

Rating Action: Moody's takes action on 9 sub-sovereign entities following South African sovereign action

25 Nov 2020

Johannesburg, November 25, 2020 -- Moody's Investors Service has today taken rating action on 7 South African local governments and 2 Government-Related issuers (GRIs). Today's actions follow Moody's downgrade of the Government of South Africa rating to Ba2 from Ba1 and the maintenance of the negative outlook on 20 November 2020. For additional details on the rationale for the sovereign rating action, please refer to the press release: https://www.moody's.com/research/--PR_436182.

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

- Downgraded by one notch the long-term global ratings of all rated municipalities to reflect the deterioration in the operating environment as reflected in the sovereign rating downgrade, except for Mangaung, Metropolitan Municipality's long term issuer rating which was affirmed at Caa1.
- Downgraded by one notch the Baseline Credit Assessment (BCA) of all rated South African municipalities, except for Mangaung Metropolitan Municipality's BCA which was affirmed at caa2.
- Maintained the negative outlooks on all rated municipalities.
- Downgraded by one notch the South African National Roads Agency Ltd's (SANRAL) long-term issuer rating and maintained its negative outlook.
- Affirmed the long-term issuer rating of Ekurhuleni Water Care Company of B1 in line with the rating of its support provider, the City of Ekurhuleni. The negative outlook was maintained.

A full list of affected ratings is provided towards the end of this press release.

RATINGS RATIONALE

RATIONALE FOR DOWNGRADING THE RATINGS OF 6 MUNICIPALITIES

South Africa's municipalities face fiscal challenges exacerbated by the coronavirus pandemic. Moody's expects these challenges to persist over the medium term as low growth prospects in the country and high unemployment rate will further constrain the municipalities' capacity to collect water and electricity fees, which represent a large part of their revenues.

The one-notch downgrade from Ba1 to Ba2 of the long-term issuer ratings of three municipalities rated on par with the sovereign (City of Cape Town, Nelson Mandela Metropolitan Municipality and City of Johannesburg) reflects their exposure to the weakening operating environment as indicated by the sovereign downgrade. While these municipalities currently exhibit low to moderate debt levels and fairly robust liquidity, their fiscal position will deteriorate in the medium term as the country's limited growth prospects will persistently weigh on their tax revenues. In addition, Moody's does not view these municipalities as having any characteristics that could support ratings higher than that of the sovereign.

Three of the municipalities rated below the sovereign (City of Tshwane, City of uMhlathuze and City of Ekurhuleni) are characterised by weaker operating results and low liquidity levels, making them less resilient in a persistently low growth environment than the group of municipalities above. For these municipalities, the shock of the pandemic and more generally weakening operating environment will be larger and longer lasting, reflected in a deeper erosion of credit metrics.

The affirmations of the National Scale Ratings (NSR) of City of Cape Town, Nelson Mandela Metropolitan Municipality, City of Johannesburg, City of Tshwane and City of uMhlathuze reflect the individual strength displayed by the issuers relative to other issuers in the country. We continue to view these ratings as appropriately positioned in a national peer comparison given their individual financial characteristics. The downgrade of City of Ekurhuleni's long-term national scale rating to A3.za from A2.za and short-term NSR to P-2.za from P-1.za reflects the new national scale mapping anchor point following the sovereign rating

downgrade to Ba2 from Ba1.

RATIONALE FOR AFFIRMING THE RATINGS OF MANGAUNG METROPOLITAN MUNICIPALITY

The affirmation of Mangaung's BCA of caa2 and current ratings of Caa1/NP reflects Moody's assessment that the issuer's idiosyncratic challenges, in particular its history of payments delays on its debt obligations and its weak liquidity profile, are captured at these levels. The municipality's NSR long-term and short-term ratings were also affirmed at B2.za and NP.za, respectively.

RATIONALE FOR THE NEGATIVE OUTLOOK ON ALL SOUTH AFRICAN MUNICIPALITIES

The negative outlook for all rated municipalities mirrors the negative outlook of the sovereign and the idiosyncratic challenges which South African municipalities face in the medium term. In particular, it reflects downside risks related to their weakening liquidity profile and operating performance. Weak revenue collection rate on basic services will likely translate into higher bad debt provision going forward, which will weigh on the cities' financials.

RATIONALE FOR AFFIRMING THE RATING OF EKURHULENI WATER CARE COMPANY (ERWAT), ALIGNING THE LONG-TERM NSR TO ITS SUPPORT PROVIDER'S AND MAINTAINING THE NEGATIVE OUTLOOK

The rationale for affirming the global scale rating of B1 and aligning the national scale issuer rating of A3.za to that of its support provider, the city of Ekurhuleni, reflects the close operational and financial linkages between the city and its water company.

ERWAT's rating is derived from the application of Moody's approach to Government-Related Issuers (GRIs) rated solely on support. The entity is 97% owned by the city of Ekurhuleni and derives 68% of its operating revenue from service charges collected by the City of Ekurhuleni and transferred to the company in equal monthly instalments. As of fiscal 2019, 89% of ERWAT's total debt was guaranteed by the City of Ekurhuleni.

The negative outlook mirrors that of its support provider, the City of Ekurhuleni.

RATIONALE FOR DOWNGRADING THE RATINGS OF THE SOUTH AFRICAN NATIONAL ROADS AGENCY LIMITED (SANRAL) AND MAINTAINING THE NEGATIVE OUTLOOK

The downgrade of SANRAL's long-term issuer ratings to Ba3 from Ba2 reflect the close operational and financial linkages between SANRAL and the sovereign, which will have a direct negative impact on the agency's financial support in case the sovereign were to experience severe financial constraints.

SANRAL's operating and capital requirements are largely dependent on the national government's support, more especially for its Gauteng Freeway Improvement Project (GFIP), which has consistently experienced cash flow pressures due to low GFIP toll collections. SANRAL continues to experience resistance to its GFIP projects from road users and social groups, which contributes to the agency's weak liquidity position.

SANRAL is 100% owned by national government, represented by the department of transport as the sole shareholder. The national government guarantees 81% of SANRAL's total debt and has a cross default clause on the 19% non-guaranteed debt, which mitigates the agency's risk of debt repayments. SANRAL also benefits from ongoing financial support by the national government especially towards its GFIP open road tolling project. The one notch rating difference from the support provider reflects significant contingent liabilities for the national government related to other state-owned entities which may constrain potential financial support to SANRAL.

The negative outlook mirrors that of its support provider, the South African sovereign rating.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS

REGIONAL AND LOCAL GOVERNMENTS (RLG)

Environmental considerations are material to South African RLGs' credit profiles. Water shortages are one of the most material environmental risks to 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 2020-23 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. We also view the coronavirus outbreak as a social risk under our ESG framework, given the impact on public health and safety. For RLGs, the coronavirus-related sharp economic contraction and increase in unemployment will further constrain their revenue collection and liquidity. National government transfers and municipal borrowing capacity are often not sufficient to meet ongoing requirements for the provision for basic services. 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.

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 are 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, signalling a gradual weakness in the oversight role played by the supporting government.

GRI

Environmental considerations are material to ERWAT's credit profile.

ERWAT is exposed to similar water shortages affecting its support provider the City of Ekurhuleni. 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 COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Given the current negative outlooks, an upgrade of the ratings is unlikely in the foreseeable future. However, we would consider changing the outlooks to stable on the ratings of the RLGs and GRIs if the sovereign rating outlook is stabilised, denoting greater confidence in the ability of the national government to slow and eventually arrest the rise in its debt burden.

We would consider downgrading the rating for individual issuers if the operating performance and liquidity deteriorated beyond our current expectations. We would also consider downgrading the municipalities' global scale ratings if South Africa's government bond rating was downgraded. We would also downgrade ERWAT's rating if the City of Ekurhuleni's global scale rating was downgraded independent from the sovereign action.

The principal methodology used in rating Cape Town, City of, Ekurhuleni, City of, Johannesburg, City of, Mangaung, Metropolitan Municipality, 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. The principal

methodology used in rating Ekurhuleni Water Care Company and South African National Roads Ag. Ltd (The) was Government-Related Issuers Methodology published in February 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1186207 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

LIST OF AFFECTED RATINGS

Downgrades:

..Issuer: Cape Town, City of

....LT Issuer Rating, Downgraded to Ba2 from Ba1

.... Senior Unsecured Medium-Term Note Program, Downgraded to (P)Ba2 from (P)Ba1

....Senior Unsecured Regular Bond/Debenture, Downgraded to Ba2 from Ba1

..Issuer: Ekurhuleni, City of

....LT Issuer Rating, Downgraded to B1 from Ba3

....NSR LT Issuer Rating, Downgraded to A3.za from A2.za

....NSR ST Issuer Rating, Downgraded to P-2.za from P-1.za

....NSR Senior Unsecured Medium-Term Note Program, Downgraded to A3.za from A2.za

....Senior Unsecured Medium-Term Note Program, Downgraded to (P)B1 from (P)Ba3

....Senior Unsecured Regular Bond/Debenture, Downgraded to B1 from Ba3

....NSR Senior Unsecured Regular Bond/Debenture, Downgraded to A3.za from A2.za

..Issuer: Johannesburg, City of

....LT Issuer Rating, Downgraded to Ba2 from Ba1

....Senior Unsecured Medium-Term Note Program, Downgraded to (P)Ba2 from (P)Ba1

....Senior Unsecured Regular Bond/Debenture, Downgraded to Ba2 from Ba1

..Issuer: Nelson Mandela, Metropolitan Municipality

....LT Issuer Rating, Downgraded to Ba2 from Ba1

..Issuer: Tshwane, City of

....LT Issuer Rating, Downgraded to Ba3 from Ba2

..Issuer: uMhlathuze, City of

....LT Issuer Rating, Downgraded to Ba3 from Ba2

..Issuer: South African National Roads Ag. Ltd (The)

.... LT Issuer Rating, Downgraded to Ba3 from Ba2

Affirmations:

..Issuer: Ekurhuleni Water Care Company

....LT Issuer Rating, Affirmed B1

..Issuer: South African National Roads Ag. Ltd (The)

....ST Issuer Rating, Affirmed NP

.... NSR LT Issuer Rating, Affirmed A1.za
....NSR ST Issuer Rating, Affirmed P-1.za
..Issuer: Cape Town, City of
....ST Issuer Rating, Affirmed NP
....NSR ST Issuer Rating, Affirmed P-1.za
....NSR LT Issuer Rating, Affirmed Aaa.za
....NSR Senior Unsecured Medium-Term Note Program, Affirmed Aaa.za
....NSR Senior Unsecured Regular Bond/Debenture, Affirmed Aaa.za
..Issuer: Ekurhuleni, City of
....ST Issuer Rating, Affirmed NP
..Issuer: Johannesburg, City of
....ST Issuer Rating, Affirmed NP
....NSR ST Issuer Rating, Affirmed P-1.za
....NST LT Issuer Rating, Affirmed Aa1.za
....NSR Senior Unsecured Medium-Term Note Program, Affirmed Aa1.za
....NSR Senior Unsecured Regular Bond/Debenture, Affirmed Aa1.za
..Issuer: Mangaung, Metropolitan Municipality
....ST Issuer Rating, Affirmed NP
....LT Issuer Rating, Affirmed Caa1
....NSR ST Issuer Rating, Affirmed NP.za
....NSR LT Issuer Rating, Affirmed B2.za
..Issuer: Nelson Mandela, Metropolitan Municipality
....NSR LT Issuer Rating, Affirmed Aaa.za
..Issuer: Tshwane, City of
....ST Issuer Rating, Affirmed NP
....NSR ST Issuer Rating, Affirmed P-1.za
....NSR LT Issuer Rating, Affirmed Aa3.za
..Issuer: uMhlatuze, City of
....NSR LT Issuer Rating, Affirmed A1.za

Upgrades:
..Issuer: Ekurhuleni Water Care Company
....NSR LT Issuer Rating, Upgraded to A3.za from Baa1.za

Outlook Actions:
..Issuer: Cape Town, City of

....Outlook, Remains Negative

..Issuer: Ekurhuleni, City of

....Outlook, Remains Negative

..Issuer: Johannesburg, City of

....Outlook, Remains Negative

..Issuer: Mangaung, Metropolitan Municipality

....Outlook, Remains Negative

..Issuer: Nelson Mandela, Metropolitan Municipality

....Outlook, Remains Negative

..Issuer: Tshwane, City of

....Outlook, Remains Negative

..Issuer: uMhlathuze, City of

....Outlook, Remains Negative

..Issuer: Ekurhuleni Water Care Company

....Outlook, Remains Negative

..Issuer: South African National Roads Ag. Ltd (The)

....Outlook, Remains Negative

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 .

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.

Issuer Rating: Issuer Ratings are opinions of the ability of entities to honor senior unsecured financial counterparty obligations and contracts.

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.

For further information on these definitions or on Moody's ratings symbols, please consult the Rating Symbols and Definitions document on 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 01 Apr 2020.

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 01 Apr 2020.

The rating for ZAG000068719, NSR Senior Unsecured, SOUTH AFRICAN MTN, ZAR of Cape Town, City of was initially assigned on 08 Apr 2009 and the last Credit Rating Action was taken on 01 Apr 2020.

The rating for ZAG000075995, NSR Senior Unsecured, SOUTH AFRICAN MTN, ZAR of Cape Town, City of was initially assigned on 12 Mar 2010 and the last Credit Rating Action was taken on 01 Apr 2020.

The rating for ZAG000054982, NSR Senior Unsecured, SOUTH AFRICAN MTN, ZAR of Cape Town, City of was initially assigned on 15 Jan 2009 and the last Credit Rating Action was taken on 01 Apr 2020.

The rating for 820960280, NSR LT Senior Unsecured MTN, SOUTH AFRICAN MTN PROGRAM, ZAR of Cape Town, City of was initially assigned on 21 May 2008 and the last Credit Rating Action was taken on 01 Apr 2020.

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 23 Sep 2020.

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 23 Sep 2020.

The rating for ZAG000084526, NSR Senior Unsecured, SOUTH AFRICAN MTN, ZAR of Ekurhuleni, City of was initially assigned on 07 Mar 2011 and the last Credit Rating Action was taken on 23 Sep 2020.

The rating for ZAG000127358, NSR Senior Unsecured, SOUTH AFRICAN MTN, ZAR of Ekurhuleni, City of was initially assigned on 17 Jun 2015 and the last Credit Rating Action was taken on 23 Sep 2020.

The rating for ZAG000105669, NSR Senior Unsecured, SOUTH AFRICAN MTN, ZAR of Ekurhuleni, City of was initially assigned on 13 May 2013 and the last Credit Rating Action was taken on 23 Sep 2020.

The rating for ZAG000145384, NSR Senior Unsecured, SOUTH AFRICAN MTN, ZAR of Ekurhuleni, City of was initially assigned on 14 Jul 2017 and the last Credit Rating Action was taken on 23 Sep 2020.

The rating for ZAG000145194, NSR Senior Unsecured, SOUTH AFRICAN MTN, ZAR of Ekurhuleni, City of was initially assigned on 04 Jul 2017 and the last Credit Rating Action was taken on 23 Sep 2020.

The rating for ZAG000094848, NSR Senior Unsecured, SOUTH AFRICAN MTN, ZAR of Ekurhuleni, City of was initially assigned on 24 Apr 2012 and the last Credit Rating Action was taken on 23 Sep 2020.

The rating for ZAG000115148, NSR Senior Unsecured, SOUTH AFRICAN MTN, ZAR of Ekurhuleni, City of was initially assigned on 11 Apr 2014 and the last Credit Rating Action was taken on 23 Sep 2020.

The rating for 822158922, NSR LT Senior Unsecured MTN, SOUTH AFRICAN MTN PROGRAM, ZAR of Ekurhuleni, City of was initially assigned on 16 Jul 2010 and the last Credit Rating Action was taken on 23 Sep 2020.

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 01 Apr 2020.

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 01 Apr 2020.

The rating for ZAG000137571, NSR Senior Unsecured, SOUTH AFRICAN MTN, ZAR of Johannesburg, City of was initially assigned on 13 Jun 2016 and the last Credit Rating Action was taken on 01 Apr 2020.

The rating for ZAG000054339, NSR Senior Unsecured, SOUTH AFRICAN MTN, ZAR of Johannesburg, City of was initially assigned on 27 May 2008 and the last Credit Rating Action was taken on 01 Apr 2020.

The rating for 825092055, NSR LT Senior Unsecured MTN, SOUTH AFRICAN MTN PROGRAM, ZAR of Johannesburg, City of was initially assigned on 13 June 2016 and the last Credit Rating Action was taken on 01 Apr 2020.

The rating for 820965396, NSR LT Senior Unsecured MTN, SOUTH AFRICAN MTN PROGRAM, ZAR of Johannesburg, City of was initially assigned on 27 May 2008 and the last Credit Rating Action was taken on 01 Apr 2020.

The rating for 824341396, NSR LT Issuer Rating, ISSUER RATING, ZAR of Mangaung, Metropolitan Municipality was initially assigned on 14 Apr 2015 and the last Credit Rating Action was taken on 26 Oct 2020.

The rating for 824341396, NSR ST Issuer Rating, ISSUER RATING, ZAR of Mangaung, Metropolitan Municipality was initially assigned on 14 Apr 2015 and the last Credit Rating Action was taken on 26 Oct 2020.

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 01 Apr 2020.

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 23 Sep 2020.

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 23 Sep 2020.

The rating for 825431399, NSR LT Issuer Rating, ISSUER RATING, ZAR of uMhlatuze, City of, was initially

assigned on 18 Jul 2017 and the last Credit Rating Action was taken on 01 Apr 2020.

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 23 Sep 2020.

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 01 Apr 2020.

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 01 Apr 2020.

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 01 Apr 2020.

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 01 Apr 2020.

The rating for ZAG000054982, Senior Unsecured, SOUTH AFRICAN MTN, ZAR of Cape Town, City of was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 01 Apr 2020.

The rating for ZAG000068719, Senior Unsecured, SOUTH AFRICAN MTN, ZAR of Cape Town, City of was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 01 Apr 2020.

The rating for ZAG000075995, Senior Unsecured, SOUTH AFRICAN MTN, ZAR of Cape Town, City of was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 01 Apr 2020.

The rating for 820960280, LT Senior Unsecured MTN, SOUTH AFRICAN MTN PROGRAM, ZAR of Cape Town, City of was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 01 Apr 2020.

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 23 Sep 2020.

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 23 Sep 2020.

The rating for ZAG000127358, Senior Unsecured, SOUTH AFRICAN MTN, ZAR of Ekurhuleni, City of was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 23 Sep 2020.

The rating for ZAG000094848, Senior Unsecured, SOUTH AFRICAN MTN, ZAR of Ekurhuleni, City of was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 23 Sep 2020.

The rating for ZAG000105669, Senior Unsecured, SOUTH AFRICAN MTN, ZAR of Ekurhuleni, City of was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 23 Sep 2020.

The rating for ZAG000084526, Senior Unsecured, SOUTH AFRICAN MTN, ZAR of Ekurhuleni, City of was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 23 Sep 2020.

The rating for ZAG000145384, Senior Unsecured, SOUTH AFRICAN MTN, ZAR of Ekurhuleni, City of was initially assigned on 14 Jul 2017 and the last Credit Rating Action was taken on 23 Sep 2020.

The rating for ZAG000145194, Senior Unsecured, SOUTH AFRICAN MTN, ZAR of Ekurhuleni, City of was initially assigned on 04 Jul 2017 and the last Credit Rating Action was taken on 23 Sep 2020.

The rating for ZAG000115148, Senior Unsecured, SOUTH AFRICAN MTN, ZAR of Ekurhuleni, City of was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 23 Sep 2020.

The rating for 822158922, LT Senior Unsecured MTN, SOUTH AFRICAN MTN PROGRAM, ZAR of Ekurhuleni, City of was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 23 Sep 2020.

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 01 Apr 2020.

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 01 Apr 2020.

The rating for ZAG000137571, Senior Unsecured, SOUTH AFRICAN MTN, ZAR of Johannesburg, City of was initially assigned on 13 Jun 2016 and the last Credit Rating Action was taken on 01 Apr 2020.

The rating for ZAG000054339, Senior Unsecured, SOUTH AFRICAN MTN, ZAR of Johannesburg, City of was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 01 Apr 2020.

The rating for 820965396, LT Senior Unsecured MTN, SOUTH AFRICAN MTN PROGRAM, ZAR of Johannesburg, City of was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 01 Apr 2020.

The rating for 825092055, LT Senior Unsecured MTN, SOUTH AFRICAN MTN PROGRAM, ZAR of Johannesburg, City of was initially assigned on 13 Jun 2016 and the last Credit Rating Action was taken on 01 Apr 2020.

The rating for 824341396, LT Issuer Rating, ISSUER RATING, ZAR of Mangaung, Metropolitan Municipality was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 26 Oct 2020.

The rating for 824341396, ST Issuer Rating, ISSUER RATING, ZAR of Mangaung, Metropolitan Municipality was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 26 Oct 2020.

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 01 Apr 2020.

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 23 Sep 2020.

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 23 Sep 2020.

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 01 Apr 2020.

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 23 Sep 2020.

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 01 Apr 2020.

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 01 Apr 2020.

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 01 Apr 2020.

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 01 Apr 2020.

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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.

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The main assumptions underlying the methodology used to determine the credit ratings for Cape Town, City of, Ekurhuleni, City of, Johannesburg, City of; Mangaung, Metropolitan Municipality, Nelson Mandela, Metropolitan Municipality, Tshwane, City of and, uMhlathuze, City of are:

- 1) Expected future economic trends and operating environment of the relevant sector are assumed to be predictive for the likelihood of default and expected loss.
- 2) Expectations for institutional framework and management's capabilities and approach to financial risks are assumed to be predictive for the likelihood of default and expected loss.
- 3) Indicators for financial position and performance are assumed to be predictive for the likelihood of default and expected loss, and the rating category criteria are believed to be appropriate.
- 4) Indicators for leverage and debt coverage are assumed to be predictive for the likelihood of default and expected loss, and the rating category criteria are believed to be appropriate.
- 5) Expectations for legal, regulatory, liquidity, and financial market risks, integrity and transparency of financial reporting, governance, financial performance of counterparties and the likelihood and nature of support by a government or financial party are assumed to be predictive for the likelihood of default/expected loss.

The main assumptions underlying the methodology used to determine the credit ratings for Ekurhuleni Water Care Company and, South African National Roads Ag. Ltd (The) are:

- 1) Expected future trends for the relevant industry(ies) structure, competitive dynamics, supply & demand, regulatory environment, and technology are assumed to be predictive for the likelihood of default and expected loss.
- 2) Expectations for competitive/market position and management's capabilities and approach to business and financial risks are assumed to be predictive for the likelihood of default and expected loss.
- 3) Indicators for profitability, interest coverage, and asset quality are assumed to be predictive for the likelihood of default and expected loss, and the rating category criteria are believed to be appropriate.
- 4) Indicators for cash flow generation, leverage, and debt coverage are assumed to be predictive for the likelihood of default and expected loss, and the rating category criteria are believed to be appropriate.
- 5) Expectations for legal, regulatory, liquidity, and financial market risks, mergers/acquisitions and

recapitalization events, integrity of financial reporting, corporate governance, and the likelihood and nature of support or weakening influence from a parent, affiliate, government or financial party are assumed to be predictive for the likelihood of default/expected loss.

Information sources used to prepare the ratings are the following: parties involved in the rating, public information, and confidential and proprietary Moody's information.

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

1) An entity's competitive position is expected to be stable over the 18 -- 24 month rating horizon and generally will not lead to rating volatility. Unexpected changes in technology, regulation, market participants or consumer preferences that negatively (or positively) impact an entity's competitive position within its market, may lead to multiple notch ratings changes during the course of the ratings horizon.

2) Operating strategy effectiveness is typically evidenced by an entity's performance metrics over the medium to long term, typically beyond the rating horizon, and generally will not lead to rating volatility. Changes in performance metrics during the 18-24 month rating horizon will not generally lead to high degrees of rating volatility (more than 1 rating notch). Sustained improvement or deterioration in performance metrics beyond Moody's expectations could lead to multi notch rating changes.

3) Rating levels are highly sensitive to financial strategy. Material changes to financial strategy which increase or decrease financial risk and liquidity may change the entity's ability to weather financial and business cycles. A change in appetite for financial risk may lead to multi-notch downward rating changes. Changes in financial strategy which reduce risk are likely to lead to single notch upward rating changes during the rating horizon.

4) Rating levels can be sensitive to changes in assumptions about an entity's financial position. Metrics that measure financial position tend to vary within a range of expected levels during the course of an 18 -- 24 month rating horizon, and modest variances are not expected to lead to multi-notch rating changes. Large, unexpected changes to assumptions regarding financial position, including measures related to financial leverage, liquidity, and resources available to meet financial obligations, may trigger multi-notch rating changes over the ratings horizon.

5) Rating levels can be greatly impacted by changes in governance structure. Enterprise governance is expected to be stable during and beyond the rating horizon, and therefore not cause volatility in ratings. Material changes in governance, ownership structure, or support to or from other entities are likely to lead to multi notch rating changes.

The sensitivity to assumptions for the credit ratings for Cape Town, City of, Ekurhuleni, City of, Johannesburg, City of; Mangaung, Metropolitan Municipality, Nelson Mandela, Metropolitan Municipality, Tshwane, City of and, uMhlathuze, City of 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.

The sensitivity to assumptions for the credit ratings for Ekurhuleni Water Care Company and, South African National Roads Ag. Ltd (The) are:

1) Moody's assumptions about the entity's competitive position within its business sector are presumed to remain stable over our rating horizon (18-24 months). Factors that can affect the entity's competitive position include changes in market share over time; disruptive pricing affecting either a) customer demand or b) the cost of supplying goods or services; new market entrants; barriers to entry of new competitors; or product substitution. If Moody's assumptions of competitive position are inaccurate, and the entity experiences forces which are expected to lead to sustained improvement or degradation in competitive position for the longer term, this may cause ratings to move upwards or downwards, depending on the speed of change and the entity's ability to react to the change. Examples include changes in energy or commodity prices, reduced demand for a facility do to a change in service level, or less demand for an enterprise due to slowing economic conditions. Examples include a spike in the price of a commodity that a power plant relies on to generate its power or the loss of connecting passenger service at a hub airport.

2) Moody's assumes that an entity's business profile, which incorporates its operating strategy, will evolve slowly, and is therefore unlikely to lead to rating changes over the 18 -- 24 month rating horizon. Business profile captures fundamental differences between entities in the same sector. An entity's overall business profile incorporates expectations of volatility in revenue and earnings; the perceived strength of the entity's position in its market; and characteristics of its product offering, such as differentiation with competitive offerings and proven adoption by customers. Operating strategy encompasses decisions regarding the entity's supply chain and distribution channels; decisions regarding outsourcing production versus operating production facilities; directing growth capital towards acquisitions rather than internal development; or divesting a stable but mature business for one which is believed to offer greater future growth at the cost of higher near-term investment. Ratings are sensitive to differences in business profile. For example, higher levels of product, segment or geographic diversification are generally a positive factor which is likely to reduce volatility in sales and earnings. The entity's degree of vertical integration has mixed considerations for ratings; vertical integration provides greater control over sourcing and distribution, but also creates a higher level of fixed costs which may be a burden during periods of cyclical declines. An entity's business profile will change slowly, generally due to strategic decisions which are executed in the long term, and therefore will rarely be the source of short term rating changes. If there is an unexpected change in business profile, such as a decision to add or divest business segments or enter new markets within a short period of time, it could result in rating changes of one or more notches to reflect the new view of risk and opportunities over the rating horizon.

3) Moody's ratings include assumptions about financial strategy and financial policy over the next 18 -- 24 months. Assumptions include management's appetite for debt incurrence and financial leverage; planning for debt maturities; management's decisions regarding deployment of capital; and deployment of profits (shareholder returns vs. investment in the business). Examples of changes to financial policy may be in the form of a shift in dividend policy; a change in how to finance seasonal working capital or manage timing of payables; or decisions of how much cash to hold in reserves to soften the impact of business cycles. Financial strategy is generally stable over the rating horizon. Unanticipated changes to a company's financial strategy, which may be accompanied by significant changes in financial leverage or capitalization, may lead to rating changes of one or more notches upwards or downwards.

4) Moody's assumptions about the entity's governance structure within its market(s) are generally stable over our rating horizon (18-24 months). Factors affecting governance include changes in ownership or control of the entity's operational and strategic decision making; support provided to, or received from, other corporate or government entities; the strength and independence of management; and participation in mergers, acquisitions or divestitures. Changes to an entity's governance are rare but could result in multi-notch rating changes as it could positively or negatively impact the entity's future operating strategy and financial position. Governance changes are common at the time of a sale or leveraged buy-out of a company, due to a change in financial policies which are expected to be adopted by the new owners. For example, expectations are that a sale to a financial buyer will be accompanied by financial policies which are associated with a higher risk profile. These types of transactions generally result in ratings being lowered by multiple notches at the time of the transaction. Conversely, a sale to a buyer (either company or investor) or an initial public offering of stock is associated with more benign financial policies, and may lead to an upgrade of one or more notches at the time of the sale.

5) Moody's ratings include assumptions about this entity's financial position, as measured by financial metrics, over the next 18 -- 24 months. Assumptions include the entity's anticipated earnings levels, operating expenses, interest rates paid on debt, and cash flow generation, all of which contribute to an entity's financial metrics. These measures may be impacted by unanticipated expenses, changes to interest rate levels, tax changes or business decisions that change expenditure or capital levels. Modest changes to financial metrics over short periods are typical within most companies and industries. Ratings are not generally sensitive to modest changes in financial metrics which are due to expected business cycles or economic cycles and which are not seen as affecting an entity's long term viability or business profile. However, expectations that an entity's financial metrics are likely to change meaningfully (either positively or negatively) for a longer term could lead to rating changes of one or more notches upwards or downwards. Examples that are common among all industries include one-time debt-funded share buybacks of significant size, which increase debt and cause leverage ratios to remain at higher levels than previously expected into the future. Rating downgrades of one or more notches are common in response to these scenarios.

Please see Moody's Rating Symbols and Definitions on the Ratings Definitions page on www.moody.com for further information on the meaning of each rating category and the definition of default and recovery.

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I hereby attest, as a person who has responsibility for these Credit Rating Actions, that to the best of my knowledge:

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.

Sebastian Hay, Senior Vice President/Manager

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moody's.com/researchdocumentcontentpage.aspx?docid=PBC_1133569.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

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