalents balance improved from ZAR3.4 billion in 2018 to ZAR4.8 billion in 2019, while debt levels to operating revenue declined to 32% in 2019 from 34% in 2018 and the city projects its debt levels to further decline in the next three years. The city also posted an improved gross operating balance to operating revenue of 8.5% in 2019 from 7.4% in 2018. The City has a flexible debt structure which consists of 20% bullet bonds maturing in 2023 and 2028 respectively which are covered by sinking fund investments while 80% of the total debt consist of amortising debt profiles.

The change of the outlook to negative from stable mirrors that of the sovereign rating. Moody's also affirmed Tshwane's baseline credit assessment of ba1 and the long term National Scale Rating (NSR) of Aa2.za. Moody's has also lowered the level of support coming from the supporting government for the city of Tshwane to low from moderate.

#### RATIONALE FOR AFFIRMING THE RATINGS OF CITY OF UMHLATHUZE AND CHANGING THE OUTLOOK TO NEGATIVE FROM STABLE

City of Umhlathuze which is rated one notch below the sovereign is characterised by declining debt levels and solid operating performance which is expected to continue in the next three years. As a result, Moody's affirmed the city's BCA of ba2, GSR of Ba2 and NSR of A1.za and changed the outlook to negative from stable. The change of the outlook to negative from stable on the City of uMhlathuze reflects the negative outlook of the supporting Government.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS

### RLGs

Environmental considerations are material to South African RLGs' credit profiles. Water shortages are one of the most material environmental risks for the sector. South Africa is considered a water scarce country and drought is the most frequent environmental risk which has a direct impact on the sector's revenues. Revenues from water purchases account for 10% of revenues on average across the rated sector. Water supply risks are managed through partnerships between the central government Department for Water and Sanitation and respective municipalities, and some of the financial burden for implementing and maintaining diverse water sources will be borne by municipalities. Large municipalities (metros) have increased their focus on water related infrastructure investment in their 2019-22 capital budgets. Northern Cape and Eastern Cape provinces have been declared disaster areas due to water shortages and they require funding from national government to alleviate the situation.

Social considerations are material to South African RLGs' credit profiles. South African RLGs face growing demographic-related spending pressures which are exacerbated by historical infrastructure backlogs and high levels of urbanization and population growth. National government transfers and municipal borrowing capacity are often not sufficient to meet ongoing requirements for the provision for basic services such as water, electricity and housing. As a result, it has become increasingly challenging for the municipalities to meet the required capital infrastructure spending. The country also faces a high unemployment rate, which directly impacts the ability of residents to pay for services, and increases the number of households that are entirely dependent on government transfers for basic services. In addition, South Africa has one of the highest inequality rates in the world and this also filters through to the local governments in the country, creating risks of ongoing service delivery protests as most poor communities are largely dependent on the national government for the provision of basic services such as water, electricity and housing.

Governance considerations are material to South African RLGs' credit profiles. The municipalities' governance and management practices are key credit differentiating factors. In South Africa, municipal financial operations are guided by various legislations, such as the Municipal Finance Management Act (MFMA). The national government, through the Treasury, has an oversight role. Although data transparency and quality is generally good, some financial statements, along with medium-term budgets are not published on the websites of the municipalities and national treasury in a timely manner, signaling a gradual weakness in the oversight role played by the supporting government.

### GRI

Environmental considerations are material to ERWAT's credit profile.

ERWAT is 97% owned by the City of Ekurhuleni and is exposed to similar water shortages affecting its support provider. The vast majority of ERWAT's operating revenue is derived from the City of Ekurhuleni which could be affected in case of water shortages due to drought.

Environmental considerations are not material to SANRAL's credit profile.

Social considerations are not material to SANRAL and ERWAT. Both entities are exposed to some social risks, mainly related to the ability of users to pay toll roads and water services. Nevertheless, these risks have limited credit impact given the support coming from the central government in the case of SANRAL and the City of Ekurhuleni for ERWAT.

Governance risks are material to SANRAL's and ERWAT's credit profiles. The governance framework is intrinsically intertwined with their supporting governments, which is responsible to exert strong oversight and ultimately take strategic decisions. Although in the past few years the oversight role played by the supporting governments has displayed some weaknesses in the institutional strength.

## FACTORS THAT WOULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Any further weakening of the South African sovereign credit profile could lead to downward adjustments in the ratings of RLGs and government-related companies. Additionally, any individual financial difficulties resulting in cash-flow pressures and consistently high or growing debt levels could lead to downward rating actions independent of sovereign rating movements.

Upward rating pressure is highly unlikely considering the negative outlook, however if the sovereign rating outlook is stabilized we would also consider stabilizing the outlook for both RLGs and government-related companies. Evidence of any given entity's ability to display comparatively stronger credit fundamentals and an ability to withstand the deterioration of the operating environment could also exert upward rating pressure.

The principal methodologies used in rating Cape Town, City of; Ekurhuleni, City of; Johannesburg, City of; Nelson Mandela, Metropolitan Municipality; Tshwane, City of, and uMhlathuze, City of was Regional and Local Governments published in January 2018 and available at [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1091595](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1091595) . The principal methodologies used in rating South African National Roads Ag. Ltd (The), and Ekurhuleni Water Care Company was Government-Related Issuers Methodology published in February 2020 and available at [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1186207](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1186207) . Alternatively, please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of these methodologies.

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 [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1216309](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1216309) .

#### Glossary of Terms and Acronyms

**Affirmation:** An Affirmation is a public statement that the current Credit Rating assigned to an issuer or debt obligation, which is not currently under review, continues to be appropriately positioned.

**Baseline Credit Assessment (BCA):** Baseline credit assessments (BCAs) are opinions of issuers' standalone intrinsic strength, absent any extraordinary support from an affiliate or a government. Baseline Credit Assessments are not Credit Ratings.

**Credit Rating:** A Credit Rating is an opinion from Moody's Investors Service (MIS) regarding the creditworthiness of an entity, a debt or financial obligation, debt security, preferred share or other financial instrument, or of an issuer of such a debt or financial obligation, debt security, preferred share or other financial instrument, issued using an established and defined ranking system of rating categories.

**Debt:** Long term debt (including liability for capital leases) plus short term debt plus current portion of long term debt. May also be adjusted to include other long term obligations, such as leases and pensions.

**Global Scale Long Term Credit Rating:** Long-term ratings are assigned to issuers or obligations with an original maturity of one year or more and reflect both on the likelihood of a default on contractually promised payments and the expected financial loss suffered in the event of default.

**Global Scale Ratings:** Ratings assigned on Moody's global long-term and short-term rating scales are forward-looking opinions of the relative credit risks of financial obligations issued by non-financial corporates, financial institutions, structured finance vehicles, project finance vehicles, and public sector entities.

**Global Scale Short Term Credit Rating:** Short-term ratings are assigned to obligations with an original maturity of thirteen months or less and reflect the likelihood of a default on contractually promised payments.

**GRI (Government-Related Issuer):** GRI is an entity with full or partial government ownership or control, a special charter, or a public policy mandate from the national, regional or local government. Moody's generally uses 20% as the minimum government ownership level before considering an issuer to be a GRI.

**National Scale Long Term Rating:** Moody's long-term National Scale Ratings (NSRs) are opinions of the relative creditworthiness of issuers and financial obligations within a particular country. NSRs are not designed to be compared among countries; rather, they address relative credit risk within a given country.

**National Scale Short Term Rating:** Moody's short-term NSRs are opinions of the ability of issuers in a given country, relative to other domestic issuers, to repay debt obligations that have an original maturity not exceeding one year. Short term NSRs in one country should not be compared with short-term NSRs in another country, or with Moody's global ratings.

**Operating Revenue:** For regional and local governments, this represents recurrent income such as taxes and central government transfers, used for government's core operations. For corporations, this represents income received from the sale of goods and services.

**Outlook:** An Outlook is an opinion regarding the likely direction of an issuer's rating over the medium term.

**Rating Outlook:** A Moody's rating outlook is an opinion regarding the likely rating direction over the medium term. Rating outlooks fall into four categories: Positive (POS), Negative (NEG), Stable (STA), and Developing (DEV). Outlooks may be assigned at the issuer level or at the rating level.

**Rating Review:** A rating review indicates that a rating is under consideration for a change in the near term. A rating can be placed on review for upgrade (UPG), downgrade (DNG), or more rarely with direction uncertain (UNC). A review may end with a rating being upgraded, downgraded, or confirmed without a change to the rating. Ratings on review are said to be on Moody's "Watchlist" or "On Watch".

For further information on these definitions or on Moody's ratings symbols, please consult the Rating Symbols and Definitions document on [www.moody.com](http://www.moody.com)

## REGULATORY DISCLOSURES

The rating for 820595946, NSR LT Issuer Rating, ISSUER RATING ZAR of Cape Town, City of was initially assigned on 18 Jan 2008 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for 820595946, NSR ST Issuer Rating, ISSUER RATING ZAR of Cape Town, City of was initially assigned on 16 Jul 2010 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for ZAG000054982, NSR LT Senior Unsecured, BOND, ZAR of Cape Town, City of was initially assigned on 15 Jan 2009 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for ZAG000068719, NSR LT Senior Unsecured, BOND, ZAR of Cape Town, City of was initially assigned on 08 Apr 2009 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for ZAG000075995, NSR LT Senior Unsecured, BOND, ZAR of Cape Town, City of was initially assigned on 12 Mar 2010 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for 820960280 NSR LT Senior Unsecured MTN, ZAR of Cape Town, City of was initially assigned on 21 May 2008 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for 822471425, NSR LT Issuer Rating, ISSUER RATING, ZAR of Ekurhuleni Water Care Company was initially assigned on 11 May 2011 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for 820595939, NSR LT Issuer Rating, ISSUER RATING ZAR of Ekurhuleni, City of was initially assigned on 18 Jan 2008 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for 820595939, NSR ST Issuer Rating, ISSUER RATING ZAR of Ekurhuleni, City of was initially assigned on 16 Jul 2010 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for ZAG000078916, NSR LT Senior Unsecured, BOND, ZAR of Ekurhuleni, City of was initially assigned on 16 Jul 2010 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for ZAG000127358, NSR LT Senior Unsecured, BOND, ZAR of Ekurhuleni, City of was initially assigned on 17 Jun 2015 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for ZAG000094848, NSR LT Senior Unsecured, BOND, ZAR of Ekurhuleni, City of was initially assigned on 24 Apr 2012 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for ZAG000105669, NSR LT Senior Unsecured, BOND, ZAR of Ekurhuleni, City of was initially assigned on 13 May 2013 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for ZAG000084526, NSR LT Senior Unsecured, BOND, ZAR of Ekurhuleni, City of was initially assigned on 07 Mar 2011 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for ZAG000145384, NSR LT Senior Unsecured, BOND, ZAR of Ekurhuleni, City of was initially assigned on 14 Jul 2017 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for ZAG000145194, NSR LT Senior Unsecured, BOND, ZAR of Ekurhuleni, City of was initially assigned on 04 Jul 2017 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for ZAG000115148, NSR LT Senior Unsecured, BOND, ZAR of Ekurhuleni, City of was initially assigned on 11 Apr 2014 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for 822158922, NSR LT Senior Unsecured MTN, ZAR of Ekurhuleni, City of was initially assigned on 16 Jul 2010 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for 820595948, NSR LT Issuer Rating, ISSUER RATING ZAR of Johannesburg, City of was initially assigned on 14 May 2008 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for 820595948, NSR ST Issuer Rating, ISSUER RATING ZAR of Johannesburg, City of was initially assigned on 23 Mar 2012 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for 820965396, NSR LT Senior Unsecured MTN, ZAR of Johannesburg, City of was initially assigned on 27 May 2008 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for 825092055, NSR LT Senior Unsecured MTN, ZAR of Johannesburg, City of was initially assigned on 13 June 2016 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for ZAG000137571, NSR LT Senior Unsecured, BOND, ZAR of Johannesburg, City of was initially assigned on 13 Jun 2016 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for ZAG000054339, NSR LT Senior Unsecured, BOND, ZAR of Johannesburg, City of was initially assigned on 27 May 2008 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for 820596002, NSR LT Issuer Rating, ISSUER RATING ZAR of Nelson Mandela, Metropolitan Municipality, was initially assigned on 18 Jan 2008 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for 820031729, NSR LT Issuer Rating, ISSUER RATING ZAR of South African National Roads Ag. Ltd (The) was initially assigned on 01 Feb 2007 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for 820031729, NSR ST Issuer Rating, ISSUER RATING ZAR of South African National Roads Ag. Ltd (The) was initially assigned on 01 Feb 2007 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for 820595950, NSR LT Issuer Rating, ISSUER RATING ZAR of Tshwane, City of, was initially assigned on 04 May 2009 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for 820595950, NSR ST Issuer Rating, ISSUER RATING ZAR of Tshwane, City of, was initially assigned on 30 Nov 2010 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for 825431399, NSR LT Issuer Rating, ISSUER RATING ZAR of uMhlathuze, City of, was initially assigned on 18 Jul 2017 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for 820595946, LT Issuer Rating, ISSUER RATING ZAR of Cape Town, City of was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for 820595946, ST Issuer Rating, ISSUER RATING ZAR of Cape Town, City of was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for ZAG000054982, LT Senior Unsecured, BOND, ZAR of Cape Town, City of was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for ZAG000068719, LT Senior Unsecured, BOND, ZAR of Cape Town, City of was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for ZAG000075995, LT Senior Unsecured, BOND, ZAR of Cape Town, City of was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for 820960280 LT Senior Unsecured MTN, ZAR of Cape Town, City of was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for 822471425, LT Issuer Rating, ISSUER RATING, ZAR of Ekurhuleni Water Care Company was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for 820595939, LT Issuer Rating, ISSUER RATING ZAR of Ekurhuleni, City of was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for 820595939, ST Issuer Rating, ISSUER RATING ZAR of Ekurhuleni, City of was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for ZAG000078916, LT Senior Unsecured, BOND, ZAR of Ekurhuleni, City of was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for ZAG000127358, LT Senior Unsecured, BOND, ZAR of Ekurhuleni, City of was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for ZAG000094848, LT Senior Unsecured, BOND, ZAR of Ekurhuleni, City of was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for ZAG000105669, LT Senior Unsecured, BOND, ZAR of Ekurhuleni, City of was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for ZAG000084526, LT Senior Unsecured, BOND, ZAR of Ekurhuleni, City of was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for ZAG000145384, LT Senior Unsecured, BOND, ZAR of Ekurhuleni, City of was initially assigned on 14 Jul 2017 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for ZAG000145194, LT Senior Unsecured, BOND, ZAR of Ekurhuleni, City of was initially assigned on 04 Jul 2017 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for ZAG000115148, LT Senior Unsecured, BOND, ZAR of Ekurhuleni, City of was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for 822158922, LT Senior Unsecured MTN, ZAR of Ekurhuleni, City of was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for ZAG000137571, LT Senior Unsecured, BOND, ZAR of Johannesburg, City of was initially assigned on 13 Jun 2016 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for ZAG000054339, LT Senior Unsecured, BOND, ZAR of Johannesburg, City of was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for 820595948, LT Issuer Rating, ISSUER RATING ZAR of Johannesburg, City of was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for 820595948, ST Issuer Rating, ISSUER RATING ZAR of Johannesburg, City of was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for 820965396, LT Senior Unsecured MTN, ZAR of Johannesburg, City of was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for 825092055, LT Senior Unsecured MTN, ZAR of Johannesburg, City of was initially assigned on 13 June 2016 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for 820596002, LT Issuer Rating, ISSUER RATING ZAR of Nelson Mandela, Metropolitan Municipality, was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 07 Nov

2019.

The rating for 820031729, LT Issuer Rating, ISSUER RATING ZAR of South African National Roads Ag. Ltd (The) was initially assigned on 27 Aug 2009 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for 820031729, LT Issuer Rating, ISSUER RATING of South African National Roads Ag. Ltd (The) was initially assigned on 27 Aug 2009 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for 820031729, ST Issuer Rating, ISSUER RATING ZAR of South African National Roads Ag. Ltd (The) was initially assigned on 27 Aug 2009 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for 820031729, ST Issuer Rating, ISSUER RATING of South African National Roads Ag. Ltd (The) was initially assigned on 27 Aug 2009 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for 820595950, LT Issuer Rating, ISSUER RATING ZAR of Tshwane, City of, was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for 820595950, ST Issuer Rating, ISSUER RATING ZAR of Tshwane, City of, was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 07 Nov 2019.

The rating for 825431399, LT Issuer Rating, ISSUER RATING ZAR of uMhlathuze, City of, was initially assigned on 18 Jul 2017 and the last Credit Rating Action was taken on 07 Nov 2019.

Only credit rating actions issued by Moody's Investors Service South Africa (Pty) Ltd are considered for the purpose of this disclosure.

Please see the ratings tab on the issuer page on [www.moodys.com](http://www.moodys.com) for additional rating history details. The date on which some ratings were first released goes back to a time before Moody's ratings were fully digitized and accurate data may not be available. Consequently, Moody's provides a date that it believes is the most reliable and accurate based on the information that is available to it.

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_79004](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004).

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on [www.moodys.com](http://www.moodys.com).

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings of South African National Roads Ag. Ltd (The) were not initiated or not maintained at the request of the rated entity. These ratings were initiated by Moody's. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website [www.moodys.com](http://www.moodys.com).

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The volatility for the credit ratings Cape Town, City of; Ekurhuleni Water Care Company; Ekurhuleni, City of; Johannesburg, City of; Nelson Mandela, Metropolitan Municipality; South African National Roads Ag. Ltd (The); Tshwane, City of, and uMhlathuze, City of for are:

1) Fundamental elements to economic performance are typically based on slow moving factors, such as demographic shifts or transformational changes to technology. Economic growth and wealth forms an important basis of the financial foundation of a government and is expected to remain stable over extended periods of time. Moderate, short-term swings in economic trends are not likely to lead to rating volatility. Unexpected/severe downgrades/shocks to economic trends are more likely to result in a higher degree of volatility to the downside or multi notch rating changes. Sustained improvements in economic trends may generally result in upward movement in ratings by one notch.

2) The institutional framework, which is established by a set of legislative acts, and management's capabilities and approach to financial risks tend to be stable over time. Changes to the institutional framework typically occur at a slow pace, providing ample time for an administration to adopt new policies and procedures to minimize the potential financial impacts. Jurisdictions where staff turnover is high may lead to greater volatility in the assessment of management's abilities. Sudden unpredictable changes can lead to institutional instability. Rating levels are sensitive to the authority's capability to formulate and implement cohesive policy. Material deterioration in the capability to effectively formulate and implement policy can lead to a multi-notch downgrade / downside rating pressure. Sustained improvements in the capability to effectively formulate and implement policy may generally result in upward movement in ratings by one notch.

3) Sustained positive / negative trends in financial position and performance, impacting a variety of financial indicators such as cash from operations and borrowing requirements, can lead to positive/negative ratings changes over the rating horizon. Changes in these financial indicators may lead to changes in debt burdens which impacts the probability of default. Short-term fluctuations, especially when not accompanied by a defining trend, would generally not impact the rating level itself and not necessarily lead to rating changes. Systemic changes in financial position and performance are more likely to result in a higher degree of volatility to the downside or multi notch rating changes. Sustained improvements in financial position and performance may generally result in upward movement in ratings by one notch.

4) Rating levels are sensitive to leverage and debt coverage metrics. Material increase in leverage ratios are more likely to lead to negative rating pressure while improvements in debt coverage are more likely to lead to positive rating pressure. Combined severe deterioration in debt burden and debt affordability are likely to lead to a multi-notch downgrade / downgrade rating pressure. Sustained improvements in these factors may generally lead to upward movement in ratings by one-notch.

5) A rapid deterioration in political stability, government and external liquidity position, or banking system health over a short period of time are usually associated with multi-notch downward rating moves. Sustained improvements in these factors may lead to upward rating movements, usually confined to one notch.

The sensitivity to assumptions for the credit ratings are:

1) Moody's expects economic factors and the operating environment to remain stable over a 12-18 month horizon. Ratings are sensitive to significant changes in assumptions of the future economic trends and the operating environment over an extended period of time. If economic trends are significantly weaker over a sustained period of time, ratings could face a one-notch downgrade. For example, a temporary recession followed by a return to typical growth levels would likely not result in a rating downgrade, but a permanent decline in a key sector of the economy resulting in a material decline in GDP per capita could result in a downgrade.

2) Moody's expects the institutional framework within which local and regional governments operate to be stable over the rating horizon. Changes in the institutional framework tend to be infrequent and modified on a slow pace. Ratings are sensitive to changes to these assumptions. For example, a constitutional change that allows for greater flexibility of revenue generation would result in a ratings upgrade. The sensitivity of the rating change would be relative to the change in the institutional framework.

3) Moody's assumes a local or regional government's financial position and performance metrics are stable over the 12-18 month horizon. The rating is weakly sensitive to short-term changes in these assumptions and more sensitive to changes in the multi-year trend. For example, a single year surplus matched with a moderate increase in revenue growth may not result in a rating change, while a significant deficit matched by a significant decrease in revenue, with multiple years of smaller deficits planned, could result in a multi-notch

downgrade. A change in an entity's fiscal target could also result in a ratings change. For example, a focus on lower revenue growth, which threatens the recurrent achievement of balanced budgets, could result in a single notch downgrade.

4) Moody's expects assumptions for leverage and debt coverage to be stable over a 12-18 month horizon. Metrics that measure leverage and debt coverage tend to vary within a narrow range of expected levels during a 12-18 month period and modest variances are not expected to lead to multi-notch rating changes. Significant changes to these levels could result in multi-notch ratings. For example, a doubling of an entity's leverage within a 12 month span could result in a one or more notch downgrade. If actual results are materially different from assumptions, this could also result in multi-notch rating changes. For example, an entity's change in debt policy which results in a material decrease in debt coverage, as opposed to an assumption of stable debt coverage, could result in a one or more notch downgrade relative to the size of the change from assumptions.

5) Moody's assumes that the legal, regulatory and financial market risks are stable over the medium-term. Rating levels are sensitive to rapid changes in these factors. If these elements are strengthened and/or enforcement is increased, this could result in a one-notch upgrade. For example, if courts increase the enforcement of legal provisions in contracts, thereby increasing bondholder protection, this would be seen as a strengthening of the legal and regulatory framework, and may result in a one or more notch upgrade. If financial market risks deteriorate, such as a change in a Central Bank's policy towards foreign exchange markets, for example the fixing of the exchange rate to an artificially low level compared to market fundamentals, this could result in a one or more notch downgrade.

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1. No part of these Credit Ratings were influenced by any other business activities;
2. The Credit Ratings were based solely on the merits of the obligor, security, or money market instruments being rated; and
3. The Credit Ratings were an independent evaluation of the credit risk of the obligors, securities, or money market instruments.

Massimo Visconti, VP - Sr Credit Officer/Manager

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