10.5. **Redemption at the Option of the Senior Noteholders**

If Senior Noteholders are specified in the Applicable Pricing Supplement as having an option to request the redemption of Senior Notes, such Senior Noteholders may exercise such option in respect of such Senior Notes by delivering to the Transfer Agent, in accordance with Condition 18 (*Notices*), a duly executed notice (**Put Notice**), at least 30 (thirty) Days but not more than 60 (sixty) Days, prior to the Optional Redemption Date.

For redemption in part, the redemption amount specified in such Put Notice in respect of any such Senior Note must be of a principal amount equal to or greater than the Minimum Redemption Amount or equal to or less than the Higher Redemption Amount, each as indicated in the Applicable Pricing Supplement.

The redemption by the Senior Noteholders of uncertificated Senior Notes shall take place in accordance with the Applicable Procedures.

The Issuer shall proceed to redeem the Senior Notes in respect of which such option has been exercised in accordance with the terms of the Applicable Pricing Supplement, at the Optional Redemption Amount and on the Optional Redemption Date, together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date(s).

In the event that the redeeming Senior Noteholder is the holder of an Individual Certificate, then such Senior Noteholder shall (attached to the Put Notice) deliver the Individual Certificate to the Transfer Agent for cancellation. A holder of an Individual Certificate shall, in that holder's Put Notice, specify a bank account into which the redemption payment amount is to be paid.

The delivery of Put Notices shall be required to take place during normal office hours to the Transfer Agent. Put Notices shall be available for inspection at the Specified Offices of the Transfer Agent.

Any Put Notice given by a holder of any Senior Note pursuant to this paragraph shall be irrevocable except where, after giving the notice but prior to the due date of redemption, an Event of Default shall have occurred and be continuing in which event such Senior Noteholder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this paragraph and instead to declare such Senior Note forthwith due and payable pursuant to Condition 16 (*Events of Default*).

The Issuer shall have no liability to remedy any defects in any Put Notice or bring any such defects to the attention of any Noteholder.

10.6. **Early Redemption Amounts**

For the purpose of Conditions 10.2 (*Redemption for Tax Reasons*) and/or Condition 16 (*Events of Default*), the Notes will be redeemed at the Early Redemption Amount calculated as follows:

10.6.1. in the case of Notes with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof; or

10.6.2. in the case of Notes (other than Zero Coupon Notes) with a Final Redemption Amount which is or may be less or greater than the Issue Price, at the amount specified in, or determined in the manner specified in, the Applicable Pricing Supplement or, if no such amount or manner is so specified in the Pricing Supplement, at their Nominal Amount; or

10.6.3. in the case of Zero Coupon Notes, at an amount (the **Amortised Face Amount**) equal to the sum of: (i) the Reference Price; and (ii) the product of the Implied Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable; or

10.6.4. such other amount or method of calculation of the amount payable as is specified in the Applicable Pricing Supplement.

Where such calculation is to be made for a period which is not a whole number of years, it shall be calculated on the basis of actual Days elapsed divided by 365 (three hundred and sixty five), or such other calculation basis as may be specified in the Applicable Pricing Supplement.

10.7. **Instalment Notes**

Instalment Notes will be redeemed at the Instalment Amounts and on the Instalment Dates. In the case of early redemption in accordance with Conditions 10.2 (*Redemption for Tax Reasons*) and/or Condition 16 (*Events of Default*), the Early Redemption Amount will be determined pursuant to Condition 10.6 (*Early Redemption Amounts*).

10.8. **Partly Paid Notes**

If the Notes are Partly Paid Notes, they will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition 10 (*Redemption and Purchase*) and the Applicable Pricing Supplement. In the case of early redemption in accordance with Conditions 10.2 (*Redemption for Tax Reasons*) and/or Condition 16 (*Events of Default*), the Early Redemption Amount will be determined pursuant to Condition 10.6 (*Early Redemption Amounts*).

10.9. **Exchangeable Notes**

If the Notes are Exchangeable Notes, they will be redeemed, whether at maturity, early redemption or otherwise, in the manner indicated in the Applicable Pricing Supplement. Exchangeable Notes in respect of which Mandatory Exchange is indicated in the Applicable Pricing Supplement as applying, or upon the exercise by the Noteholder of the Noteholder's Exchange Right (if applicable), will be redeemed by the Issuer delivering to each Noteholder as many of the Exchange Securities as are required in accordance with the Exchange Price. The delivery by the Issuer of the Exchange Securities in the manner set out in the Applicable Pricing Supplement shall constitute the *in specie* redemption in full of such Notes.

10.10. **Purchases**

The Issuer or Municipal Owned Entity may at any time purchase Notes at any price in the open market or otherwise. Such Notes may, subject to Applicable Law, be held, resold, or, at the option of the Issuer, surrendered to the Transfer Agent for cancellation.

10.11. **Cancellation**

All Notes which have been redeemed will forthwith be cancelled. All Notes so cancelled shall be forwarded to the Issuer and cannot be re-issued or resold. Where only a portion of Notes represented by an Individual Certificate are cancelled, the Transfer Agent shall deliver an Individual Certificate to such Noteholder in respect of the balance of the Notes.

10.12. **Late Payment on Zero Coupon Notes**

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Condition 10 (*Redemption and Purchase*) or upon its becoming due and repayable as provided in Condition 16 (*Events of Default*) is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 10.6.3 as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of: (i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and (ii) 5 (five) Days after the date on which the full amount of the moneys payable has been received by the CSD, and notice to that effect has been given to the Noteholder in accordance with Condition 18 (*Notices*).

10.13. **Applicable Procedures**

The redemption and partial redemption of Beneficial Interests shall take place in accordance with the Applicable Procedures and the Financial Markets Act.

11. **TAXATION**

All payments of principal and interest in respect of the Notes by the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of South Africa or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law.

Where withholding or deduction is required by law, the Issuer will pay such additional amounts as

shall be necessary in order that the net amounts received by the holders of the Notes after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, as the case may be, in the absence of such withholding or deduction, except that no such additional amounts shall be payable with respect to any Note:

11.1. held by or on behalf of a Noteholder who is liable for such taxes or duties in respect of such Note by reason of his having some connection with South Africa other than the mere holding of such Note or the receipt of principal or interest in respect thereof; or

11.2. presented for payment by or on behalf of, or held by, a Noteholder who could lawfully avoid (but has not so avoided) such withholding or deduction by complying with any statutory requirements in force at the present time or in the future by making a declaration of non-residence or other similar claim or filing for exemption to which it is entitled to the relevant tax authority or the Paying Agent (the effect of which is not to require the disclosure of the identity of the relevant Noteholder); or

11.3. where such withholding or deduction is in respect of taxes levied or imposed on interest or principal payments only by virtue of the inclusion of such payments in the taxable income (as defined in section 1 of the Income Tax Act) or taxable capital gain (as defined in paragraph 1 of Schedule 8 to the Income Tax Act) of any Noteholder; or

11.4. where (in the case of payment of principal and/or interest which is conditional on surrender and/or presentation of the relevant Individual Certificate in accordance with the Terms and Conditions) the relevant Individual Certificate is surrendered and/or presented more than 30 (thirty) Days after the Relevant Date, except to the extent that the Noteholder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth Day; or

11.5. if such withholding or deduction arises through the exercise by revenue authorities of special powers in respect of tax defaulters.

Any reference in these Terms and Conditions to any amounts in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable under these Terms and Conditions or under any undertakings given in addition to, or in substitution for, these Terms and Conditions.

12. EXCHANGE OF BENEFICIAL INTERESTS AND REPLACEMENT OF INDIVIDUAL CERTIFICATES

12.1. Exchange of Beneficial Interests

12.1.1. The holder of a Beneficial Interest in Notes may, in terms of the Applicable Procedures and subject to section 42 of the Financial Markets Act, by written notice to the holder's nominated Participant (or, if such holder is a Participant, the CSD), request that such Beneficial Interest be exchanged for Notes in definitive form represented by an Individual Certificate (the **Exchange Notice**). The Exchange Notice shall specify (i) the name, address and bank account details of the holder of the Beneficial Interest and (ii) the Day on which such Beneficial Interest is to be exchanged for an Individual Certificate; provided that such Day shall be a Business Day and shall fall not less than 30 (thirty) Days after the Day on which such Exchange Notice is given.

12.1.2. The holder's nominated Participant will, following receipt of the Exchange Notice, through the CSD, notify the Transfer Agent that it is required to exchange such Beneficial Interest for Notes represented by an Individual Certificate. The Transfer Agent will, as soon as is practicable but within 14 (fourteen) Days after receiving such notice, in accordance with the Applicable Procedures, procure that an Individual Certificate is prepared, authenticated and made available for delivery, on a Business Day falling within the aforementioned 14 (fourteen) Day period, to the holder of the Beneficial Interest at the Specified Office of the Transfer Agent; provided that joint holders of a Beneficial Interest shall be entitled to receive only one Individual Certificate in respect of that joint holding, and the delivery to one of those joint holders shall be delivery to all of them.

12.1.3. In the case of the exchange of a Beneficial Interest in Notes issued in uncertificated form:

12.1.3.1. the Person recorded in the Uncertificated Securities Register in accordance with Applicable Laws and Applicable Procedures will surrender (through the CSD system) such uncertificated Notes to the Transfer Agent at its Specified Office; and

12.1.3.2. the Transfer Agent will obtain the release of such uncertificated Notes from the CSD in accordance with the Applicable Procedures.

12.1.3.3. An Individual Certificate shall, in relation to a Beneficial Interest in any number of Notes issued in uncertificated form of a particular aggregate Nominal Amount standing to the account of the holder thereof, represent that number of Notes of that aggregate Nominal Amount, and shall otherwise be in such form as may be agreed between the Issuer and the Transfer Agent; provided that if such aggregate Nominal Amount is equivalent to a fraction of the Specified Denomination or a fraction of any multiple thereof, such Individual Certificate shall be issued in accordance with, and be governed by, the Applicable Procedures.

12.2. **Replacement**

If any Individual Certificate is worn out, mutilated, defaced, stolen, destroyed or lost it may be replaced at the Specified Office of the Transfer Agent, on payment by the claimant of such costs and expenses as may be incurred in connection therewith and the provision of such indemnity as the Issuer and the Transfer Agent may reasonably require. Worn out, mutilated or defaced Individual Certificates must be surrendered at the Specified Office of the Transfer Agent before replacements will be issued.

12.3. **Death and sequestration or liquidation of Noteholder**

Any Person becoming entitled to Notes as a consequence of the death, sequestration or liquidation of the holder of such Notes may, upon producing evidence to the satisfaction of the Issuer that he holds the position in respect of which he proposes to act under this Condition 12.3, or of his title as the Issuer and the Transfer Agent shall require, be registered himself as the holder of such Notes or, subject to the Applicable Procedures, this Condition 12.3 and Condition 14.2 (*Transfer of Notes represented by Individual Certificates*), may transfer such Notes. The Issuer and (if applicable) the CSD and the relevant Participant shall be entitled to retain any amount payable upon the Notes to which any Person is so entitled until such Person shall be registered as aforesaid or until such time such Notes are duly transferred.

12.4. **Costs**

The costs and expenses of the printing, issue and delivery of each Individual Certificate and all taxes and governmental charges that may be imposed in relation to such Individual Certificate and/or the printing, issue and delivery of such Individual Certificate shall be borne by the holder of the Notes represented by that Individual Certificate. Separate costs and expenses relating to the provision of Individual Certificates and/or the transfer of Notes may be levied by other Persons, such as a Participant, under the Applicable Procedures, and such costs and expenses shall not be borne by the Issuer. The costs and expenses of the delivery of Certificates and all taxes or governmental charges or insurance charges that may be imposed in relation to such mode of delivery shall be borne by the Noteholder.

13. **REGISTER**

13.1. The Register of Noteholders:

13.1.1. shall be kept at the Specified Office of the Transfer Agent and a copy thereof shall be made available for inspection at the registered office of the Issuer (as set out at the end of the Programme Memorandum) or such other Person as may be appointed for the time being by the Issuer to maintain the Register;

13.1.2. shall contain the names, addresses and bank account numbers of the registered Noteholders;

13.1.3. shall show the total Nominal Amount of the Notes held by Noteholders;

13.1.4. shall show the dates upon which each of the Noteholders was registered as such;

13.1.5. shall show the serial numbers of the Individual Certificates and the dates of issue thereof;

13.1.6. shall be open for inspection at all reasonable times during business hours on Business Days by any Noteholder or any Person authorised in writing by a Noteholder; and

13.1.7. shall be closed during the Books Closed Period.

13.2. The Transfer Agent shall alter the Register in respect of any change of name, address or account number of any of the Noteholders of which it is notified.

13.3. Except as provided for in these Terms and Conditions or as required by law, in respect of Notes, the Issuer will only recognise a Noteholder as the owner of the Notes registered in that Noteholder's name as per the Register.

13.4. Except as provided for in these Terms and Conditions or as required by law, the Issuer shall not be bound to enter any trust in the Register or to take notice of or to accede to the execution of any trust (express, implied or constructive) to which any Individual Certificate may be subject.

14. TRANSFER OF NOTES

14.1. ***Transfer of Beneficial Interests in Notes held in the CSD***

14.1.1. Beneficial Interests may be transferred only in accordance with the Applicable Procedures through the CSD.

14.1.2. Transfers of Beneficial Interests to and from clients of Participants occur by way of electronic book entry in the securities accounts maintained by the Participants for their clients, in accordance with the Applicable Procedures.

14.1.3. Transfers of Beneficial Interests among Participants occur through electronic book entry in the central securities accounts maintained by the CSD for the Participants, in accordance with the Applicable Procedures.

14.1.4. Transfers of Beneficial Interests in Notes will not be recorded in the Register and the Person recorded in the Uncertificated Securities Register as the registered Noteholder will continue to be reflected in the Register as the Noteholder of such Notes notwithstanding such transfers.

14.2. ***Transfer of Notes represented by Individual Certificates***

14.2.1. In order for any transfer of Notes represented by an Individual Certificate to be recorded in the Register, and for such transfer to be recognised by the Issuer:

14.2.1.1. the transfer of such Notes must be embodied in a Transfer Form;

14.2.1.2. the Transfer Form must be signed by the registered Noteholder of such Notes and the transferee, or any Representatives of that registered Noteholder or transferee; and

14.2.1.3. the Transfer Form must be delivered to the Transfer Agent at its Specified Office together with the Individual Certificate representing such Notes for cancellation.

14.2.2. Notes represented by an Individual Certificate may only be transferred, in whole or in part, in amounts of not less than the Specified Denomination (or any multiple thereof).

14.2.3. Subject to this Condition 14.2, the Transfer Agent will, within 3 (three) Business Days of receipt by it of a valid Transfer Form (or such longer period as may be required to comply with any Applicable Laws and/or Applicable Procedures), record the transfer of Notes represented by an Individual Certificate (or the relevant portion of such Notes) in the Register, and authenticate and deliver to the transferee at the Transfer Agent's Specified Office or, at the risk of the transferee, send by mail to such address as the transferee may request, a new Individual Certificate in respect of the Notes transferred reflecting the outstanding Nominal Amount of the Notes transferred.

14.2.4. Where a Noteholder has transferred a portion only of Notes represented by an Individual Certificate, the Transfer Agent will authenticate and deliver to such Noteholder at the Transfer Agent's Specified Office or, at the risk of such Noteholder, send by mail to such address as such Noteholder may request, at the risk of such Noteholder, a new Individual Certificate representing the balance of the Notes held by such Noteholder.

14.2.5. The transferor of any Notes represented by an Individual Certificate will be deemed to remain the owner thereof until the transferee is registered in the Register as the holder thereof.

14.2.6. Before any transfer of Notes represented by an Individual Certificate is registered in the Register, all relevant transfer taxes (if any) must have been paid by the transferor and/or the transferee and such evidence must be furnished as the Issuer and the Transfer Agent may reasonably require as to the identity and title of the transferor and the transferee.

14.2.7. No transfer of any Notes represented by an Individual Certificate will be registered whilst the Register is closed as contemplated in Condition 13 (*Register*).

If a transfer of any Notes represented by an Individual Certificate is registered in the Register, the Transfer Form and cancelled Individual Certificate will be retained by the Transfer Agent.

In the event of a partial redemption of Notes under Condition 10.3 (*Redemption at the Option of the Issuer*), the Transfer Agent shall not be required in terms of Condition 10.3 (*Redemption at the Option of the Issuer*), to register the transfer of any Notes during the period beginning on the tenth Day before the date of the partial redemption and ending on the date of the partial redemption (both inclusive).

15. PRESCRIPTION

The Notes will become void unless presented for payment of principal within a period of three years after their redemption date.

16. EVENTS OF DEFAULT

16.1. Senior Notes

16.1.1. If, for any particular Series of Notes, one or more of the following events or unless otherwise set out in the Applicable Pricing Supplement (**Events of Default**) shall have occurred and be continuing:

16.1.1.1. ***Non-Payment***

the Issuer fails to pay any principal or interest due under the Senior Notes on its due date for payment thereof and any such failure continues for a period of 7 (seven) Business Days, after receiving written notice from any of the Senior Noteholders demanding such payment; or

16.1.1.2. ***Negative Pledge***

the Issuer or any other Material Municipal Owned Entity, as the case may be, fails to remedy a breach of Condition 7 (*Negative Pledge*) within 21 (twenty one) Business Days of receiving written notice from the Senior Noteholders demanding such remedy; or

16.1.1.3. ***Breach of Material Obligations***

the Issuer or any Material Municipal Owned Entity fails to perform or observe any of its other material obligations or undertakings (not specifically covered elsewhere in this clause 16.1) under or in respect of any of the Senior Notes and such failure continues for a period of 30 (thirty) Days after receipt by the Issuer of a notice from the Senior Noteholders (in accordance with Condition 18 (*Notices*)) in respect of such failure specifying the failure and requesting the Issuer to remedy same; or

16.1.1.4. ***Cross Default***

the Issuer or any Material Municipal Owned Entity, as the case may be, defaults on the payment of the principal or interest, or any obligations in respect of Material Indebtedness of, or assumed or guaranteed by the Issuer, or any Material Municipal Owned Entity, as the case may be, when and as the same shall become due and payable and where notice has been given to the Issuer or any Material Municipal Owned Entity, as the case may be, of the default and if such default shall have continued for more than the notice period (if any) applicable thereto and the time for payment of such interest or principal or other obligation has not been effectively extended or waived, or if any such obligations in respect of any Material Indebtedness

of, or assumed or guaranteed by, the Issuer or any Material Municipal Owned Entity, as the case may be, shall have become repayable before the due date thereof as a result of acceleration of maturity by reason of the occurrence of any event of default thereunder; or

16.1.1.5. ***Authorisation and Consents***

any action, condition or thing, including obtaining any consent, licence approval or authorisation now or in future necessary to enable the Issuer to comply with its obligations under the Notes is not fulfilled or in place or any such consent, licence, approval or authorisation is revoked, modified, withdrawn or withheld or ceases to be in full force and effect, resulting in the Issuer being unable to perform any of its payment or other obligations in terms of the Notes and the Issuer fails to take reasonable steps to remedy such circumstances within 7 (seven) Business Days of receiving written notice from the Noteholders demanding such remedy; or

16.1.1.6. ***Insolvency etc.***

an order by any court of competent jurisdiction or authority for the winding-up, dissolution, corporate rescue proceedings or placement under supervision and commencement of business rescue proceedings of the Material Municipal Owned Entities, as the case may be, is made whether provisionally (and not dismissed or withdrawn within 30 (thirty) Days thereof) or finally, or any Material Municipal Owned Entities, as the case may be, is placed under voluntary liquidation or curatorship or a meeting is convened to consider the passing of a resolution, or a resolution is passed, to authorise the implementation of any business rescue proceedings in respect of any Material Municipal Owned Entities, provided that no liquidation, curatorship, winding-up, dissolution or business rescue proceedings shall constitute an Event of Default if (i) the liquidation, winding-up, dissolution or business rescue proceedings is for the purposes of effecting an amalgamation, merger, demerger, consolidation, reorganisation or other similar arrangement with any third party; or (ii) the liquidation, winding-up, dissolution or business rescue proceedings is for the purposes of effecting an amalgamation, merger, demerger, consolidation, reorganization or other similar arrangement, the terms of which were approved by an Extraordinary Resolution of Noteholders before the date of the liquidation, winding-up, dissolution or business rescue proceedings; or

16.1.1.7. ***Winding-up etc.***

the Issuer or any Material Municipal Owned Entities, as the case may be, initiates or consents to judicial proceedings relating to itself under any applicable compromise with creditors, liquidation, winding-up, business rescue or insolvency or other similar laws or compromises or attempts to compromise, with its creditors generally (or any significant class of creditors) or any meeting of creditors is convened by the Issuer or any Material Municipal Owned Entities, as the case may be, to consider a proposal for an arrangement or compromise with its creditors generally (or any significant class of its creditors), save for any such initiation, consent, attempt or convening of a meeting which relates to the Issuer or any of its Material Municipal Owned Entities and is for the purposes of an internal reconstruction or reorganisation; or

16.1.1.8. ***Enforcement Proceedings***

if a Person validly attaches in execution the whole or a material part of the undertaking or assets of the Issuer or any Material Municipal Owned Entity, as the case may be, or an execution or attachment or other process is validly levied, enforced upon, sued out or put in force against the whole or a material part of the undertaking or assets of any of them in both instances following a judgement against the Issuer or any Material Municipal Owned Entity, as the case may be, by a court of competent jurisdiction and such is not discharged within 30 (thirty) Days; or

16.1.1.9. ***Stay of Proceedings***

the granting of an order by any competent court or authority for the staying or suspension of all legal proceedings against the Issuer or any Material Municipal Owned Entity or the suspension, settlement or termination of the Issuer's and/or any Material

Municipal Owned Entity's financial obligations to creditors in terms of sections 152 to 155 of the MFMA; or

16.1.1.10. ***National or Provincial Government Intervention***

a provincial and/or national government intervention and/or the implementation of a financial recovery plan or distribution scheme in terms of sections 135 to 150 of the MFMA; or

16.1.1.11. ***Other***

any other Event of Default provided for such Series, as specified in the Applicable Pricing Supplement,

then any Senior Noteholder may, by written notice to the Issuer at the registered office of the Issuer, effective upon the date of receipt thereof by the Issuer, declare the Senior Notes held by the Senior Noteholder to be forthwith due and payable whereupon the same shall become forthwith due and payable at the Early Redemption Amount (as described in Condition 10.6 (*Early Redemption Amounts*)), together with accrued interest (if any) to the date of repayment, or as specified in the Applicable Pricing Supplement, provided that, notwithstanding the taking of such action, although an amount will be due it may not be payable if the Issuer withholds or refuses to make such payment in order to comply with any law or regulation of South Africa or to comply with any order of a court of competent jurisdiction.

16.1.2. For the purposes of Condition 16.1.1.4 (*Cross Default*), any Indebtedness which is in a currency other than South African Rand shall be converted into South African Rand at the spot rate for the sale of South African Rand against the purchase of the relevant currency quoted by any leading bank of South Africa selected on the date of such Event of Default.

16.2. **Subordinated Notes**

If the Issuer defaults in relation to Subordinated Notes in the payment of any amount payable in respect of such Notes, and such default continues for a period of 7 (seven) Business Days after receiving written notice from any of the holders of Subordinated Notes, or if an Event of Default as contemplated in Condition 16.1 (*Senior Notes*), occurs, any holder of a Subordinated Note may, subject as provided below, at its discretion and without notice, institute such proceedings against the Issuer as it may think fit to enforce the obligations of the Issuer under such Subordinated Notes, provided that the Issuer shall not be obliged, save in the case of liquidation, winding-up or business rescue proceedings, to pay any sum or sums sooner than the same would otherwise have been payable by it.

In the event of the winding-up or liquidation, whether finally or provisionally, or business rescue proceedings of the Issuer, otherwise than for the purposes of an amalgamation, merger, consolidation or re-organisation not involving liquidation, winding-up or bankruptcy, then any holder of Subordinated Notes issued by the Issuer may by written notice to the Issuer at its registered office, require that its Subordinated Notes are immediately due and repayable at their Early Redemption Amount together with the accrued interest to the date of payment, save that the Noteholders of Subordinated Notes may only receive payment once all the other creditors of the Issuer have been paid in full.

16.3. **Notification of Event of Default**

If the Issuer becomes aware of the occurrence of any Event of Default, the Issuer shall forthwith notify all Noteholders in accordance with Condition 18 (*Notices*), the Dealer(s) and the JSE in writing.

17. CALCULATION AGENT, TRANSFER AGENT AND PAYING AGENT

Any third party appointed by the Issuer as Calculation Agent, Transfer Agent, Paying Agent or otherwise shall act solely as the agents of the Issuer and does not assume any obligation towards or relationship of agency or trust for or with any Noteholders. The Issuer is entitled to vary or terminate the appointment of such agents and/or appoint additional or other agents and/or approve any change in the specified office through which any agent acts.

18. NOTICES

18.1. Notices to Noteholders shall be valid if mailed to their registered addresses appearing in the Register. Any such notice shall be deemed to have been given on the seventh Day after the Day on which it is mailed.

18.2. In the event of there being any Individual Certificates in issue, such notices shall be published, not earlier than 4 (four) Days after the date of posting of such notice in terms of this clause:

18.2.1. in an English language daily newspaper of general circulation in South Africa; and

18.2.2. for so long as the Notes are listed on the Financial Exchange, a daily newspaper of general circulation in the city in which the Financial Exchange is situated, and any such notices shall be deemed to have been given on the date of first publication.

18.3. Notwithstanding the provisions of Condition 18.1, for so long as all of the Notes in a Tranche are held in their entirety in the CSD, they may be substituted for the notice contemplated in Condition 18.1, by the delivery of the relevant notice to the Person (as the registered holder of such Notes), the Participants and the Financial Exchange for communication by them to the holders of Beneficial Interests in such Notes in accordance with the Applicable Procedures. Each such notice will be deemed to have been received by the holders of Beneficial Interests on the Day of delivery of such notice to the Person recorded in the Uncertificated Securities Register in accordance with Applicable Laws and Applicable Procedures.

18.4. Any notice to the Issuer shall be deemed to have been received by the Issuer, if delivered to the registered office of the Issuer, on the date of delivery, and if sent by registered mail, on the seventh Day after the Day on which it is sent. The Issuer may change its registered office upon prior written notice to Noteholders specifying such new registered office.

18.5. For so long as any of the Notes are uncertificated, notice may be given by any holder of an uncertificated Note to the Issuer via the relevant Settlement Agent in accordance with the Applicable Procedures, in such manner as the Issuer and the relevant Participants may approve for this purpose.

18.6. For so long as any Notes are listed on the Interest Rate Market of the JSE, notwithstanding Conditions 18.1 to 18.5 above, all notices in respect of such listed Notes shall be made by way of an announcement on SENS.

19. AMENDMENT OF THESE CONDITIONS

19.1. These Terms and Conditions set out all the rights and obligations relating to the Notes and, subject to the further provisions of this Condition 19, no addition, variation or consensual cancellation of these Terms and Conditions shall be of any force or effect unless the amendments have been reduced to writing and signed by or on behalf of the Issuer and the Noteholders.

19.2. The Issuer may effect, without the consent of the relevant Class of Noteholders, any modification of the Terms and Conditions which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law of the jurisdiction in which the Issuer is established, provided that the JSE or such other Financial Exchange, as the case may be, shall be notified. Any such modification shall be binding on the relevant Class of Noteholders and any such modification shall be communicated to the relevant Class of Noteholders in accordance with Condition 18 (*Notices*) as soon as is practicable thereafter.

19.3. Subject to the prior formal approval of the JSE, the Issuer may, with the prior sanction of an Extraordinary Resolution of Noteholders or with the prior written consent of Noteholders or the relevant Class of Noteholders holding not less than 66.67% (sixty-six point sixty seven percent) in Nominal Amount of the Notes Outstanding or Notes Outstanding of the relevant Class of Noteholders from time to time, amend these Terms and Conditions, provided that no such amendment shall be of any force or effect unless notice of the intention to make such

amendment shall have been given to all Noteholders or to all the relevant Class of Noteholders in terms of Condition 18 (*Notices*).

19.4. Once the approval has been granted in terms of Condition 19.3 above, the amended placing document must be submitted to the JSE and must also be published on SENS.

20. MEETINGS OF NOTEHOLDERS

20.1 Convening of meetings

20.1.1 The Issuer may at any time convene a meeting of Noteholders (a **meeting** or **the meeting**).

20.1.2 The Issuer shall convene a meeting upon the requisition in writing of the holders of at least 10% (ten percent) of the aggregate Nominal Amount outstanding of the Notes (**requisition notice**).

20.1.3 Whenever the Issuer wishes or is required to convene a meeting, it shall forthwith give notice in writing to the Noteholders of the place, Day and hour of the meeting and of the nature of the business to be transacted at the meeting.

20.1.4 All meetings of Noteholders shall be held in Johannesburg.

20.1.5 Any director or duly authorised representative of the Issuer, and any other Person authorised in writing by the Issuer, may attend and speak at a meeting of Noteholders, but shall not be entitled to vote, other than as a proxy (as defined below) or duly authorised representative of a Noteholder.

20.2 Requisition

20.2.1 A requisition notice shall state the nature of the business for which the meeting is to be held and shall be deposited at the registered office of the Issuer.

20.2.2 A requisition notice may consist of several documents in like form, each signed by one or more requisitionists.

20.3 Convening of meetings by requisitionists

If the Issuer does not proceed to cause a meeting to be held within 10 (ten) Days of the deposit with the company secretary of the Issuer of a requisition notice, requisitionists who together hold not less than 10% (ten percent) of the aggregate Nominal Amount outstanding of the Notes for the time being, may themselves convene the meeting, but the meeting so convened shall be held within 60 (sixty) Days from the date of such deposit and shall be convened as nearly as possible in the same manner as that in which meetings may be convened by the Issuer. Notice of the meeting shall be required to be given to the Issuer.

20.4 Notice of meeting

20.4.1 Unless the holders of at least 90% (ninety percent) of the aggregate Nominal Amount outstanding of the Notes agree in writing to a shorter period, at least 21 (twenty one) Days written notice specifying the place, Day and time of the meeting and the nature of the business for which the meeting is to be held shall be given by the Issuer to Noteholders. Such notice is required to be given in accordance with Condition 18 (*Notices*).

20.4.2 The accidental omission to give such notice to any Noteholder or the non-receipt of any such notice, shall not invalidate the proceedings at a meeting.

20.5 Quorum

20.5.1 A quorum at a meeting shall for the purposes of considering:

20.5.1.1 an ordinary resolution generally, consist of Noteholders present in person or by proxy and holding in the aggregate not less than one-third of the aggregate Nominal Amount outstanding of the Notes;

20.5.1.2 an Extraordinary Resolution, consist of Noteholders present in person or by proxy and holding in the aggregate not less than 50.1% (fifty point one percent) of the aggregate Nominal Amount outstanding of the Notes.

20.5.2 No business shall be transacted at a meeting of the Noteholders unless a quorum is

present at the time when the meeting proceeds to business.

20.5.3 If, within 15 (fifteen) minutes from the time appointed for the meeting, a quorum is not present, the meeting shall, if it was convened on the requisition of Noteholders, be dissolved. In every other case the meeting shall stand adjourned to the same Day in the third week thereafter, at the same time and place, or if that Day is not a Business Day, the following Business Day. If at such adjourned meeting a quorum is not present the Noteholders present in person or by proxy shall constitute a quorum for the purpose of considering any resolution, including an Extraordinary Resolution.

20.6 **Chairman**

The chairman of the meeting shall be appointed by the Issuer.

20.7 **Adjournment**

20.7.1 Subject to the provisions of this Condition 20 (*Meetings of Noteholders*) the chairman may, with the consent (which consent shall not be unreasonably withheld and/or delayed) of, and shall on the direction of the Issuer, adjourn the meeting from time to time and from place to place.

20.7.2 No business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place.

20.7.3 At least 14 (fourteen) Days written notice of the place, Day and time of an adjourned meeting shall be given by the Issuer to each Noteholder. In the case of a meeting adjourned in terms of Condition 20.11.2, the notice shall state that the Noteholders present in person or by proxy at the adjourned meeting will constitute a quorum.

20.8 **How questions are decided**

20.8.1 At a meeting, a resolution put to the vote shall be decided on a show of hands unless, before or on the declaration of the result of the show of hands, a poll is demanded by the chairman or by any one of the Noteholders present in person or by proxy.

20.8.2 Unless a poll is demanded, a declaration by the chairman that on a show of hands a resolution has been carried, or carried by a particular majority, or lost, shall be conclusive evidence of that fact, without proof of the number or proportion of the votes cast in favour of or against such resolution.

20.8.3 A poll demanded on the election of a chairman or on the question of the adjournment of a meeting shall be taken forthwith. A poll demanded on any other question shall be taken at such time as the chairman of the meeting directs and the result of such poll shall be deemed to be the resolution of the meeting.

20.8.4 In the case of an equality of votes, whether on a show of hands or on a poll, the chairman shall not be entitled to a casting vote in addition to the vote, if any, to which he is entitled.

20.9 **Votes**

On a poll or show of hands, every Noteholder, present in person or by proxy, shall be entitled to that portion of the total votes which the aggregate Nominal Amount of the relevant Notes Outstanding held by such Noteholder bears to the aggregate Nominal Amount of all the relevant Notes Outstanding held by Noteholders present in person or by proxy at the meeting. In relation to joint Noteholders, the vote may be exercised only by that Noteholder whose name appears first on the Register in the event that more than one of such Noteholders is present, in person or by proxy, at the meeting.

20.10 **Proxies and representatives**

20.10.1 Noteholders may:

20.10.1.1 present in person; or

20.10.1.2 through any appointed Person (a **proxy**), by an instrument in writing (a **form of proxy**), signed by the holder or, in the case of a corporation, executed under its common seal or signed on its behalf by an attorney of a duly authorised officer of the corporation,

vote on a poll.

20.10.2 A Person appointed to act as proxy need not be a Noteholder.

20.10.3 The form of proxy shall be deposited at the registered office of the Issuer or at the office where the Register is kept or at such other office as the Issuer may determine not less than 24 (twenty four) hours before the time appointed for holding the meeting or adjourned meeting at which the Person named in such form of proxy proposes to vote, and in default, the proxy shall be invalid.

20.10.4 No form of proxy shall be valid after the expiration of 6 (six) months from the date named in it as the date of its execution.

20.10.5 A proxy shall have the right to demand or join in demanding a poll.

20.10.6 Notwithstanding Condition 20.10.4 the form of proxy shall be valid for any adjourned meeting, unless the contrary is stated thereon.

20.10.7 A vote given in accordance with the terms of a proxy shall be valid notwithstanding the previous death or incapacity of the principal or revocation of the proxy or of the authority under which the form of proxy was executed or the transfer of Notes in respect of which the proxy was given, provided that no intimation in writing of such death, incapacity or revocation shall have been received by the Issuer at the office of the Transfer Agent more than, and that the transfer has been given effect to less than, 12 (twelve) hours before the commencement of the meeting or adjourned meeting at which the proxy is to be used.

20.10.8 Any Noteholder which is a corporation may by resolution of its directors or other governing body authorise any Person to act as its representative in connection with any meeting or proposed meeting of Noteholders. Any reference in this Condition 20 (*Meetings of Noteholders*) to a Noteholder present in person includes such a duly authorised representative of a Noteholder.

20.11 **Minutes**

20.11.1 The Issuer shall cause minutes of all resolutions and proceedings of meetings to be duly entered in the minute books of the Issuer.

20.11.2 Any such minutes as aforesaid, if purporting to be signed by the chairman of the meeting at which such resolutions were passed or proceedings held or by the chairman of the next succeeding meeting, shall be receivable in evidence without any further proof, and until the contrary is proved, a meeting of Noteholders in respect of the proceedings of which minutes have been so made shall be deemed to have been duly held and convened and all resolutions passed thereat, or proceedings held, to have been duly passed and held.

20.12 ***Mutatis mutandis* application**

The provisions of this Condition 20 (*Meetings of Noteholders*) shall apply *mutatis mutandis* to the calling and conduct of meetings on an individual Tranche, Series or Class of Noteholders, as the case may be.

21. FURTHER ISSUES

The Issuer shall be at liberty from time to time without the consent of the Noteholders to create and issue further Notes having terms and conditions the same as any of the other Notes issued under the Programme or the same in all respects save for the amount and date of the first payment of interest thereon, the Issue Price and the Issue Date, so that the further Notes shall be consolidated to form a single Series with the Outstanding Notes.

22. GOVERNING LAW

These Terms and Conditions and all rights and obligations to the Notes are governed by, and shall be construed in accordance with, the laws of South Africa in force from time to time.

SIGNED at Johannesburg on this 14th day of June 2016.

For and on behalf of
CITY OF JOHANNESBURG METROPOLITAN MUNICIPALITY

Name: T G FOWLER.
Capacity: CITY MANAGER
Who warrants his/her authority hereto

Name: R BOGO
Capacity: GROUP CFO
Who warrants his/her authority hereto

USE OF PROCEEDS

Capitalised terms used in this section headed "Use of Proceeds" shall bear the same meanings as used in the Terms and Conditions, except to the extent that they are separately defined in this section or this is clearly inappropriate from the context.

For purposes of the Commercial Paper Regulations it is recorded that the "*Ultimate Borrower*", as defined in the Commercial Paper Regulations, of the net proceeds from each Tranche of Notes will be the Issuer, unless otherwise indicated in the Applicable Pricing Supplement.

The proceeds from each issue of Notes will be applied by the Issuer for its general corporate purposes, or as may otherwise be described in the Applicable Pricing Supplement in accordance with the provisions of the MFMA.

DESCRIPTION OF CITY OF JOHANNESBURG METROPOLITAN MUNICIPLAITY

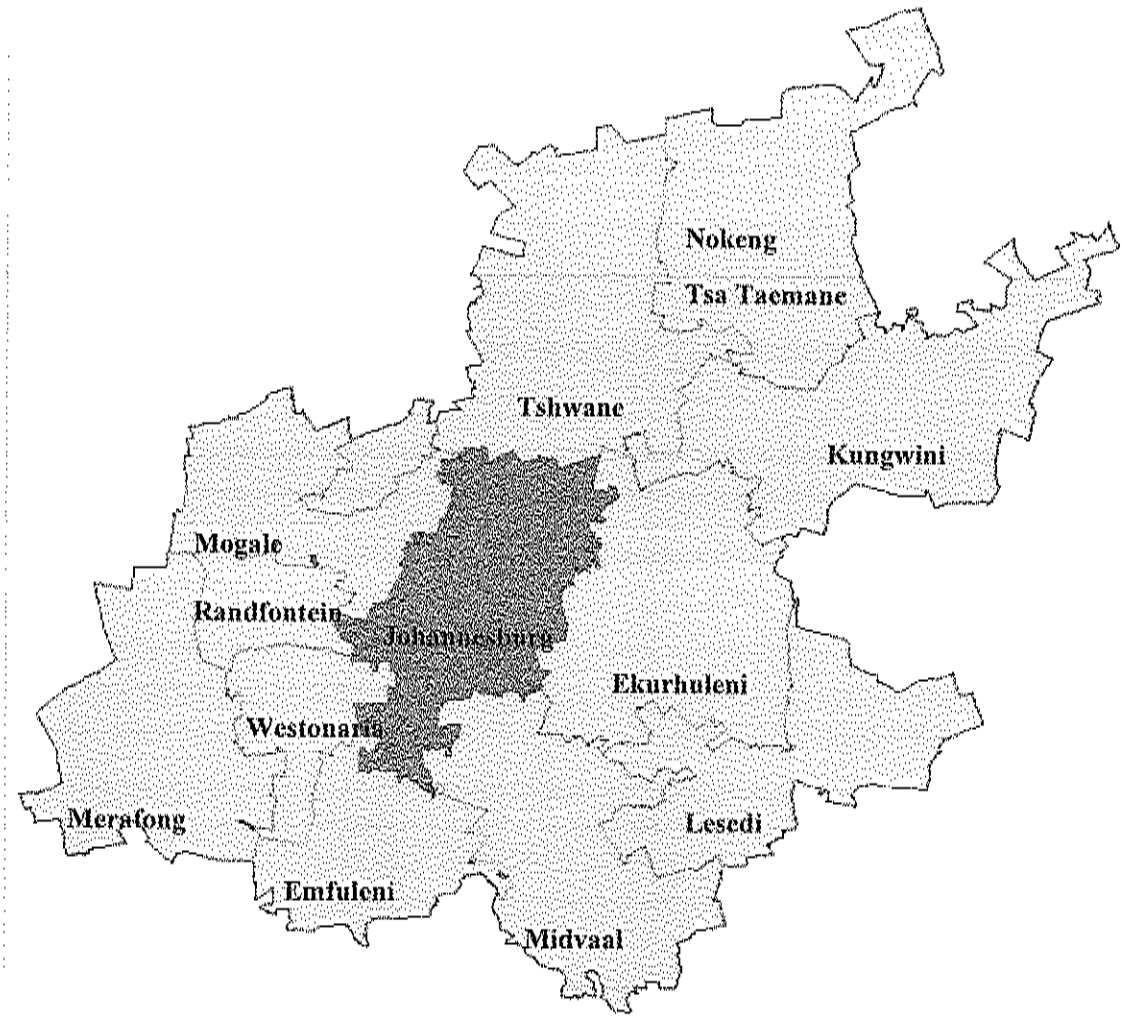
(the Issuer)

1. INTRODUCTION

The City of Johannesburg (also referred to as "**Johannesburg**", the "**COJ**" the "**CJMM**" or the "**City**") was founded in 1886 with the discovery of gold on the Witwatersrand. The City is located within the Gauteng Province.

The strategic geographical position of the City and its demographic make-up, force the City to constantly engage with its institutional design in order to function within a complex policy and implementation environment. Like all legislated structures, the City drives its mandate from the Constitution of the Republic of South Africa, Act 108 of 1996; Municipal Systems Act (2000) and the Municipal Finance Management Act (2003). Furthermore the City strategic direction is guided by the National Development Plan (NDP), Vision 2030, which has been translated into the Growth and Development Strategy (GDS), Vision 2040 and the 2016/22 IDP. All these legislative documents and strategies are aimed at ensuring strategic certainty through the development process of building a capable state.

To deliver the above strategic direction, the City of Johannesburg has adopted a corporate governance model that enables the legislative arm to focus on oversight and monitoring of the Executive and the Executive Authority to focus on implementing their responsibilities as delegated by Council. The below focus is on the institutional make-up and its delivery model



In its 130-year existence, the City has rapidly moved from being at the epicentre of the gold

mining industry to the country's premier business location. It is situated in the centre of South Africa's commercial and industrial heartland of Gauteng and is South Africa's main centre for finance, business services and information and communications technology. It is the hub of the country's road, rail and air infrastructure, with strategic facilities such as City Deep container terminal and Lanseria Airport.

The COJ as a metropolitan municipality was established in December 2000 after the local government elections. It was the result of a merger of the Greater Johannesburg Metropolitan Council and its substructures namely the Northern, Eastern, Western and Southern Metropolitan Local Councils, as well as Midrand and Modderfontein.

2. BACKGROUND AND HISTORY

The 2011 local government manifesto clearly articulates a transformational agenda, in line with the objectives of a developmental state.

The five imperatives of this agenda are:

1. Economic transformation and job creation;
2. Access to better quality service;
3. Addressing legacy of apartheid spatial development;
4. Enhancing community participation; and
5. Building effective, accountable and clean local government.

The NDP and the Gauteng Transformation, Modernisation and Reindustrialisation (**TMR**) programme also emphasizes the need to effectively deal with poverty, inequality and unemployment. The Integrated Development Plan (**IDP**) process allows for the alignment of these objectives to ensure genuine transformation. The local government mandate is guided by the relevant legislation; however there is a constant need for review and reflection on strategy, structures and systems which are optimal for efficient service delivery. This is the basis for the strategic agenda of the Issuer, as outlined in the Joburg 2040 Growth and Development Strategy (**GDS**) and the IDP.

The Issuer has undergone remarkable transformation over the years, with the evolution of development strategies aimed at addressing the challenges identified during several review processes. The table below demonstrates the Issuer's history.

YEAR	FOCUS AREA
1994	First democratic election
1997	Crisis and change Various causes lead to financial and institutional crisis
1998	White Paper on Local Government Promulgated
	Municipal Structures Act 117 of 1998 Promulgated
1999	iGoli 2002 An institutional plan to solve this crisis
2000	Municipal Systems Act No. 32 of 2000 Promulgated

YEAR	FOCUS AREA
	iGoli 2010 An outline 10 year development strategy
2002	Joburg 2030 By and large an economic development strategy
2005	Human Development Strategy A strategy with a social development / poverty focus
2006	GDS & 5-year IDP A comprehensive long-term CDS linked to 5 year plans
2011	Joburg 2040 GDS Revised from 2006 and provides 4 developmental outcomes linked to Priority Implementation Plans
	Institutional review
2012/16	Council approved the 5 year IDP Implementing the GDS: as a reflection of the Issuer's commitment to a promising future
2013	2013/14 IDP Review Re-stitching the Issuer to create a new future : birth of the Corridors of Freedom (**CoF**) programme Highest infrastructure investment since 2010 Three year Capex
2014	2014/15 IDP Review Building the Jozi@work concept: shifting to alternative service delivery approaches based on the notion of 'co-production', to address both delivery and socio-economic challenges simultaneously
2015	2015/16 IDP Review Changing challenges into opportunities: strengthening the foundation of basic service provision; elevating and refocusing strategic flagship programmes (Corridors of Freedom; Jozi@Work; Blue and Green Economy; Smart City); improving communication methods linked to development, and reconnecting with the citizenry.

A developmental local government provides an opportunity to structure a clear and systematic review and forward planning cycle that focuses on the need to:

- Transform the local government institution internally to ensure that it can more effectively drive delivery and development;
- Mobilise new resources;
- Create a collective vision between the local government institutions, other parts of government and key partner organisations;
- Reconnect local government to communities, and to empower communities to have a real voice in the future efforts of the Issuer;
- Define big projects that will 'turn the Issuer around';
- Integrate across departments, and to centre the organisation around clear corporate goals; and
- Ensure that the budget is strategic and that resources are committed behind clear goals.

The Issuer provides electricity services through City Power Johannesburg (Pty) Ltd (**City Power**). The core competency of the business is to purchase, distribute and sell electricity within its geographical business footprint. The National Energy Regulator of South Africa (**NERSA**) granted City Power a license to trade on 19 December 2001. The Issuer is the sole shareholder. The Council regulates the service by means of a Service Delivery Agreement in respect of the following:

- Financial issues (such as tariffs and capital expenditure);
- Human resource issues (such as skills development);
- Delivery targets (maintenance of assets and addressing assets); and
- Standards of customer care.

Johannesburg Water provides onsite water and sanitation services to households residing in informal settlements. These services include provision and desludging of the Ventilated Improved Pit (the **VIP**) toilets, provision and servicing of chemical toilets and transporting of drinking water.

Waste management remains a core responsibility of Pikitup, with the sole mandate to collect refuse from domestic customers. Pikitup is the biggest waste management company in Africa. Pikitup services the entire Issuer region comprising of 843 454 formal households and 183 895 household in informal settlements. The company has formulated and commenced the implementation of its own sustainable integrated waste management strategy to turn Johannesburg into one of the cleanest cities in the world.

3. OWNERSHIP AND CONTROL

EXECUTIVE CONTROL

The COJ is currently run by the Executive Mayor Clr Mpho Parks Tau who was elected by the Municipal Council as the Executive Mayor in terms of Section 55(1) of the Local Government: Municipal Structures Act, 1998 (the **Local Government Structures Act**). The Executive Mayor takes overall strategic and political responsibility for the COJ, and leads the mayoral committee. Each member of the mayoral committee is responsible for a portfolio. The current members of the Mayoral Committee are as follows:

Mpho Franklyn (Parks) Tau – Executive Mayor

Chris Vondo – Community Development

Nonceba Agnes Molwele – Health and Social Development

Hilda Mally Mokoena – Corporate and Shared Services

Matshidiso Mfikoe – Environment, Infrastructure and Services

Bonakelo Daniel Bovu - Housing

Rosslyn Joan Greeff – Development Planning

Geoffrey Makhubo - Finance

Sello Lemao – Public Safety

Francisco Ruby Mathang – Economic Development

Christine Walters – Transportation

ADMINISTRATIVE CONTROL

The City Manager is the accounting officer of the municipality and is responsible and accountable for all income, expenditure, assets and the discharge of all liabilities of the municipality as well as the proper and diligent compliance with applicable legislation. The City Manager and his senior management team, as indicated below, were appointed in terms of five-year performance contracts. They provide the link between the political and administrative arms of the City's government.

City Manager	Trevor Fowler
COJ Chief Operating Officer	Gerald Dumas
COJ – Group Chief Financial Officer	Reggie Boqo
COJ – Group Head Legal & Contracts	Mbulelo Ruda
COJ – Executive Director Community Development	Dudu Maseko
COJ – Executive Director Social Development	Wandile Zwane
COJ – Group Head Citizen Relationship and Urban Management	Vicky Shuping
COJ - Group Head: Communications, Events and marketing	Makhudu Sefara
COJ – Executive Director Health	Refik Bismilla
COJ – Executive Director Transport	Lisa Seftel
COJ – Executive Director: Environment & Infrastructure Services Department	Tiaan Ehlers
COJ –Group Head Group Governance	Bryane Maduka
COJ – Executive Director: Group Risk & Assurance Services	Sinaye Nxumalo
COJ – Group Head; Group Strategy	Blake Mosley-Lefatola
COJ - Group Executive Director Group Corporate and Shared Services	Moloadi Khutsoane
COJ – Executive Director Economic Development	Ravi Naidoo
COJ – Head of department : Public Safety	Hlula Msimang
COJ – Executive Director Housing	Patrick Phophi(acting)
COJ – Executive Director Development Planning	Yondela Silimela
COJ – POEM	Loyiso Ntshikila

4. CORPORATE GOVERNANCE AND REGULATORY FRAMEWORK

ORGANISATIONAL STRUCTURE

The contact details of the corporate legal officer of COJ are:

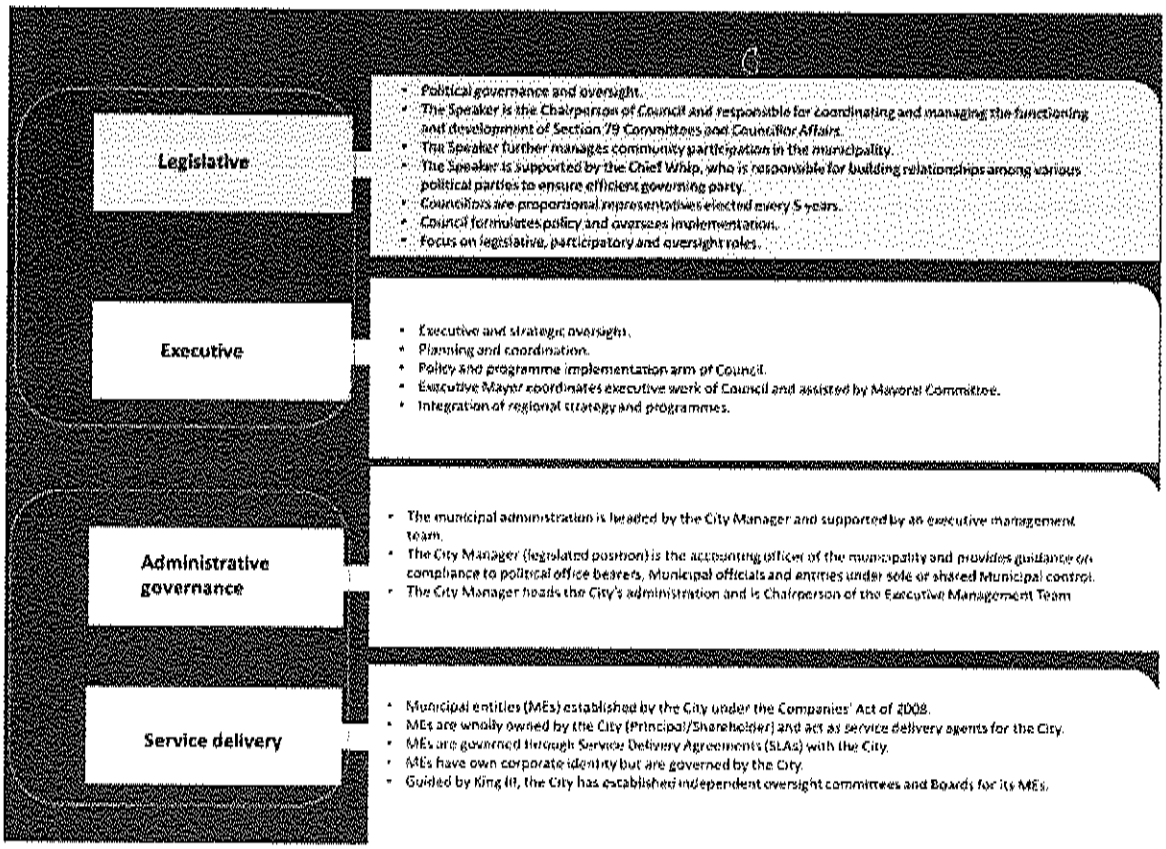
Mbulelo Allan Ruda
14th Floor, Jorissen Place
66 Jorissen Street
Braamfontein
2001
South Africa
Telephone: 0112421047

The City of Johannesburg's governance structure enables a clear separation of policy making, regulation and implementation. Core Administration is responsible for service delivery, policy-making and regulation. Municipal-Owned entities (MOEs) are an implementation arm of the City, creating focused, specialised and non-bureaucratic processes. There are also regional structures that monitor service delivery and citizen care, evaluating service delivery on the ground and linking the City to citizens and other stakeholders.

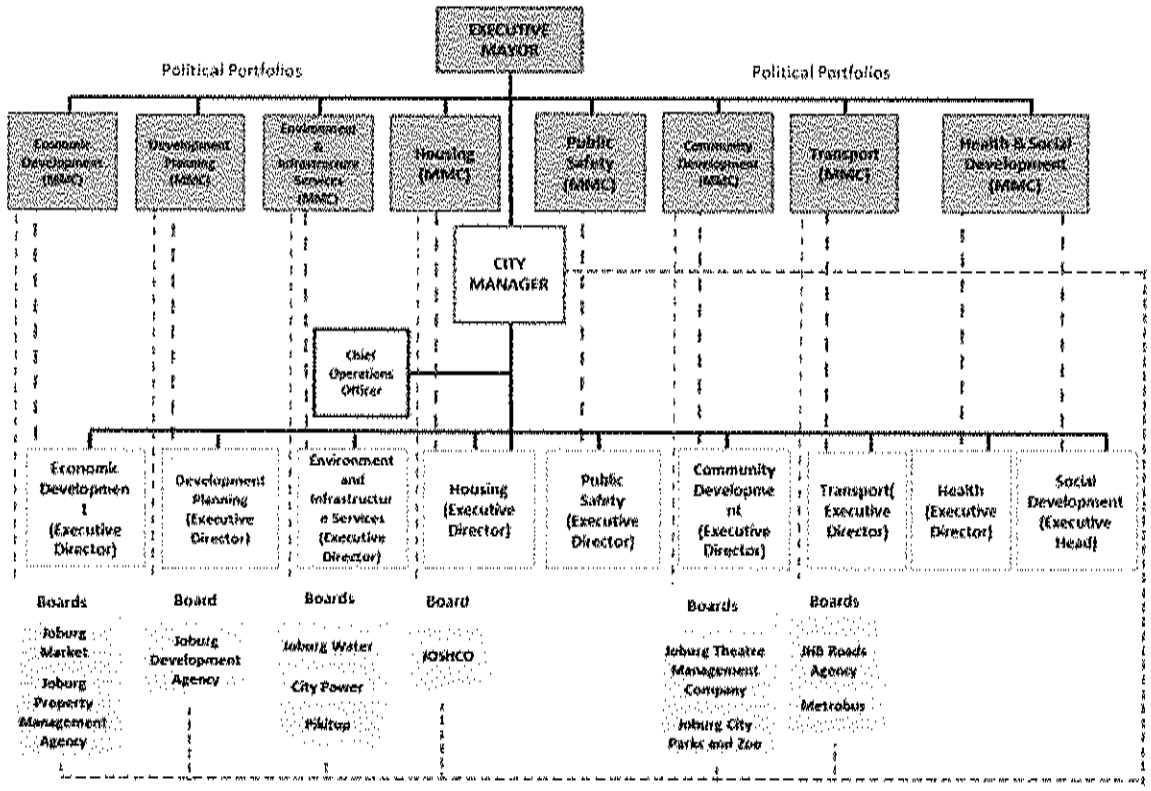
The separation of functions between legislative and executive arms of Council is a governance innovation implemented to enhance oversight and public participation in Council programmes. This is achieved through the delegation of legislative and executive functions of Council to the legislative and executive arms respectively. Service delivery implementation and policy issues such as Integrated Development Planning, tariffs, and so forth are delegated to the Executive (led by the Executive Mayor).

Legislative functions are delegated to Council and its committees and these include oversight and public participation. The latter is fundamental to successful delivery of services, accountability and public consultation by local government.

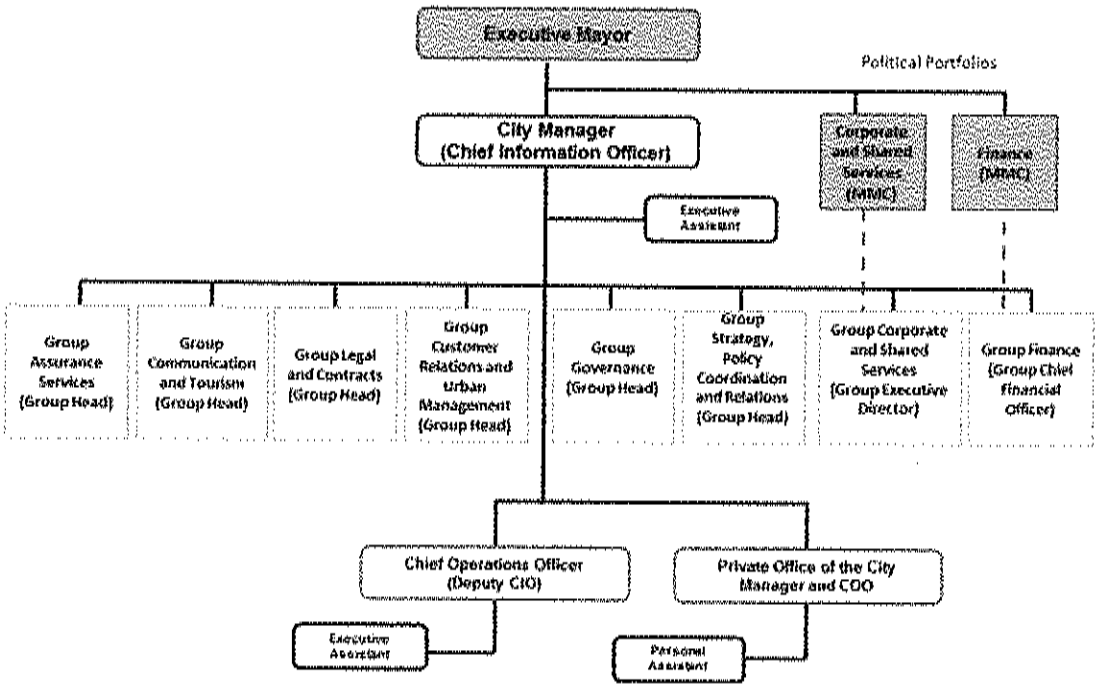
The City complies fully and is guided by the King III Corporate governance recommendations and has established independent oversight committees and boards for its Municipal-Owned Entities (MOEs). These arrangements enable improved political and administrative oversight, greater scrutiny, and increased accountability within Council and its entities. This improved oversight has increased the levels and intensity of citizen engagement through processes of consultation and communication.



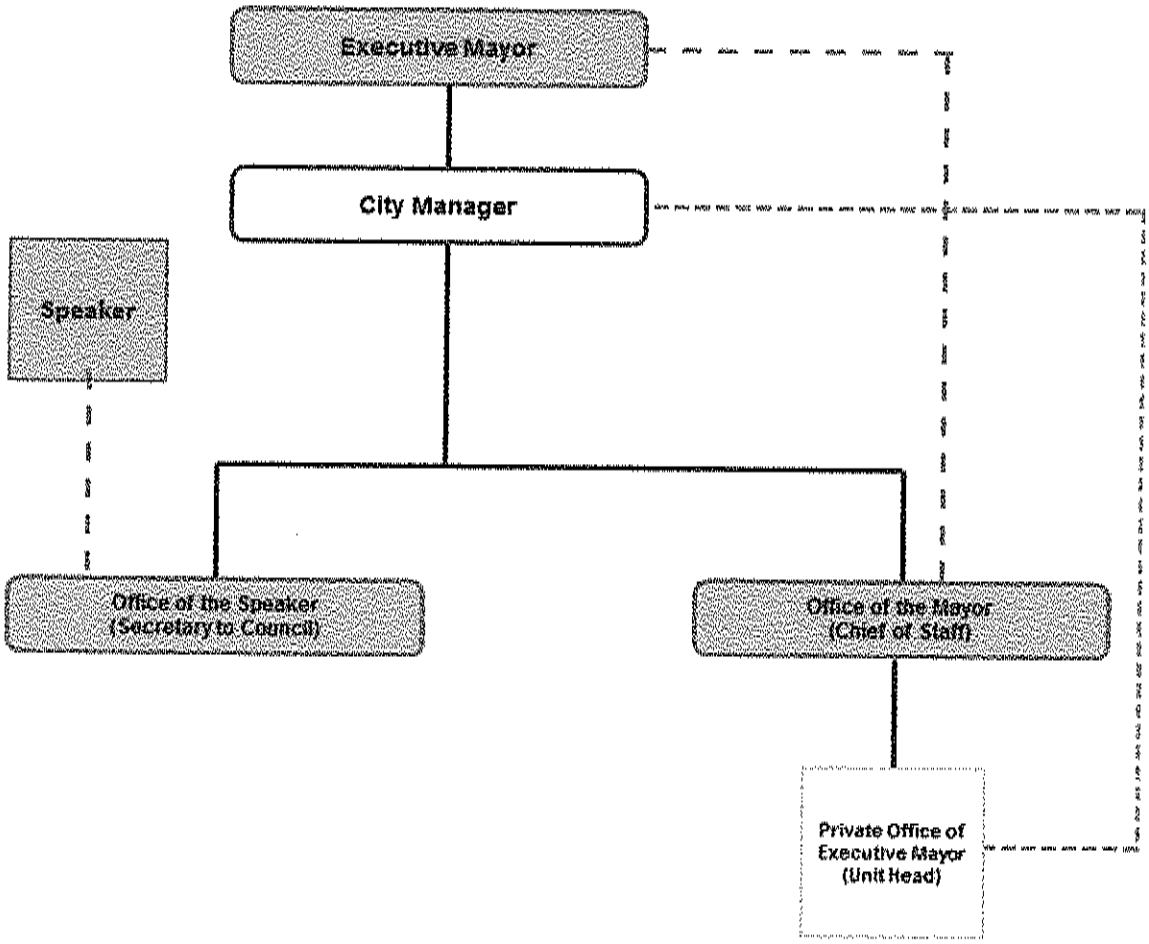
COJ LINE FUNCTIONS REPORTING TO THE CITY MANAGER, MES AND RELEVANT POLITICAL PORTFOLIOS



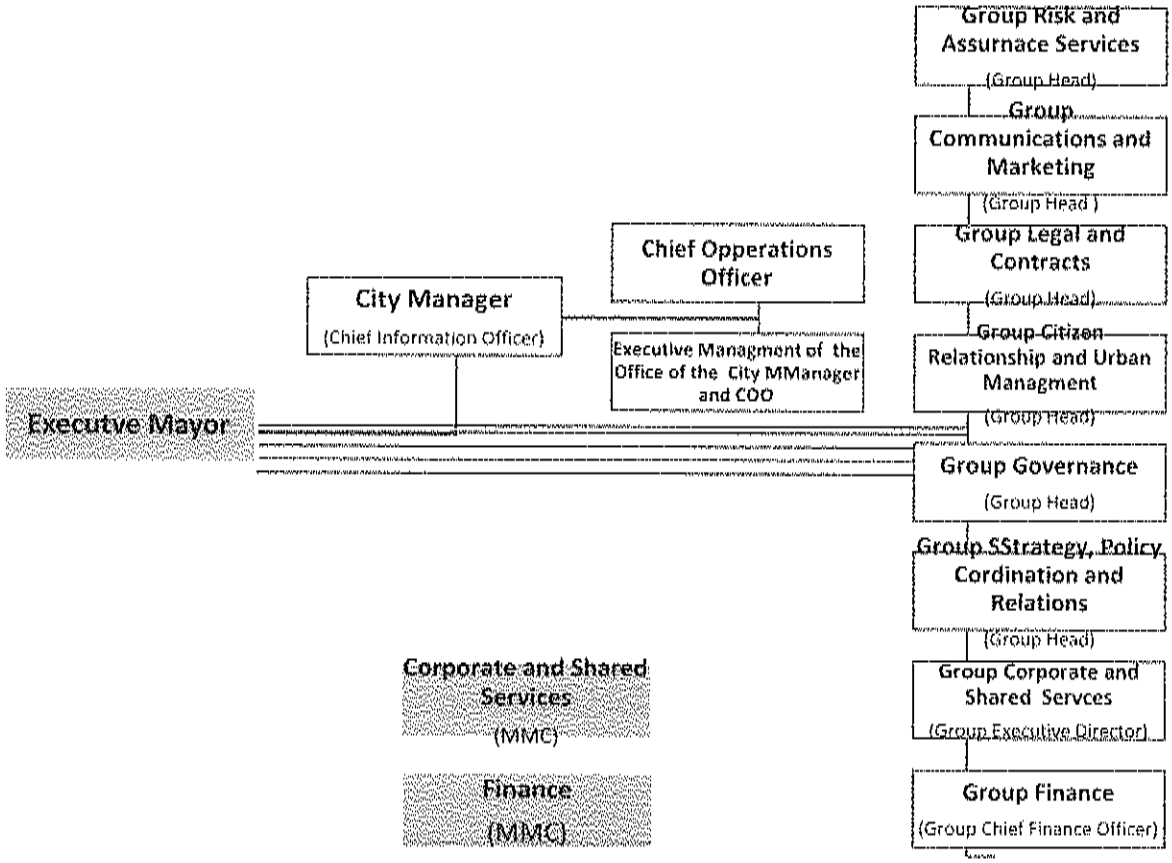
OFFICE OF THE CITY MANAGER, GROUP FUNCTIONS AND RELEVANT POLITICAL PORTFOLIOS



HIGH LEVEL STRUCTURES OF POLITICAL OFFICES



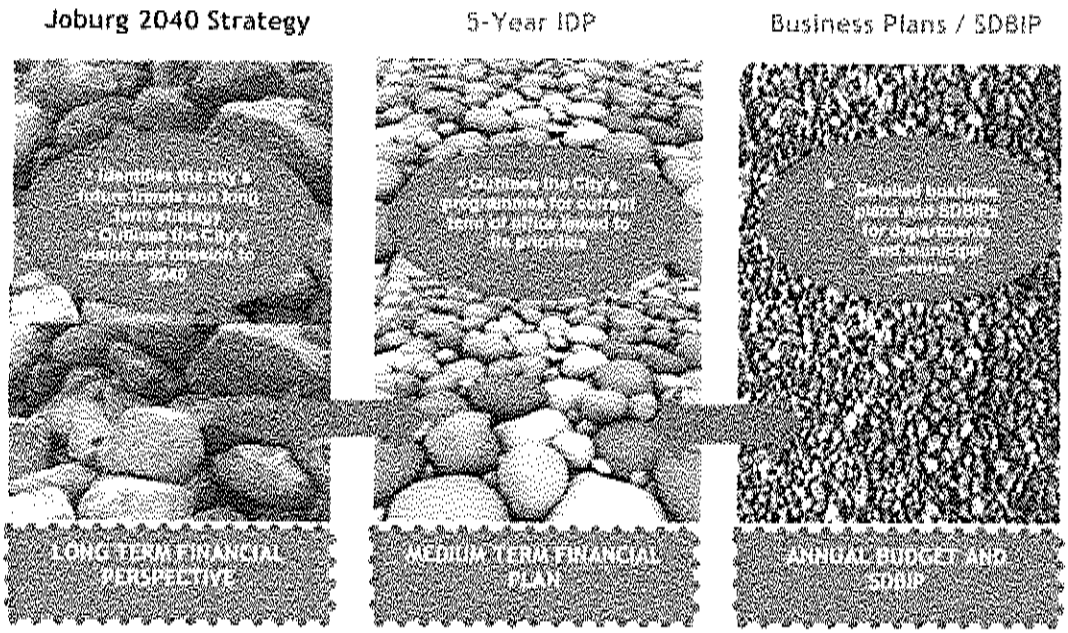
CORPORATE GOVERNANCE STRUCTURE



5. STRATEGY

The Joburg 2040 GDS identifies four key outcomes in terms of what the City seeks to achieve. These transversal outcomes are also aligned to the millennium development goals (MDGs). Outcome 1 focuses on the improvement of the quality of life and the establishment of development-driven resilience for all citizens. Following that is the provision of a liveable, sustainable urban environment and low carbon economy initiatives, envisaged as Outcome 2. In terms of Outcome 3, the City will focus on promoting an inclusive, job-intensive, resilient and competitive economy in order to harness the potential of citizens. Lastly, Outcome 4 envisages the creation of a high performing metropolitan government that proactively contributes to and builds a sustainable, inclusive and integrated City.

The 2016/21 IDP effectively translates these outcomes into medium-term programmes for implementation for this current term. This IDP continues to build on initiatives such the '*Corridors of Freedom*' and the '*Jozi@Work*' delivery model, as a way of responding to the needs of citizens, while ensuring continuity and a focus on the long-term development perspective.



The process of measuring or assessing risk and developing strategies to manage identified risks is critical to sustainable long-term development. The management of risk is a key internal control mechanism that can assist in mitigating any possible challenges which may hamper the achievement of set objectives.

The Issuer has strived to strengthen risk management as a control mechanism by conducting comprehensive risk assessments, using the city-wide strategic risk register to identify top strategic risks. The City also focuses on various risk monitoring tools, including the monitoring of financial risk. Through these risk assessments, continuity and contingency plans have also been put in place in the event of any emergency.
The Issuer also has a functional internal audit component and internal audit committee in place, with clear roles and responsibilities outlined.

A consolidated infrastructure plan is currently being drafted to ensure compliance with reporting requirements related to tangible capital assets for each sector. In terms of infrastructure management, each municipal-owned entity (MOE) has its own systems in place, including asset registers.

The Environment and Infrastructure Services department is responsible for infrastructure planning and approval. This department also ensures alignment with the Issuer's spatial development plan and the growth management strategy.

Service delivery must be executed in a customer-centric, transformative, and sustainable manner, in order to improve the quality of life of citizens. Service delivery is intrinsically entrenched in the Joburg 2040 GDS, particularly in Outcome 2 of the Strategy. The Issuer has made significant strides in terms of service delivery, backed by accelerated capital investment through the implementation of a 10-year R 100 billion capital programme.

Three key elements of the Issuer's service delivery turnaround strategy include the *Jozi@work* programme, infrastructure maintenance and rehabilitation programme, and customer-centricity and improved service standards.

The Issuer continues to manage service delivery backlogs, particularly in the areas of access to water and electricity. The Issuer also continues to strive towards the attainment of service delivery standards,

including the improvement of turnaround times and rate of responsiveness.

In order to get the basics right towards the advancement of quality delivery, the City remains committed to the following (amongst others):

- Progressive and systematic reduction of service delivery breakdowns and backlogs across all regions.
- Integration of service delivery machinery at ward level using a multi- disciplinary approach.
- Community profiles to inform interventions.
- Integrated planning and execution of programmes and projects at regional level.
- Quality customer care, accountability and feedback.
- Focus on sustainability and visibility.

6. RISK MANAGEMENT

The City has identified some key developmental challenges and risks that confront its metropolitan area, citizens and other stakeholders. In response, Johannesburg framed its strategic choices and interventions towards becoming a liveable, resilient and sustainable city with good governance as one of the four envisaged strategic outcomes.

The City adopted an integrated approach to risk management with the primary aim of embedding a culture of making right and timely decisions after taking into consideration associated risk exposures and opportunities. Risk management in the City, therefore, goes beyond compliance with legislation, policies, procedures and frameworks. In recognition of the substantial value-add of risk management, the City adopted a formal Enterprise Risk Management (ERM) Framework and policy that were approved by Council; and established an independent risk governance oversight structure.

The City has constituted independent governance oversight and advisory committees, namely: the Group Risk Governance Committee (**GRGC**) and the Group Audit Committee (**GAC**); which operate in accordance with Council-approved terms of reference, corporate governance guidelines and practices (King III), and professional practice standards and codes. The GRGC is responsible for independent oversight on the governance of risk, the risk management processes in the City, the mitigation of key risk exposures and advisories on emerging risks that may have an impact on the City. Similar independent oversight structures have been set up as sub-committees of Boards of the Municipal Entities.

The City complies with King III as well as certain aspects of governance that are legislated in the Local Government: Municipal Systems Act, 2000 (MSA) and the Local Government: Municipal Finance Management Act, 2003 (MFMA).

While the City has established the independent oversight committees in line with good corporate governance practices, the accountability and responsibility for ensuring effective governance and management of risk remains with the City's administrative and political leadership structures. The management of risk is the responsibility of the executive, senior and junior officials employed by the City, and the Accounting Officer is accountable for effective risk management systems as per regulatory requirements.

Enterprise Risk Management (ERM)

The ERM process creates consciousness at both political and administrative levels of the City's risk appetite and profile. The benefits which the City strives to achieve include: aligning risk appetite to its strategies; enhancing management's risk response decisions; seizing opportunities and reducing operational surprises and losses through continuous identification of potential events; identifying and managing multiple and cross-enterprise risks; improving deployment of capital and allocation of resources through the use of reliable, relevant and timeous risk information.

The institutional redesign led to the re-positioning of risk management and assurance functions into group functions, thereby enabling a city-wide and holistic view to the risk and controls environment. The overall strategic objective is to embed a culture of risk management across the City and its entities at strategic and operational levels as well as in the management of projects. Accordingly, the Group ERM programme has been based on Outcome 4 of the Joburg 2040 Strategy.

The priorities identified in the City's ERM programme of the IDP are on-going and are reviewed, benchmarked against best practice and carried forward on a yearly basis. These priorities are as follows:

- Combined assurance strategies through collaborative and integrated approach to risk, control, ethics and compliance advisories;
- Identification, documentation and communication of the Group Wide Risk Universe;
- Group Risk threshold levels / appetite and tolerance levels;
- Strategic & Operational Risk Profiles;
- Standardised City risk assessment methodology;
- IT, Fraud, Compliance risk assessments, management and profiles;
- Risk Monitoring and Risk response plans advisories;
- Cluster, Sector & Departmental risk profiles & registers, risk monitoring and risk reporting;
- Management consulting and advising on risk responses and risk mitigating internal controls that are in line with best practices; and
- Business Continuity Management (BCM) plans & advisories.

Enterprise Risk Management Projects

Projects in the ERM programme are advisory and management consulting services are long term in nature, straddling the entire current 5-year IDP, and even go beyond this term though the focus in each year may vary:

- Group Risk Governance (Core Administration and Municipal Entities);
- Integrated Group Risk Management Strategy and Implementation Plans;
- Priorities and Flagship risk assessments, monitoring and risk profiles
- Risk assessment and advisories on management of risks
    - Strategic Risk Management,
    - Compliance Risk Management,
    - Operational Risk management,
    - Financial Risk Management,
    - Financial Reporting Risk Management,
    - Fraud Risk Management
    - Project Risk Management advisories, and
    - Contracting and contract risk management;
- Business Continuity Management;
- Risk Finance (Insurance) Strategy, optimisation of covers and insurance portfolio evaluation;
- Risk management application software;
- ERM competency building – Core administration and Municipal Entities; and
- Integrated reporting capabilities (interactive dashboard).

Strategic Risk Management

Strategic risk assessments are conducted at least annually. The top 14 city-wide strategic risks are identified and agreed to by Executive Management. The departmental and municipal entities' strategic risks have been mapped to the City-wide top strategic risks; and gap analyses conducted.
The mapping enables effective monitoring of the risk response plans, and key attributes to the significant inherent and residual risk exposures. In addition to the risk analysis of the ten priorities conducted to date, Group Assurance Services has mapped the top 14 strategic risks to these priorities.

7. MEMBERS OF THE MAYORAL COMMITTEE

Mpho Franklyn (Parks) Tau – Executive Mayor

Chris Vondo – Community Development

Nonceba Agnes Molwele – Health and Social Development

Hilda Mally Mokoena – Corporate and Shared Services

Matshidiso Mfikoe – Environment, Infrastructure and Services

Bonakelo Daniel Bovu - Housing

Rosslyn Joan Greeff – Development Planning

Geoffrey Makhubo - Finance

Sello Lemao – Public Safety

Francisco Ruby Mathang – Economic Development

Christine Walters – Transportation

INVESTOR CONSIDERATIONS

Capitalised terms used in this section headed "Investor Considerations" shall bear the same meanings as used in the Terms and Conditions, except to the extent that they are separately defined in this section or this is clearly inappropriate from the context.

The Issuer believes that the factors outlined below may affect its ability to fulfil its obligations under the Notes. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring. In addition, factors which are material for the purpose of assessing the market risks associated with the Notes are also described below. The value of the Notes could decline due to any of these risks, and investors may lose some or all of their investment.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it, or which it may not currently be able to anticipate. Accordingly, the Issuer does not represent that the statements below regarding the risks of holding any Notes are exhaustive.

Prospective investors should also read the detailed information set out elsewhere in this Programme Memorandum to reach their own views prior to making any investment decision.

References below to the "Terms and Conditions", in relation to Notes, shall mean the "Terms and Conditions of the Notes" set out set out under the section of this Programme Memorandum headed "Terms and Conditions of the Notes".

Factors that may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme

Risks Relating to the Notes

The Notes may not be a suitable investment for all investors

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Programme Memorandum or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such an investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured and appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

There is no active trading market for the Notes

Notes issued under the Programme will be new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Tranche, such

Tranche is to be consolidated with and form a single series with a Tranche of Notes which is already issued). If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. There is no assurance as to the development or liquidity of any trading market for any particular Tranche of Notes.

The Notes may be redeemed prior to maturity

Unless in the case of any particular Tranche of Notes the Applicable Pricing Supplement specifies otherwise, in the event that the Issuer would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the government of South Africa or any political subdivision thereof or any authority therein or thereof having power to tax, the Issuer may redeem all outstanding Notes in accordance with the Conditions.

In addition, if in the case of any particular Tranche of Notes the Applicable Pricing Supplement specifies that the Notes are redeemable at the Issuer's option in certain other circumstances, the Issuer may choose to redeem the Notes at times when prevailing interest rates may be relatively low. In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the relevant Notes.

Because uncertificated Notes are held by or on behalf of the CSD, investors will have to rely on their procedures for transfer, payment and communication with the Issuer

Notes issued under the Programme which are listed on the Interest Rate Market of the JSE or such other or additional Financial Exchange and/or immobilised in the CSD will, subject to Applicable Laws and the Applicable Procedures, be issued in uncertificated form. Unlisted Notes may also be lodged and immobilised in the CSD in uncertificated form. Notes held in the CSD will be issued, cleared and settled in accordance with the Applicable Procedures through the electronic settlement system of the CSD. Except in the limited circumstances described in the Terms and Conditions, investors will not be entitled to receive Individual Certificates. The CSD will maintain records of the Beneficial Interests in Notes and/or issued in uncertificated form, which are held in the CSD (whether such Notes are listed or unlisted). Investors will be able to trade their Beneficial Interests only through the CSD and in accordance with the Applicable Procedures.

Payments of principal and/or interest in respect of uncertificated Notes will be made to the Person recorded in the Uncertificated Securities Register in accordance with Applicable Laws and Applicable Procedures or the Participants and the Issuer will discharge its payment obligations under the Notes by making payments to or to the order of the Person recorded in the Uncertificated Securities Register in accordance with Applicable Laws and Applicable Procedures or the Participants for distribution to their account holders. A holder of a Beneficial Interest in uncertificated Notes, whether listed or unlisted, must rely on the procedures of the CSD to receive payments under the relevant Notes. Each investor shown in the records of the CSD and/or the Participants, as the case may be, shall look solely to the CSD or the Participant, as the case may be, for his share of each payment so made by the Issuer to the registered holder of such uncertificated Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, such Beneficial Interests.

Holders of Beneficial Interests in uncertificated Notes will not have a direct right to vote in respect of the relevant Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by the CSD to appoint appropriate proxies.

Recourse to the BESA Guarantee Fund Trust

The holders of Notes that are not listed on the Interest Rate Market of the JSE will have no recourse against the BESA Guarantee Fund Trust. Claims against the BESA Guarantee Fund Trust may only be made in respect of the trading of Notes listed on the Interest Rate Market of the JSE and in accordance with the rules of the BESA Guarantee Fund Trust. Unlisted notes are not regulated by the JSE.

Credit Rating

Tranches of Notes issued under the Programme, the Issuer and/or the Programme, as the case may be, may be rated or unrated. A Rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning Rating Agency. Any

adverse change in an applicable credit rating could adversely affect the trading price for the Notes issued under the Programme.

Risks related to the structure of the particular issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain such features:

Notes subject to optional redemption by the Issuer

An optional redemption feature is likely to limit the market value of the Notes. During any period when the Issuer may elect to redeem the Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period. The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the Interest Rate on the Notes. At those times, an investor generally would not be able to re-invest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Index-Linked and Dual Currency Notes

The Issuer may issue Notes the terms of which provide for interest or principal payable in respect of such Note to be determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a "**Relevant Factor**") or with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- the market price of such Notes may be volatile;
- no interest may be payable on such Notes;
- payments of principal or interest on such Notes may occur at a different time or in a different currency than expected;
- the amount of principal payable at redemption may be less than the nominal amount of such Notes or even zero;
- a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable is likely to be magnified; and
- the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

Partly-paid Notes

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of its investment.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Variable Rate Notes with a multiplier or other leverage factor

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of such Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate may at any time be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Notes.

Notes where denominations involve integral multiples: Individual Certificates

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive an Individual Certificate in respect of such holding and would need to purchase a Principal Amount of Notes such that its holding amounts to a minimum Specified Denomination.

If Individual Certificates are issued, holders should be aware that Individual Certificates which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Modification and waivers and substitution

The Conditions contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

Change of law

The Notes are governed by, and will be construed in accordance with, South African law in effect as at the Programme Date. No assurance can be given as to the impact of any possible judicial decision or change to South African law or administrative practice in either such jurisdiction after the Programme Date.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

Risks Relating to the Issuer

In the course of the Issuer's business operations it is exposed to interest rate, credit, liquidity and market risk. The Issuer has developed a comprehensive risk management process to monitor and control these risks. The risk management process relating to each of these risks is discussed under the headings below.

Interest Rate Risk

Interest rate risk is the risk that exists in an interest bearing asset, such as a (loan or bond) or (asset

investment), due to the possibility of a change in the value or resulting from the fluctuation of interest rates. The interest rate risk management policy must identify and quantify interest rate risk and structure the assets, liabilities and interest rate hedges of the Issuer in order to reduce the impact of changes in interest rates on the profitability and net worth of the Issuer.

The interest rate risk is the risk that the value of the Issuer's asset to liability portfolio may be negatively affected by changes in interest rates. This policy provides guideline measures to assist in containing the negative impact of adverse interest rate movements on the Issuer's net income within the acceptable risk profile of the Issuer.

Interest rate risk is managed as follows

Interest rate risk shall be managed taking due cognisance of interest exposure and corresponding liquidity risk.

The decision whether to use fixed and/or floating interest rates shall be determined by the duly authorised official having regard to the sensitivity and term of the underlying assets and liabilities and nature of the interest rate environment.

Interest rate hedging instruments shall not be employed for speculative reasons and shall only be used as a financial risk management tool.

Interest rate hedging instruments must be taken out for the period that matches the underlying commitment or exposure provided that in the event of an early retirement of such underlying commitment or exposure, such interest rate hedging instruments shall be terminated accordingly.

Interest Rate Swap Objectives

Reduce or manage exposure to changes in interest rates on a particular financial transaction or in the context of the management of interest rate risk derived from the Issuer's overall asset/liability balance consistent with prudent debt and risk guidelines.

Result in a lower net cost of borrowing with respect to the Issuer's debt or achieve a higher net rate of return on investments made in connection with, or incidental to the issuance, or carrying of the Issuer's debt obligations or other Issuer investments.

Manage variable interest rate exposure consistent with prudent debt practices.

Manage exposure to changing market conditions in advance of anticipated bond issues (through the use of anticipatory hedging instruments).

Achieve more flexibility in meeting overall financial objectives than can be achieved in conventional markets.

Currency Risk

Foreign exchange risk is the risk that adverse changes in exchange rates may cause a reduction in the income of the Issuer.

Subject to the third paragraph below, the Issuer is not permitted to raise borrowings denominated in a foreign currency. However, certain operating expenses of the Issuer may be paid for in a foreign currency.

National Treasury must confine its activities to the transactions denominated in ZAR. Approval to enter into foreign exchange transaction for the acquisition of goods and services must first be obtained from National Treasury and where applicable an application for Exchange Control Approval has to be sought from the South African Reserve Bank.

The selection criteria for hedging foreign exchange transactions must be based on the mechanism which provides the best overall risk reduction; and is the most cost effective.

Foreign exchange hedging instruments must be taken out for the period that matches the underlying commitment's exposure.

Foreign exchange exposures must only be hedged once firm and determined commitments have been established.

Foreign exchange commitments must be reported for consolidation and action in the annual financial statements, except foreign currency requirements for travel purposes.

Foreign exchange transactions must comply with all prescribed with legislation, including exchange control approvals where necessary.

Credit Risk

Credit risk is the risk that the Issuer may incur a capital loss when dealing with counterparties who may not be able to meet all or a portion of their commitments within a certain time period, including the risk of default. This risk is limited by the following measures:

New counterparties and credit limits must be approved by ALCO (Asset and Liability Committee)

Transactions shall only be conducted with approved counterparties and within the approved limits.

Credit limits may, at the discretion of the Treasurer, be set for individual legal entities and not on a group basis.

Credit limits and the utilisation thereof are confidential.

The criteria used to determine the credit limits shall not be revealed to any counterparty under any circumstances.

Recognised credit rating agencies, where possible, must be utilised in the credit evaluation process.

There shall be continuous and constant monitoring of the credit quality of counterparties. Credit limits must be formally reviewed at least annually.

Compliance with credit limits shall be monitored at least daily and transactions exceeding these limits must be immediately reported to the Treasurer.

Credit limits of counterparties must immediately be reassessed by National Treasury if adverse information regarding the counterparties becomes available.

The following documents may be used in dealing with credit risk:

ISDA Master Agreement, ISDA Schedules and Confirmations; and

ISMA (Global Repurchase Master Agreements).

Liquidity Risk

Liquidity refers to the ease with which an organisation can mobilise funds. Liquidity risk, therefore, is the risk that the Issuer may not have funds available to meet promptly all maturing liabilities, including demand deposits, off-balance sheet commitments or any other financial obligations on a cost effective and on a timeous basis.

Mismanagement of liquidity will have quicker and more severe repercussions than any other risks. Thus, remaining liquid is a precondition for achieving the required business objectives.

Liquidity risk is managed as follows:

Making appropriate use of cash management and forecasting systems.

Reviewing economic forecasts and information on a regular basis to ensure the optimal utilisation of cash.

Implementing a formal strategy for the management of liquidity risk while recognising the cost implications thereof.

Ensuring that underutilised cash balances are not less than R5 million on any given date.

Performing daily and long term cash flows analysis regularly to avoid severe and unforeseen cash outflows.

Determining a minimum liquidity buffer by the National Treasury and approved by the Issuer that shall be used as a source of liquidity to meet the aggregate net cash outflows for the Issuer for the ensuing 30 days in the event of the Issuer not being able to generate sufficient working capital surpluses.

Such proportion of an investment portfolio as may be determined by the National Treasury shall consist of liquid instruments that may be used to settle any unforeseen fluctuations in the cash flows.

The funding portfolio should consist of money market instruments and working capital surpluses. The quality of the funding portfolio may be enhanced by using, amongst others, the instruments as referred to in the Investment Regulations. The following instruments may also be used: bridging finance, re-allocation of funds between portfolios and establishing short term facilities with approved counterparties.

Market Risk

Market risk is the possibility that an investor may experience losses due to factors that affect the overall performance of financial markets. Market risk, cannot be eliminated through diversification, though it can be hedged against. Sources of market risk include recessions, political turmoil, changes in interest rates and terrorist attacks. The Issuer uses an integrated risk management approach to mitigate market risk.

SETTLEMENT, CLEARING AND TRANSFER OF NOTES

Capitalised terms used in this section headed "Settlement, Clearing and Transfer of Notes" shall bear the same meanings as used in the Terms and Conditions, except to the extent that they are separately defined in this section or this is clearly inappropriate from the context.

Notes listed on the Interest Rate Market of the JSE and/or held in the CSD

Each Tranche of Notes which is listed on the Interest Rate Market of the JSE in uncertificated form will be held in the CSD. A Tranche of unlisted Notes may also be held in the CSD.

Clearing systems

Each Tranche of Notes listed on the Interest Rate Market of the JSE will be issued, cleared and settled in accordance with the Applicable Procedures for the time being of the JSE and the CSD through the electronic settlement system of the CSD. Such Notes will be cleared by Participants who will follow the electronic settlement procedures prescribed by the JSE and the CSD.

The CSD has, as the operator of an electronic clearing system, been appointed by the JSE to match, clear and facilitate the settlement of transactions concluded on the JSE. Subject as aforesaid each Tranche of Notes which is listed on the Interest Rate Market of the JSE will be issued, cleared and transferred in accordance with the Applicable Procedures and the Terms and Conditions, and will be settled through Participants who will comply with the electronic settlement procedures prescribed by the JSE and the CSD. The Notes may be accepted for clearance through any additional clearing system as may be agreed between the JSE, the Issuer and the Dealer(s).

Participants

The CSD maintains accounts only for Participants. As at the Programme Date, the Participants which are approved by the JSE, in terms of the listing requirements of the JSE, as Settlement Agents to perform electronic settlement of funds and scrip are Standard Chartered Bank, Johannesburg Branch, FirstRand Bank Limited, Nedbank Limited, The Standard Bank of South Africa Limited, Citibank NA, South Africa Branch and the South African Reserve Bank. Euroclear, as operator of the Euroclear System, and Clearstream will settle off-shore transfers in the Notes through their Participants.

Settlement and clearing

Participants will be responsible for the settlement of scrip and payment transfers through the CSD, the JSE and the South African Reserve Bank.

While a Tranche of Notes is held in the CSD, the Person recorded in the Uncertificated Securities Register in accordance with the Applicable Laws and Applicable Procedures, will be named in the Register as the sole Noteholder of the Notes in that Tranche. All amounts to be paid and all rights to be exercised in respect of Notes held in the CSD will be paid to and may be exercised only by the CSD for the holders of Beneficial Interests in such Notes.

In relation to each Person shown in the records of the CSD or the relevant Participant, as the case may be, as the holder of a Beneficial Interest in a particular Nominal Amount of Notes, a certificate or other document issued by the CSD or the relevant Participant, as the case may be, as to the Nominal Amount of such Notes standing to the account of such Person shall be *prima facie* proof of such Beneficial Interest. The Person (as the registered Noteholder of such Notes named in the Register) will be treated by the Issuer, the Paying Agent, the Transfer Agent and the relevant Participant as the holder of that aggregate Nominal Amount of such Notes for all purposes.

Payments of all amounts in respect of a Tranche of Notes which is listed on the Interest Rate Market of the JSE and/or held in uncertificated form will be made to the Person recorded in the Uncertificated Securities Register in accordance with the Applicable Laws and Applicable Procedures, as the registered Noteholder of such Notes, which in turn will transfer such funds, via the Participants, to the holders of Beneficial Interests. Each of the Persons reflected in the records of the CSD or the relevant Participant, as the case may be, as the holders of Beneficial Interests in Notes shall look solely to the CSD or the relevant Participant, as the case may be, for such Person's share of each payment so made by (or on behalf of) the Issuer to, or for the order of, the Person recorded in the Uncertificated Securities Register in accordance with the Applicable Laws and Applicable Procedures, as the registered Noteholder of such Notes.

Payments of all amounts in respect of a Tranche of Notes which is listed on the Interest Rate Market of the JSE and/or held in uncertificated form will be recorded by the Person recorded in the Uncertificated Securities Register in accordance with the Applicable Laws and Applicable Procedures, as the registered Noteholder of such Notes, distinguishing between interest and principal, and such record of payments by the Person recorded in the Uncertificated Securities Register in accordance with the Applicable Laws and Applicable Procedures, as the registered Noteholder of such Notes, shall be *prima facie* proof of such payments.

Transfers and exchanges

Subject to Applicable Laws, title to Beneficial Interest held by clients of Participants indirectly through such Participants will be freely transferable and will pass on transfer thereof by electronic book entry in the securities accounts maintained by such Participants for such clients. Subject to the Applicable Laws, title to Beneficial Interests held by Participants directly through the CSD will be freely transferable and will pass on transfer thereof by electronic book entry in the central securities accounts maintained by the CSD for such Participants. Beneficial Interests may be transferred only in accordance with the Applicable Procedures.

Beneficial Interests may be exchanged for Notes represented by Individual Certificates in accordance with Condition 14.2 (*Transfer of Notes represented by Individual Certificates*).

Records of payments, trust and voting

Neither the Issuer nor the Paying Agent will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, Beneficial Interests, or for maintaining, supervising or reviewing any records relating to Beneficial Interests. Neither the Issuer nor the Paying Agent nor the Transfer Agent will be bound to record any trust in the Register or to take notice of or to accede to the execution of any trust (express, implied or constructive) to which any Note may be subject. Holders of Beneficial Interests vote in accordance with the Applicable Procedures.

BESA Guarantee Fund Trust

The holders of Notes that are not listed on the Interest Rate Market of the JSE will have no recourse against the JSE or the BESA Guarantee Fund Trust. Claims against the BESA Guarantee Fund Trust may only be made in respect of the trading of the Notes listed on the Interest Rate Market of the JSE and in accordance with the rules of the BESA Guarantee Fund Trust.

Notes listed on any Financial Exchange other than (or in addition to) the Interest Rate Market of the JSE

Each Tranche of Notes which is listed on any Financial Exchange other than (or in addition to) the Interest Rate Market of the JSE will be issued, cleared and settled in accordance with the rules and settlement procedures for the time being of that Financial Exchange. The settlement and redemption procedures for a Tranche of Notes which is listed on any Financial Exchange (other than or in addition to the JSE) will be specified in the Applicable Pricing Supplement.

SUBSCRIPTION AND SALE

Capitalised terms used in this section headed "Subscription and Sale" shall bear the same meanings as used in the Terms and Conditions, except to the extent that they are separately defined in this section or clearly inappropriate from the context.

The Dealers have in terms of the programme agreement dated 14 June 2016, as may be amended, supplemented or restated from time to time (the **Programme Agreement**), agreed with the Issuer a basis upon which it may from time to time agree to subscribe for Notes or procure the subscription of the Notes.

Certain of the Dealers and their respective affiliates may have engaged in transactions with this Issuer in the ordinary course of their banking business and may have performed various investment banking, financial advisory and other services for the Issuer, for which they receive customary fees, and certain of the Dealers and their respective affiliates may provide such services in the future.

In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or Issuer's affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Programme. Any such short positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Selling restrictions

South Africa

The Dealer(s) has (or will have) represented, warranted and agreed that it (i) will not offer Notes for subscription, (ii) will not solicit any offers for subscription for or sale of the Notes, and (iii) will itself not sell or offer the Notes in South Africa in contravention of the Companies Act, Banks Act, Exchange Control Regulations and/or any other applicable laws and regulations of South Africa in force from time to time.

Prior to the issue of any Tranche of Notes under the Programme, the Dealer who has (or will have) agreed to place that Tranche of Notes will be required to represent and agree that it will not make an "*offer to the public*" (as such expression is defined in the Companies Act, and which expression includes any section of the public) of Notes (whether for subscription, purchase or sale) in South Africa. This Programme Memorandum does not, nor is it intended to, constitute a prospectus prepared and registered under the Companies Act.

Offers not deemed to be offers to the public

To the extent that any offer for subscription for, or sale of, Notes is made:

(a) the total contemplated acquisition cost of Notes, for any single addressee acting as principal, shall be equal to or greater than ZAR1,000,000, or such higher amount as may be promulgated by notice in the Government Gazette of South Africa pursuant to section 96(2)(a) of the Companies Act; or

(b) to certain investors contemplated in section 96(1)(a) of the Companies Act.

Information made available in this Programme Memorandum should not be considered as "*advice*" as defined in the Financial Advisory and Intermediary Services Act, 2002.

United States

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the **Securities Act**) and may not be offered or sold within the United States or to, or for the

account or benefit of, U.S. Persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Prior to the issue of any Tranche of Notes under the Programme, each Dealer who has (or will have) agreed to place that Tranche of Notes will be required to represent and agree that:

(a) the Notes in that Tranche have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons except in certain transactions exempt from the registration requirements of the Securities Act;

(b) it has not offered, sold or delivered any Notes in that Tranche and will not offer, sell or deliver any Notes in that Tranche (i) as part of their distribution at any time or (ii) otherwise until 40 (forty) Days after completion of the distribution, as determined and certified by the Dealer or, in the case of an issue of such Notes on a syndicated basis, the relevant Lead Manager, of all Notes of the Series of which that Tranche of Notes is a part, within the United States or to, or for the account or benefit of, U.S. Persons;

(c) it will send to each dealer to which it sells any Notes in that Tranche during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of such Notes within the United States or to, or for the account or benefit of, U.S. Persons; and

(d) it, its Affiliates and any Persons acting on its or any of its Affiliates behalf have not engaged and will not engage in any directed selling efforts in the United States (as defined in Regulation S under the Securities Act) with respect to the Notes in that Tranche and it, its Affiliates and any Persons acting on its or any of its Affiliates' behalf have complied and will comply with the offering restrictions requirements of Regulation S.

Until 40 (forty) Days after the commencement of the offering of a Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an exemption from registration under the Securities Act.

European Economic Area

Prior to the issue of any Tranche of Notes under the Programme, each Dealer who has (or will have) agreed to place that Tranche of Notes will be required to represent and agree that, in relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each a **Relevant Member State**), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of any of such Notes to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of any of such Notes to the public in that Relevant Member State:

(a) in the period beginning on the date of publication of a prospectus in relation to those Notes which has been approved by the competent authority in that Relevant Member State in accordance with the Prospectus Directive and/or, where appropriate, published in another Relevant Member State and notified to the competent authority in that Relevant Member State in accordance with Article 18 of the Prospectus Directive and ending on the date which is 12 (twelve) months after the date of such publication;

(b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(c) at any time to fewer than 100 or, if the relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(d) at any time in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "*offer of Notes to the public*" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes, as the same may be varied in that Member State by

any measure implementing the Prospectus Directive in that Member State and the expression "*Prospectus Directive*" means Directive 2003/71/EC (and amendments thereto including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in each Relevant Member State and the expression "*2010 PD Amending Directive*" means Directive 2010/73/EU.

United Kingdom

Prior to the issue of any Tranche of Notes under the Programme, each Dealer who has (or will have) agreed to place that Tranche of Notes will be required to represent and agree that:

(a) in relation to any of the Notes in that Tranche which have a maturity of less than one year, (i) it is a Person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any of such Notes other than to Persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of such Notes would otherwise constitute a contravention of section 19 of the Financial Services and Markets Act, 2000 (the **FSMA**) by the Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any of the Notes in that Tranche under circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any of the Notes in that Tranche in, from or otherwise involving the United Kingdom.

General

Prior to the issue of any Tranche of Notes under the Programme, each Dealer who has (or will have) agreed to place that Tranche of Notes will be required to agree that:

(a) it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in each jurisdiction in which it purchases, subscribes or procures the subscription for, offers or sells Notes in that Tranche or has in its possession or distributes the Programme Memorandum and will obtain any consent, approval or permission required by it for the purchase, subscription, offer or sale by it of Notes in that Tranche under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, subscription, offers or sales; and

(b) it will comply with such other or additional restrictions as the Issuer and such Dealer agree and as are set out in the Applicable Pricing Supplement.

Neither the Issuer nor any of the Dealers represent that Notes may at any time lawfully be subscribed for or sold in compliance with any applicable registration or other requirements in any jurisdiction or pursuant to any exemption available thereunder nor assumes any responsibility for facilitating such subscription or sale.

Capitalised terms used in this section headed "Regulatory and Legal" shall bear the same meanings as used in the Terms and Conditions, except to the extent that they are separately defined in this section or this is clearly inappropriate from the context.

The comments below are intended as a general guide to the current regulatory and legal environment affecting the Issuer under the laws of South Africa. The contents of this section headed "Regulatory and Legal" do not, however, constitute regulatory and/or legal advice and persons who are in any doubt as to the legal position should consult their professional advisors.

On 1 July 2005, section 179(1) of the MFMA came into force and effect and repealed the Local Government Transition Act, 1993. Under sections 38, 39 and 40 of the MFMA the National Treasury may stop the transfer of funds due to a municipality as: (i) an allocation or (ii) a share of the local government's equitable share of budgeted funding, but only if the municipality commits a serious or persistent breach of the measures established in terms of section 214(1)(c) or 216(1) of the Constitution of South Africa, 1996.

In terms of section 45 of the MFMA, the Issuer may incur short-term debt only for the purposes referred to in the section headed "*Use of Proceeds*" of this Programme Memorandum. In terms of section 45, the Issuer may incur short-term debt only if a resolution of the Council, signed by the Mayor, has approved the relevant debt agreement. The accounting officer is also required to sign the debt agreement or any other document which creates or acknowledges the debt.

The Council may either approve a short-term debt transaction individually or alternatively, approve an agreement with a lender for a short-term credit facility to be accessed as and when required, including a line of credit or bank overdraft facility.

The Issuer is required to pay off short-term debt within the relevant financial year in which the debt was incurred and may not renew or refinance short-term debt (whether its own debt or that of any other entity) where such renewal or refinancing will have the effect of extending the short-term debt into a new financial year.

Under sections 46 of the MFMA the Issuer may incur long-term debt only for purposes referred to in the section headed "*Use of Proceeds*" of this Programme Memorandum.

In terms of section 46 of the MFMA, the Issuer may incur long-term debt only if a resolution of the Council, signed by the Mayor, has approved the relevant debt agreement and the accounting officer has signed the agreement or other document which creates or acknowledges the debt.

The Issuer may borrow money for the purpose of re-financing existing long-term debt, provided that the following requirements are fulfilled:

(a) existing long-term debt was lawfully incurred;

(b) the re-financing does not extend the term of the debt beyond the useful life of the property, plant or equipment for which the money was originally borrowed;

(c) the net present value of projected future payments (including principal and interest payments) after re-financing is less than the net present value of projected future payments before re-financing; and

(d) the discount rate used in projecting net present value is reasonable.

The accounting officer of the Issuer must, at least 21 (twenty one) days prior to the meeting of the Council at which approval for the debt is to be considered, make public an information statement setting out particulars of the proposed debt. The particulars must state the amount of the proposed debt, the purposes for which the debt is to be incurred and particulars of any security to be provided. In addition, the accounting officer must invite the public, the National Treasury and the relevant provincial treasury to submit written comments or representations to the Council in respect of the proposed debt.

The accounting officer must subsequently submit a copy of the information statement to the Council at least 21 (twenty one) days prior to the meeting of the Council, together with particulars of the essential repayment terms, including the anticipated debt repayment schedule and the anticipated total cost in connection with such debt over the repayment period.

Conditions applying to both short-term and long-term debt

The Issuer shall only be entitled to incur a debt if the debt is denominated in Rand and is not indexed to, or affected by, fluctuations in the value of the Rand against any foreign currency. If security is to be provided by the Issuer in terms of section 48 of the MFMA, a Council resolution authorising the provision of security must determine whether the asset or right with respect to which the security is provided, is necessary for providing the minimum level of basic municipal services. If so, the resolution must also indicate the manner in which the availability of the asset or right for the provision of that minimum level of basic municipal services will be protected. A municipality may be authorised by the Council to provide security for any of its or any Municipal Owned Entity's (under its sole control) debt obligations or in respect of the contractual obligations of the municipality undertaken in connection with capital expenditure by other persons on property, plant or equipment to be used by the municipality or such other person for the purpose of achieving the objects of local government in terms of section 152 of the Constitution.

Sections 135 to 150 of the MFMA provide for discretionary and mandatory provincial and national government intervention in the form of amongst others, preparation and implementation of financial recovery plans which will entail that all revenue, expenditure and budget decisions must be taken within the framework of and subject to the limitations of such recovery plan.

Sections 152 to 155 of the MFMA provides that if a municipality is unable to meet its financial commitments, it may apply to the High Court for an order to:

(a) stay all legal proceedings by persons claiming money from the municipality; or

(b) suspend the municipality's financial obligations to creditors until the municipality can meet those obligations; or

(c) terminate the municipality's financial obligations to creditors and to settle claims in accordance with a distribution scheme.

A distribution scheme may not be implemented unless approved by the High Court and it must determine the amount available for distribution, list all creditors with claims which qualify for the purposes of the distribution scheme, indicating which of those are secured and the manner in which they are secured and provide for the distribution of the amount available amongst creditors.

SOUTH AFRICAN TAXATION

Capitalised terms used in this section headed "South African Taxation" shall bear the same meanings as used in the Terms and Conditions, except to the extent that they are separately defined in this section or this is clearly inappropriate from the context.

The comments below are intended as a general guide to the relevant tax laws of South Africa as at the Programme Date. The contents of this section headed "South African Taxation" do not constitute tax advice and do not purport to describe all of the considerations that may be relevant to a prospective subscriber for or purchaser of any Notes. Prospective subscribers for or purchasers of any Notes should consult their professional advisers in this regard.

Securities Transfer Tax

The issue, transfer and redemption of the Notes will not attract securities transfer tax under the Securities Transfer Tax Act, 2007 (the **STT Act**) because the Notes do not constitute "*securities*" as defined in the STT Act. Any future transfer duties and/or taxes that may be introduced in respect of (or applicable to) the transfer of Notes will be for the account of holders of the Notes.

Value-Added Tax

No value-added tax (**VAT**) is payable on the issue or transfer of the Notes. The issue, sale or transfer of the Notes constitute "*financial services*" as defined in section 2 of the Value-Added Tax Act, 1991 (the **VAT Act**). In terms of section 2 of the VAT Act, the issue, allotment, drawing, acceptance, endorsement or transfer of ownership of a debt security as well as the buying and selling of derivatives constitute a financial service, which is exempt from VAT in terms of section 12(a) of the VAT Act.

However, commissions, fees or similar charges raised for the facilitation of the issue, allotment, drawing, acceptance, endorsement or transfer of ownership of Notes that constitute "*debt securities*" as defined in section 2(1)(iii) of the VAT Act will be subject to VAT at the standard rate (currently 14 percent), except where the recipient is a non-resident as contemplated below.

Services (including exempt financial services) rendered to non-residents who are not in South Africa when the services are rendered, are subject to VAT at the zero rate in terms of section 11(2)(l) of the VAT Act.

Income Tax

Under current taxation law effective in South Africa, a "*resident*" (as defined in section 1 of the South African Income Tax Act, 1962 (the **Income Tax Act**)) is subject to income tax on his/her world-wide income. Accordingly, all holders of Notes who are residents of South Africa will generally be liable to pay income tax, subject to available deductions, allowances and exemptions, on any income (including income in the form of interest) earned in respect of the Notes.

Non-residents of South Africa are subject to income tax on all income derived from a South African source (subject to applicable double taxation treaties). Interest income is deemed to be derived from a South African source if it is derived from the utilisation or application in South Africa by any Person of funds or credit obtained in terms of any form of "*interest bearing arrangement*". The place of utilisation or application of funds will, unless the contrary is proved, be deemed, in the case of a juristic Person, to be that juristic Person's place of effective management. As at the Programme Date the Issuer has its place of effective management in South Africa. Accordingly, if the funds raised from the issuance of any Tranche of Notes are applied by the Issuer in South Africa, the interest earned by a Noteholder will be deemed to be from a South African source and subject to South African income tax unless such interest income is exempt from South African income tax under section 10 (1) (h) of the Income Tax Act (*see below*).

Under section 24J of the Income Tax Act, any discount or premium to the Nominal Amount of a Tranche of Notes is treated as part of the interest income on the Notes. Interest income which accrues (or is deemed to accrue) to the Noteholder is deemed, in accordance with section 24J of the Income Tax Act, to accrue on a day-to-day basis until that Noteholder disposes of the Notes or until maturity unless an election has been made by the holder (if the holder is entitled under section 24J(9) of the Income Tax Act to make such election) to treat its Notes as trading stock on a mark-to-market basis. This day-to-day basis accrual is determined by calculating the yield to maturity and applying it to the capital involved for the relevant tax period. In practice, the premium or discount is treated as interest for the purposes of the exemption under section 10(1)(h) of the Income Tax Act.

With effect from 1 January 2014 a new section 24JB of the Income Tax Act was introduced which deals with the fair value taxation of financial instruments for certain types of taxpayers and applies in respect of years of assessment ending on or after 1 January 2014.

Under section 10(1)(h) of the Income Tax Act, interest received by or accruing to a Noteholder who, or which is not a resident of South Africa during any year of assessment is exempt from income tax, unless that Person:

(a) is a natural person who was physically present in South Africa for a period exceeding 183 (one hundred and eighty three) Days in aggregate during that year of assessment; or

(b) at any time during that year of assessment carried on business through a permanent establishment in South Africa.

If a holder does not qualify for the exemption under section 10(1)(h) of the Income Tax Act, exemption from, or reduction of any income tax liability may be available under an applicable double taxation treaty.

Certain entities may be exempt from income tax. Prospective subscribers for or purchasers of Notes are advised to consult their own professional advisors as to whether the interest income earned on the Notes will be exempt under section 10(1)(h) of the Income Tax Act or under an applicable double taxation treaty.

Capital Gains Tax

Capital gains and losses on the disposal of Notes by residents of South Africa are subject to capital gains tax. Any discount or premium on acquisition which has already been treated as interest for income tax purposes, under section 24J of the Income Tax Act will not be taken into account when determining any capital gain or loss. Under section 24J(4A) of the Income Tax Act a loss on disposal will, to the extent that it has previously been included in taxable income (as interest), be allowed as a deduction from the taxable income of the holder when it is incurred and accordingly will not give rise to a capital loss.

Capital gains tax under the Eighth Schedule to the Income Tax Act will not be levied in relation to Notes disposed of by a Person who is not a resident of South Africa unless the Notes disposed of are attributable to a permanent establishment of that Person through which a trade is carried on in South Africa during the relevant year of assessment.

Purchasers are advised to consult their own professional advisors as to whether a disposal of Notes will result in a liability to capital gains tax.

Withholding Tax

A final withholding tax on interest which is levied at the rate of 15% (fifteen percent) has been introduced from 1 March 2015, applying to interest payments made from a South African source to foreign Persons (i.e. non-residents), which are paid or become due and payable on or after that date. Section 50D contains exemptions from withholding tax on interest. South Africa is also a party to double taxation treaties that may provide full or partial relief from the withholding tax on interest, provided that certain requirements are met.

The available exemptions apply in respect of the instrument giving rise to the interest to the foreign person receiving the interest or to the person liable for the interest (i.e the Issuer).

Regarding the exemptions applicable in respect of the instrument, an amount of interest is exempt if it is paid to a foreign Person in terms of "listed debt", being listed on a "recognised exchange", as defined in terms of paragraph 1 of the Eighth Schedule to the Income Tax Act. Thus, to the extent that the Notes remain listed on that exchange (and to the extent that the exchange remains a recognised exchange), any interest paid to a foreign Person in respect of the Notes will be exempt from the withholding tax on interest.

With regards to the exemptions applicable in respect of a foreign Person receiving interest, an amount of interest is exempt if-

(a) that foreign Person is a natural person who was physically present in South Africa for a period exceeding 183 (one hundred and eighty three) days in aggregate during the 12 (twelve) month period preceding the date on which the interest is paid; or

(b) the debt claim in respect of which that interest is paid is effectively connected with a permanent establishment of that foreign Person in South Africa, if that foreign Person is registered as a

taxpayer in terms of Chapter 3 of the Tax Administration Act No. 28 of 2011; or

(c) the foreign Person submits a declaration confirming their exemption to the person liable for the payment of the interest before payment of the interest is paid.

If a foreign Person does not qualify for any of the above exemptions, then any interest paid to that foreign Person will not be exempt from the withholding tax on interest.

With regards to the exemptions applicable in respect of the person liable for the interest (the Issuer), an amount of interest is exempt if that amount of interest is paid to any foreign Person by the Government of South Africa in the National, Provincial or local sphere.

Thus, if the exemptions in respect of a listed debt, a foreign person and the person liable (Issuer) are not applicable, then any interest paid to a foreign Person will not be exempt from the withholding tax.

Definition of Interest

The references to "*interest*" above mean "*interest*" as understood in South African tax law. The statements above do not take account of any different definitions of "*interest*" or "*principal*" which may prevail under any other law or which may be created by the Terms and Conditions or any related documentation.

SOUTH AFRICAN EXCHANGE CONTROL

Capitalised terms used in this section headed "South African Exchange Control" shall bear the same meanings as used in the Terms and Conditions, except to the extent that they are separately defined in this section or this is clearly inappropriate from the context.

The information below is intended as a general guide to the position under the Exchange Control Regulations as at the Programme Date. The Exchange Control Regulations are subject to change at any time without notice. The contents of this section headed "South African Exchange Control" do not constitute exchange control advice and do not purport to describe all of the considerations that may be relevant to a prospective subscriber for or purchaser of any Notes. Prospective subscribers for or purchasers of any Notes should consult their professional advisers in this regard.

For purposes of this section, **Common Monetary Area** means South Africa, Lesotho, Namibia, and Swaziland.

Non-South African resident Noteholders and emigrants from the Common Monetary Area

Dealings in the Notes and the performance by the Issuer of its obligations under the Notes and the Applicable Terms and Conditions may be subject to the Exchange Control Regulations.

Blocked Rands

Blocked Rands may be used for the subscription for or purchase of Notes. Any amounts payable by the Issuer in respect of the Notes subscribed for or purchased with Blocked Rands may not, in terms of the Exchange Control Regulations, be remitted out of South Africa or paid into any non-South African bank account.

Emigrants from the Common Monetary Area

Any Individual Certificates issued to Noteholders who are emigrants from the Common Monetary Area will be endorsed "*emigrant*". Such restrictively endorsed Individual Certificates shall be deposited with an authorised foreign exchange dealer controlling such emigrant's blocked assets.

In the event that a Beneficial Interest in Notes is held by an emigrant from the Common Monetary Area through the CSD, the securities account maintained for such emigrant by the relevant Participant will be designated as an "*emigrant*" account.

Any payments of interest and/or principal due to a Bondholder who is an emigrant from the Common Monetary Area will be sent to the Authorised Dealer controlling the emigrant's blocked assets. Interest payments are freely transferable and may be credited to the emigrant's non-resident Rand account. Capital amounts in respect of principal are not freely transferable and will be credited to the emigrant's blocked Rand account. **Non-residents of the Common Monetary Area**

Any Individual Certificates issued to Noteholders who are not resident in the Common Monetary Area will be endorsed "*non-resident*". In the event that a Beneficial Interest in Notes is held by a non-resident of the Common Monetary Area through the CSD, the securities account maintained for such Noteholder by the relevant Participant will be designated as a "*non-resident*" account.

It will be incumbent on any such non-resident Noteholder to instruct the non-resident's nominated or authorised dealer in foreign exchange as to how any funds due to such non-resident in respect of Notes are to be dealt with. Such funds may, in terms of the Exchange Control Regulations, be remitted abroad only if the relevant Notes are acquired with foreign currency introduced into South Africa or Rand from a non-resident Rand account and provided that the relevant Individual Certificate has been endorsed "*non-resident*" or the relevant securities account has been designated as a "*non-resident*" account, as the case may be.

The Issuer is established and resident in South Africa and as such is not required to obtain exchange control approval.

GENERAL INFORMATION

Capitalised terms used in this section headed "General Information" shall bear the same meanings as used in the Terms and Conditions, except to the extent that they are separately defined in this section or this is clearly inappropriate from the context.

Authorisation

All consents, approvals, authorisations or other orders of all regulatory authorities required by the Issuer under the laws of South Africa, including but not limited to the MFMA, as at the Programme Date have been given for the establishment of the Programme and the issue of Notes and for the Issuer to undertake and perform its obligations under the Programme Memorandum and the Notes.

Listing

The Programme Memorandum was approved by the JSE on 14 June 2016. Notes to be issued under the Programme will be listed on the Interest Rate Market of the JSE or any other Financial Exchange. Unlisted Notes may also be issued under the Programme Memorandum.

Documents Available

So long as the Notes are capable of being issued under the Programme, copies of the documents incorporated under the section headed "*Documents Incorporated by Reference*" will, when published, be available at the registered office of the Issuer as set out at the end of this Programme Memorandum. This Programme Memorandum and the Applicable Pricing Supplements relating to any issue of listed Notes will also be available on the Issuer's website at http://www.joburg.org.za and at the JSE's website at http://www.jse.co.za.

Material Change

As at the Programme Date, and after due and careful inquiry, there has been no material change in the financial, trading position of the Issuer since the date of the Issuer's latest audited financial statements. As at the Programme Date, there has been no involvement by the Auditor General of South Africa in making the aforementioned statement.

Litigation

Save as disclosed herein, neither the Issuer, nor any of its respective consolidated Municipal Owned Entities is or has been involved in any legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have or have had a significant effect on the financial position of the Issuer or its consolidated subsidiaries.

Auditors

The Auditor General of South Africa has acted as the auditor of the financial statements of the Issuer for the financial years ended 30 June 2013, 2014 and 2015 and, in respect of those years, have issued unmodified audit reports.

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