

**Rating Action: Moody's downgrades 13 South African sub-sovereigns and changes the outlook to negative**

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Global Credit Research - 12 Jun 2017

NOTE: On June 12, 2017, the press release was corrected as follows: In the Regulatory Disclosures section, removed initial rating assignment date and last Credit Rating Action date for the ST Issuer Ratings of "Breede Valley, Municipality of"; "Mangaung, Metropolitan Municipality" and "Tshwane, City of." Revised released follows.

Johannesburg, June 12, 2017 -- Moody's Investors Service today downgraded the ratings of 10 South African regional and local governments (RLGs) and three government-related entities (GRIs) and changed the outlooks to negative. At the same time, Moody's affirmed their national scale ratings.

The rating actions conclude the review for downgrade that commenced on 4 April 2017.

In addition, Moody's affirmed Bergvliet local Municipality's global scale rating and upgraded its national scale rating in line with the new National Scale Mapping tables, and changed the outlook to negative from stable.

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

Today's rating actions on these 10 South African regional and local governments (RLGs) and three government-related issuers (GRIs) follow the weakening of the South African government's credit profile, as captured by Moody's similar rating action on the sovereign rating on 9 June 2017. For further information, refer to the sovereign press release [https://www.moody.com/research/--PR\\_367769](https://www.moody.com/research/--PR_367769).

#### RATINGS RATIONALE

##### DOWNGRADES OF 10 REGIONAL AND LOCAL GOVERNMENTS' GLOBAL SCALE RATINGS, AND THREE GOVERNMENT RELATED ISSUERS

The decision to downgrade by one notch the long term global scale ratings of 10 regional and local governments and three government-related issuers reflects their close operational and financial linkages with the national government, illustrating the centralised nature of the local public sector in South Africa.

While metropolitan cities rated by Moody's (namely, City of Cape Town, Ekurhuleni Metropolitan Municipality, City of Johannesburg, City of Tshwane, Mangaung Metropolitan Municipality and Nelson Mandela Bay Metropolitan Municipality) have comparatively rich economic bases, sound financials and good governance practices, Moody's expects that reduced growth prospects in the medium-term will put pressure on their overall financial performances. In addition, these municipalities feature moderate-to-high debt levels, which add rigidity to their budgets.

Similar to metropolitan cities, the local and district municipalities of Rustenburg, Mbombela, Breede Valley and Amathole District are also exposed to the country's deteriorating economic environment through lower revenue growth. Local municipalities are highly reliant on government transfers for operations and capital investments. Moreover, volatile budget results, resulting from less sophisticated budget planning, are a major factor behind most of the ratings being lower than those of metropolitan cities.

The decision to downgrade the global scale ratings of East Rand Water Care Company (ERWAT) and City Power Johannesburg mirrors changes in the credit profile of their respective parent municipalities, the City of Ekurhuleni and the City of Johannesburg, respectively. Downgrading SANRAL's global scale ratings reflects the issuer's exposure to the country's weakening credit profile. South African National Roads Ag. Ltd (The) (SANRAL) has the status of a public-sector entity, wholly owned by the Republic of South Africa, with the Ministry of Transport representing the government as the sole shareholder. In addition, Moody's also expects that weak cash flows from its Gauteng Freeway Improvement Project (GFIP) will continue to put pressure on SANRAL's finances.

#### NEGATIVE OUTLOOK

The negative outlook on the South African sub-sovereign issuers mirrors the rating action taken on the ratings of its support provider, the Government of South Africa (Baa3/Negative). Changes in the sub-sovereigns' outlook would likely follow any changes taken at the sovereign level.

#### RATIONALE FOR AFFIRMING THE NATIONAL SCALE RATINGS

Moody's affirmed the national scale ratings of 10 regional and local governments and three government-related issuers in line with the new NSR mapping table

[https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1067188](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1067188) .

#### RATIONALE FOR AFFIRMING THE GLOBAL SCALE RATING OF BERGRIVIER LOCAL MUNICIPALITY AND UPGRADING ITS NATIONAL SCALE RATING

Bergrivier's global scale long term issuer rating, which is situated at the low end of the rating range for South African municipalities, was affirmed at Ba3. The municipality's global scale short term rating is unaffected at Not-Prime. At the same time, long term and short term national scale issuer ratings were upgraded to Baa1.za/P-2.za from Baa2.za/P-3.za following the new NSR mapping table.

The affirmation of Bergrivier's global scale long-term rating reflects Moody's expectation that the city will continue to post positive gross operating balances and maintain a sound liquidity profile. In line with our expectations, Bergrivier's debt-to-revenue ratio declined to 20% in 2016 from 29% in 2014. It also reflects Bergrivier's robust operating balances and very strong liquidity position relative to other rated municipalities in the country as well as declining debt levels.

The negative outlook on Bergrivier mirrors the negative outlook assigned to the South African sovereign ratings. Any further downgrade to the sovereign rating would also require a downward adjustment to the rating of Bergrivier to maintain ordinary ranking of rated sub-sovereign issuers in the country.

#### WHAT COULD CHANGE THE RATINGS UP/DOWN

A further weakening of the South African sovereign credit profile could lead to downward adjustments in the ratings of RLGs and government-related entities. Additionally, 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 to the ratings of RLGs and government-related companies could result from the strengthening of the sovereign credit profile. For issuers rated below the sovereign bond rating, evidence of a 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 methodology used in rating City Power Johannesburg , East Rand Water Care Company and South African National Roads Ag. Ltd (The) was Government-Related Issuers published in October 2014.

The principal methodology used in rating Amathole, District Municipality of, Bergrivier, Municipality of, Breede Valley, Municipality of, Cape Town, City of, Ekurhuleni, Metropolitan Municipality of, Johannesburg, City of, Mangaung, Metropolitan Municipality, Mbombela, Municipality of, Nelson Mandela, Metropolitan Municipality, Rustenburg, Municipality of, Tshwane, City of was Regional and Local Governments published in January 2013.

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\\_1060333](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1060333) .

## LIST OF AFFECTED RATINGS

### Downgrades:

- ..Issuer: City Power Johannesburg
- .... LT Issuer Rating, Downgraded to Baa3 from Baa2
- ..Issuer: East Rand Water Care Company
- ....LT Issuer Rating, Downgraded to Ba1 from Baa3
- ..Issuer: South African National Roads Ag. Ltd (The)
- ....ST Issuer Rating, Downgraded to NP from P-3
- ....LT Issuer Rating, Downgraded to Ba1 from Baa3
- ..Issuer: Amathole, District Municipality of
- ...LT Issuer Rating, Downgraded to Ba2 from Ba1
- ..Issuer: Breede Valley, Municipality of
- ....LT Issuer Rating, Downgraded to Ba2 from Ba1
- ..Issuer: Cape Town, City of
- ....LT Issuer Rating, Downgraded to Baa3 from Baa2
- ....ST Issuer Rating, Downgraded to P-3 from P-2
- ....Senior unsecured MTN, Downgraded to (P)Baa3 from (P)Baa2
- ....Senior Unsecured Regular Bond/Debenture, Downgraded to Baa3 from Baa2
- ..Issuer: Ekurhuleni, Metropolitan Municipality of
- ...LT Issuer Rating, Downgraded to Baa3 from Baa2
- ....ST Issuer Rating, Downgraded to P-3 from P-2
- ....Senior Unsecured MTN, Downgraded to (P)Baa3 from (P)Baa2
- ....Senior Unsecured Regular Bond/Debenture, Downgraded to Baa3 from Baa2
- ..Issuer: Johannesburg, City of
- ....LT Issuer Rating, Downgraded to Baa3 from Baa2
- ....ST Issuer Rating, Downgraded to P-3 from P-2
- ....Senior Unsecured MTN, Downgraded to (P)Baa3 from (P)Baa2
- ....Senior Unsecured Regular Bond/Debenture, Downgraded to Baa3 from Baa2
- ..Issuer: Mangaung, Metropolitan Municipality
- ....LT Issuer Rating, Downgraded to Ba2 from Ba1
- ..Issuer: Mbombela, Municipality of
- ....LT Issuer Rating, Downgraded to Ba2 from Ba1
- ..Issuer: Nelson Mandela, Metropolitan Municipality

...LT Issuer Rating, Downgraded to Baa3 from Baa2

..Issuer: Rustenburg, Municipality of

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

..Issuer: Tshwane, City of

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

Affirmations:

..Issuer: City Power Johannesburg

...LT Issuer Rating, Affirmed Aa1.za

..Issuer: East Rand Water Care Company

...LT Issuer Rating, Affirmed Aa3.za

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

...LT Issuer Rating, Affirmed Aa3.za

.ST Issuer Rating, Affirmed P-1.za

..Issuer: Amathole, District Municipality of

...LT Issuer Rating, Affirmed A2.za

..Issuer: Bergvrievier, Municipality of

...LT Issuer Rating, Affirmed Ba3

..Issuer: Breede Valley, Municipality of

...LT Issuer Rating, Affirmed A2.za

...ST Issuer Rating, Affirmed P-1.za

..Issuer: Cape Town, City of

...ST Issuer Rating, Affirmed P-1.za

...LT Issuer Rating, Affirmed Aaa.za

...Senior unsecured MTN, Affirmed Aaa.za

...Senior Unsecured Regular Bond/Debenture, Affirmed Aaa.za

..Issuer: Ekurhuleni, Metropolitan Municipality of

...ST Issuer Rating, Affirmed P-1.za

...LT Issuer Rating, Affirmed Aaa.za

...Senior Unsecured MTN, Affirmed Aaa.za

...Senior Unsecured Regular Bond/Debenture, Affirmed Aaa.za

..Issuer: Johannesburg, City of

...ST Issuer Rating, Affirmed P-1.za

...LT Issuer Rating, Affirmed Aa1.za

...Senior Unsecured MTN, Affirmed Aa1.za

....Senior Unsecured Regular Bond/Debenture, Affirmed Aa1.za

..Issuer: Mangaung, Metropolitan Municipality

....LT Issuer Rating, Affirmed A1.za

....ST Issuer Rating, Affirmed P-1.za

..Issuer: Mbombela, Municipality of

....LT Issuer Rating, Affirmed A2.za

..Issuer: Nelson Mandela, Metropolitan Municipality

....LT Issuer Rating, Affirmed Aa1.za

..Issuer: Rustenburg, Municipality of

....LT Issuer Rating, Affirmed A1.za

..Issuer: Tshwane, City of

....LT Issuer Rating, Affirmed A1.za

....ST Issuer Rating, Affirmed P-1.za

Upgrades:

..Issuer: Bergrivier, Municipality of

....LT Issuer Rating, Upgraded to Baa1.za from Baa2.za

....ST Issuer Rating, Upgraded to P-2.za from P-3.za

Outlook Actions:

..Issuer: City Power Johannesburg

....Outlook, Changed To Negative From Rating Under Review

..Issuer: East Rand Water Care Company

....Outlook, Changed To Negative From Rating Under Review

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

....Outlook, Changed To Negative From Rating Under Review

..Issuer: Amathole, District Municipality of

....Outlook, Changed To Negative From Rating Under Review

..Issuer: Bergrivier, Municipality of

....Outlook, Changed To Negative From Stable

..Issuer: Breede Valley, Municipality of

....Outlook, Changed To Negative From Rating Under Review

..Issuer: Cape Town, City of

....Outlook, Changed To Negative From Rating Under Review

..Issuer: Ekurhuleni, Metropolitan Municipality of

...Outlook, Changed To Negative From Rating Under Review

..Issuer: Johannesburg, City of

...Outlook, Changed To Negative From Rating Under Review

..Issuer: Mangaung, Metropolitan Municipality

...Outlook, Changed To Negative From Rating Under Review

..Issuer: Mbombela, Municipality of

...Outlook, Changed To Negative From Rating Under Review

..Issuer: Nelson Mandela, Metropolitan Municipality

...Outlook, Changed To Negative From Rating Under Review

..Issuer: Rustenburg, Municipality of

...Outlook, Changed To Negative From Rating Under Review

..Issuer: Tshwane, City of

...Outlook, Changed To Negative From Rating Under Review

Ratings not affected:

..Issuer: Tshwane, City of

....ST Issuer Rating, NP

..Issuer: Mangaung, Metropolitan Municipality

....ST Issuer Rating, NP

..Issuer: Breede Valley, Municipality of

....ST Issuer Rating, NP

..Issuer: Bergvrievier, Municipality of

....ST Issuer Rating, NP

#### 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.

**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.

**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](http://www.moody.com).

## REGULATORY DISCLOSURES

The rating for 823235132, NSR LT Issuer Rating, ISSUER RATING, ZAR of City Power Johannesburg was initially assigned on 16 Jan 2013 and the last Credit Rating Action was taken on 11 May 2016.

The rating for 822471425, NSR LT Issuer Rating, ISSUER RATING, ZAR of East Rand Water Care Company was initially assigned on 11 May 2011 and the last Credit Rating Action was taken on 11 May 2016.

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 05 Dec 2016.

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 05 Dec 2016.

The rating for 820596390, NSR LT Issuer Rating, ISSUER RATING, ZAR of Amathole, District Municipality of was initially assigned on 18 Jan 2008 and the last Credit Rating Action was taken on 11 May 2016.

The rating for 823963938, NSR LT Issuer Rating, ISSUER RATING, ZAR of Bergrivier, Municipality of was initially assigned on 12 Sep 2014 and the last Credit Rating Action was taken on 11 May 2016.

The rating for 823963938, NSR ST Issuer Rating, ISSUER RATING, ZAR of Bergrivier, Municipality of was initially assigned on 12 Sep 2014 and the last Credit Rating Action was taken on 11 May 2016.

The rating for 820596243, NSR LT Issuer Rating, ISSUER RATING, ZAR of Breede Valley, Municipality of was initially assigned on 27 May 2008 and the last Credit Rating Action was taken on 11 May 2016.

The rating for 820596243, NSR ST Issuer Rating, ISSUER RATING, ZAR of Breede Valley, Municipality of was initially assigned on 26 May 2015 and the last Credit Rating Action was taken on 11 May 2016.

The rating for 820595946, NSR LT Issuer Rating, ISSUER RATING, ZAR of Cape Town, City of was initially assigned on 18 January 2008 and the last Credit Rating Action was taken on 11 May 2016.

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 11 May 2016.

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 11 May

2016.

The rating for ZAG000054982, NSR Senior Unsecured, SOUTH AFRICAN BOND, ZAR of Cape Town, City of was initially assigned on 15 Jan 2009 and the last Credit Rating Action was taken on 11 May 2016.

The rating for ZAG000068719, NSR Senior Unsecured, SOUTH AFRICAN BOND, ZAR of Cape Town, City of, was initially assigned on 08 Apr 2009 and the last Credit Rating Action was taken on 11 May 2016.

The rating for ZAG000075995, NSR Senior Unsecured, SOUTH AFRICAN BOND, ZAR of Cape Town, City of, was initially assigned on 12 Mar 2010 and the last Credit Rating Action was taken on 11 May 2016.

The rating for 820595939, NSR LT Issuer Rating, ISSUER RATING, ZAR of Ekurhuleni, Metropolitan Municipality of was initially assigned on 18 January 2008 and the last Credit Rating Action was taken on 11 May 2016.

The rating for 820595939, NSR ST Issuer Rating, ISSUER RATING, ZAR of Ekurhuleni, Metropolitan Municipality of was initially assigned on 16 Jul 2010 and the last Credit Rating Action was taken on 11 May 2016.

The rating for 822158922, NSR LT Senior Unsecured MTN, SOUTH AFRICAN MTN PROGRAM, ZAR of Ekurhuleni, Metropolitan Municipality of was initially assigned on 16 Jul 2010 and the last Credit Rating Action was taken on 11 May 2016.

The rating for ZAG000078916, NSR Senior Unsecured, SOUTH AFRICAN BOND, ZAR of Ekurhuleni, Metropolitan Municipality of was initially assigned on 16 Jul 2010 and the last Credit Rating Action was taken on 11 May 2016.

The rating for ZAG000084526, NSR Senior Unsecured, SOUTH AFRICAN BOND, ZAR of Ekurhuleni, Metropolitan Municipality of was initially assigned on 07 Mar 2011 and the last Credit Rating Action was taken on 11 May 2016.

The rating for ZAG000094848, NSR Senior Unsecured, SOUTH AFRICAN BOND, ZAR of Ekurhuleni, Metropolitan Municipality of was initially assigned on 24 Apr 2012 and the last Credit Rating Action was taken on 11 May 2016.

The rating for ZAG000105669, NSR Senior Unsecured, SOUTH AFRICAN BOND, ZAR of Ekurhuleni, Metropolitan Municipality of was initially assigned on 13 May 2013 and the last Credit Rating Action was taken on 11 May 2016.

The rating for ZAG000115148, NSR Senior Unsecured, SOUTH AFRICAN BOND, ZAR of Ekurhuleni, Metropolitan Municipality of was initially assigned on 11 Apr 2014 and the last Credit Rating Action was taken on 11 May 2016.

The rating for ZAG000127358, NSR Senior Unsecured, SOUTH AFRICAN BOND, ZAR of Ekurhuleni, Metropolitan Municipality of was initially assigned on 17 Jun 2015 and the last Credit Rating Action was taken on 11 May 2016.

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 11 May 2016.

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 11 May 2016.

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 11 May 2016.

The rating for 825092055, NSR 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 13 Jun 2016.

The rating for ZAG000030941, NSR Senior Unsecured, SOUTH AFRICAN BOND, ZAR of Johannesburg, City of was initially assigned on 14 May 2008 and the last Credit Rating Action was taken on 11 May 2016.



The rating for ZAG000054339, NSR Senior Unsecured, SOUTH AFRICAN BOND, ZAR of Johannesburg, City of was initially assigned on 27 May 2008 and the last Credit Rating Action was taken on 11 May 2016.

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

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 11 May 2016.

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 11 May 2016.

The rating for 820596120, NSR LT Issuer Rating, ISSUER RATING, ZAR of Mbombela, Municipality of was initially assigned on 19 May 2008 and the last Credit Rating Action was taken on 11 May 2016.

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 11 May 2016.

The rating for 820970107, NSR LT Issuer Rating, ISSUER RATING, ZAR of Rustenburg, Municipality of was initially assigned on 29 Sep 2008 and the last Credit Rating Action was taken on 11 May 2016.

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 11 May 2016.

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 11 May 2016.

The rating for 823235132, LT Issuer Rating, ISSUER RATING of City Power Johannesburg was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 04 Apr 2017.

The rating for 822471425, LT Issuer Rating, ISSUER RATING of East Rand Water Care Company was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 04 Apr 2017.

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 04 Apr 2017.

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 04 Apr 2017.

The rating for 820596390, LT Issuer Rating, ISSUER RATING of Amathole, District Municipality of was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 04 Apr 2017.

The rating for 823963938, LT Issuer Rating, ISSUER RATING of Bergrivier, Municipality of was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 04 Apr 2017.

The rating for 820596243, LT Issuer Rating, ISSUER RATING of Breede Valley, Municipality of was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 04 Apr 2017.

The rating for 820595946, LT Issuer Rating, ISSUER RATING of Cape Town, City was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 04 Apr 2017.

The rating for 820595946, ST Issuer Rating, ISSUER RATING of Cape Town, City of was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 04 Apr 2017.

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 04 Apr 2017.

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 04 Apr 2017.

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 04 Apr 2017.

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 04 Apr 2017.

The rating for 820595939, LT Issuer Rating, ISSUER RATING of Ekurhuleni, Metropolitan Municipality of was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 04 Apr 2017.

The rating for 820595939, ST Issuer Rating, ISSUER RATING of Ekurhuleni, Metropolitan Municipality of was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 04 Apr 2017.

The rating for 822158922, LT Senior Unsecured MTN, ZAR of Ekurhuleni, Metropolitan Municipality of was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 04 Apr 2017.

The rating for ZAG000078916, LT Senior Unsecured, BOND, ZAR of Ekurhuleni, Metropolitan Municipality of was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 04 Apr 2017.

The rating for ZAG000084526, LT Senior Unsecured, BOND, ZAR of Ekurhuleni, Metropolitan Municipality of was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 04 Apr 2017.

The rating for ZAG000094848, LT Senior Unsecured, BOND, ZAR of Ekurhuleni, Metropolitan Municipality of was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 04 Apr 2017.

The rating for ZAG000105669, LT Senior Unsecured, BOND, ZAR of Ekurhuleni, Metropolitan Municipality of was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 04 Apr 2017.

The rating for ZAG000115148, LT Senior Unsecured, BOND, ZAR of Ekurhuleni, Metropolitan Municipality of was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 04 Apr 2017.

The rating for ZAG000127358, LT Senior Unsecured, BOND, ZAR of Ekurhuleni, Metropolitan Municipality of was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 04 Apr 2017.

The rating for 820595948, LT Issuer Rating, ISSUER RATING of Johannesburg, City of was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 04 Apr 2017.

The rating for 820595948, ST Issuer Rating, ISSUER RATING of Johannesburg, City of was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 04 Apr 2017.

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 04 Apr 2017.

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 04 Apr 2017.

The rating for ZAG000054339, LT Senior Unsecured, BOND, ZAR of Johannesburg, City was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 04 Apr 2017.

The rating for ZAG000030941, LT Senior Unsecured, BOND, ZAR of Johannesburg, City was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 04 Apr 2017.

The rating for ZAG000137571, LT Senior Unsecured, BOND, ZAR of Johannesburg, City was initially assigned on 13 Jun 2016 and the last Credit Rating Action was taken on 04 Apr 2017.

The rating for 824341396, LT Issuer Rating, ISSUER RATING of Mangaung, Metropolitan Municipality, was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 04 Apr 2017.

The rating for 820596120, LT Issuer Rating, ISSUER RATING of Mbombela, Municipality of, was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 04 Apr 2017.

The rating for 820596002, LT Issuer Rating, ISSUER RATING of Nelson Mandela, Metropolitan Municipality, was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 04 Apr 2017.

The rating for 820970107, LT Issuer Rating, ISSUER RATING of Rustenburg, Municipality of, was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 04 Apr 2017.

The rating for 820595950, LT Issuer Rating, ISSUER RATING of Tshwane, City of, was initially assigned on 11 May 2016 and the last Credit Rating Action was taken on 04 Apr 2017.

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.

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The main assumptions underlying the methodology used to determine the credit ratings for City Power Johannesburg, East Rand 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.

The main assumptions underlying the methodology used to determine the credit ratings for Amathole, District Municipality of, Bergrivier, Municipality of, Breede Valley, Municipality of, Cape Town, City of, Ekurhuleni, Metropolitan Municipality of, Johannesburg, City of, Mangaung, Metropolitan Municipality, Mbombela, Municipality of, Nelson Mandela, Metropolitan Municipality, Rustenburg, Municipality of, Tshwane, 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.

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

Information types used to prepare the include the following: Financial data, Economic and demographic data, Public information, and Moody's information.

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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.

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 for City Power Johannesburg, East Rand 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.

The sensitivity to assumptions for the credit ratings for Amathole, District Municipality of, Bergrivier, Municipality of, Breede Valley, Municipality of, Cape Town, City of, Ekurhuleni, Metropolitan Municipality of, Johannesburg, City of, Mangaung, Metropolitan Municipality, Mbombela, Municipality of, Nelson Mandela, Metropolitan Municipality, Rustenburg, Municipality of, Tshwane, City 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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Mauro Crisafulli, Associate Managing Director

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Daniel Mazibuko  
Associate Analyst  
Sub-Sovereign Group  
Moody's Investors Service South Africa (Pty) Ltd.  
The Forum  
2 Maude Street  
2196 Sandton  
Johannesburg  
South Africa  
JOURNALISTS: 44 20 7772 5456  
Client Service: 44 20 7772 5454

David Rubinoff  
MD - Sub-Sovereigns  
Sub-Sovereign Group  
JOURNALISTS: 44 20 7772 5456  
Client Service: 44 20 7772 5454

Releasing Office:  
Moody's Investors Service South Africa (Pty) Ltd.  
The Forum  
2 Maude Street  
2196 Sandton  
Johannesburg  
South Africa  
JOURNALISTS: 44 20 7772 5456  
Client Service: 44 20 7772 5454

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