

The information contained in this Programme Memorandum is not complete and may be changed. This Programme Memorandum is not an offer to sell the Notes and is not soliciting an offer to buy the Notes in any jurisdiction where an offer or sale is not permitted or to any person or entity to whom it is unlawful to make an offer or sale. A final form Programme Memorandum will be prepared and made available. Investors should subscribe for the Notes referred to in this document only on the basis of information contained in the final form Programme Memorandum and the Applicable Pricing Supplement (if any).



## UMGENI WATER

*(Established in the Republic of South Africa under Proclamation No. 114 of 1974 (Government Gazette No. 4300 of 14 June 1974) and in terms of section 108(2) of the Water Act, 1956 and now deemed to be established in terms of the Water Services Act, 1997 read together with the Public Finance Management Act, 1999)*

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**ZAR4,000,000,000**

### **Domestic Medium Term Note Programme**

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Under this ZAR4,000,000,000 Domestic Medium Term Note Programme, which (as at the date of this Programme Memorandum (as defined below)) amends, restates, replaces and supersedes the ZAR4,000,000,000 Domestic Medium Term Note Programme dated 9 December 2015 (the "**Programme**"), Umgeni Water (the "**Issuer**") may from time to time issue (i) unsecured or secured, or (ii) senior or subordinated registered notes of any kind (the "**Notes**"). Capitalised terms used in this Programme Memorandum are defined in the section of this Programme Memorandum headed "*Terms and Conditions of the Notes*" (the "**Terms and Conditions**"), unless separately defined, and/or in relation to a Tranche of Notes, in the Applicable Pricing Supplement.

This Programme Memorandum will apply to the Notes issued under the Programme in an aggregate outstanding Nominal Amount which will not exceed ZAR4,000,000,000 unless such amount is increased by the Issuer as set out in the section of this Programme Memorandum headed "*General Description of the Programme*".

The Notes may comprise, without limitation, Fixed Rate Notes, Floating Rate Notes, Mixed Rate Notes, Zero Coupon Notes, Indexed Notes, Dual Currency Notes, Instalment Notes, Partly Paid Notes, Exchangeable Notes, Extendible Notes and/or such combination of the foregoing Notes and/or such other type of Notes that are approved by the JSE, or its successor, or such other or further Financial Exchange(s), as may be determined by the Issuer and the relevant Dealer(s) and specified in the Applicable Pricing Supplement. Notes will be issued in individual Tranches which, together with other Tranches, may form a Series of Notes. A Tranche of Notes will be issued on, and subject to, the Terms and Conditions, as replaced, amended and/or supplemented by the terms and conditions of that Tranche of Notes set out in the Applicable Pricing Supplement.

This Programme Memorandum has been approved by the JSE and is listed on the Interest Rate Market of the JSE. A Tranche of Notes may be listed on the Interest Rate Market of the JSE or on such other or additional Financial Exchange(s) as may be determined by the Issuer, subject to all Applicable Laws. Unlisted Notes may also be issued under the Programme but will not be regulated by the JSE. A copy of the signed Applicable Pricing Supplement relating to a Tranche of Notes which is to be listed on the Interest Rate Market of the JSE will be delivered to the JSE and the CSD before the Issue Date, and the Notes in that Tranche may be traded by or through members of the JSE from the date specified in the Applicable Pricing Supplement, in accordance with the Applicable Procedures. The settlement of trades on the JSE will take place in accordance with the electronic settlement procedures of the JSE and the CSD for all trades done through the JSE. The placement of a Tranche of unlisted Notes may (at the sole discretion of the Issuer) be reported through the JSE reporting system, in which event the settlement of trades in such Notes will take place in accordance with the electronic settlement procedures of the JSE and the CSD for all trades done through the JSE. The settlement and redemption procedures for a Tranche of Notes listed on any Financial Exchange (other than or in addition to the JSE) will be specified in the Applicable Pricing Supplement.

The Notes may be issued on a continuing basis and be placed by one or more of the Dealers specified under the section headed "*Summary of Programme*" and any additional Dealer appointed under the Programme from time to time by the Issuer, which appointment may be for a specific issue or on an on-going basis. References in this Programme Memorandum to the "**relevant Dealer**" shall, in the case of Notes being (or intended to be) placed by more than one Dealer, be to all Dealers agreeing to place such Notes.

**The attention of investors contemplating investing in the Notes is drawn to the section headed "*Risk Factors*" for a discussion of certain factors that should be carefully considered by prospective investors in connection with an investment in the Notes.**

The Issuer may be rated by a Rating Agency on a national scale or international scale basis, which Rating (if applicable) will be reflected in the Applicable Pricing Supplement. As at the date of this Programme Memorandum,

the Programme has not been rated by a Rating Agency. A Tranche of Notes may, on or before the Issue Date, be rated by a Rating Agency. The Applicable Pricing Supplement will reflect the Rating, if any, which has been assigned to the Issuer, the Programme and/or a Tranche of Notes, as the case may be, as well as the Rating Agency which assigned such Rating. For so long as any Note remains outstanding and listed on the Interest Rate Market of the JSE, any change in any assigned Rating (if applicable) will be published by the Issuer on the Stock Exchange News Service ("**SENS**"), or any other similar service, established by the JSE. The Issuer may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event a supplementary Programme Memorandum, if appropriate, will be made available, which will describe the effect of the agreement reached in relation to such Notes.

***Debt Sponsor, Arranger and Dealer***

**Investec Bank Limited**



***Dealer***

***Dealer***

**Rand Merchant Bank, a division of FirstRand Bank  
Limited**



**Nedbank Limited**



***Attorneys to Arranger and Issuer***

**ENSafrica**



**Programme Memorandum dated 29 February 2016, which amends, restates, replaces and supersedes the Programme Memorandum dated 9 December 2015.**

## GENERAL

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*Words used in this section headed "General" 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 accepts full responsibility for the accuracy of the information contained in this Programme Memorandum, Applicable Pricing Supplement(s), the annual financial report (incorporated herein by reference), any amendments to any such annual financial report and/or any supplements from time to time except as otherwise stated therein. The Issuer certifies that to the best of the knowledge and belief of the Issuer (who has taken all reasonable care to ensure that such is the case) the information contained in this Programme Memorandum is in accordance with the facts and does not omit anything likely to affect the import of such information. The Issuer certifies that to the best of its knowledge and belief there are no facts that have been omitted which would make any statement false or misleading and that all reasonable enquiries to ascertain such facts have been made, as well as that the Programme Memorandum contains all information required by law and the JSE Debt Listings Requirements.

The Issuer, having made all reasonable enquiries, confirms that this Programme Memorandum contains or incorporates all information which is material in the context of the issue and the offering of Notes, that the information contained or incorporated in this Programme Memorandum is true and accurate in all material respects and is not misleading, that the opinions and the intentions expressed in this Programme Memorandum are honestly held and that there are no other facts, the omission of which would make this Programme Memorandum or any of such information or expression of any such opinions or intentions false or misleading in any material respect.

This document is to be read and construed with any amendment or supplement thereto (this document, as amended, replaced or supplemented, the "**Programme Memorandum**") and in conjunction with any other documents which are deemed to be incorporated herein by reference (see section headed "*Documents Incorporated by Reference*") and, in relation to any Tranche of Notes, should be read and construed together with the Applicable Pricing Supplement. This Programme Memorandum shall be read and construed on the basis that such documents are incorporated into and are deemed to form part of this Programme Memorandum.

Claims against the BESA Guarantee Fund Trust (or any successor fund) may only be made in respect of trading in Notes listed on the JSE in accordance with the rules of the BESA Guarantee Fund Trust, if listed on the Interest Rate Market of the JSE, and can in no way relate to trading on another licensed or recognised exchange or to a default by the Issuer of its obligations under the Notes.

The JSE takes no responsibility for the contents of the Programme Memorandum, the Applicable Pricing Supplement(s), any supplements thereto, or the annual report (as amended or restated from time to time), makes no representation as to the accuracy or completeness of any of the foregoing documents and expressly disclaims any liability for any loss arising from or in reliance upon the whole or any part of the Programme Memorandum, the Applicable Pricing Supplement(s), supplements thereto, or the annual report (as amended and restated from time to time).

The Arranger, the Dealers, the JSE, the CSD, the Debt Sponsor or any of their respective affiliates and other professional advisors named herein have not separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, whether express or implied, is made and no responsibility is accepted by the Arranger, the Dealers, the JSE, the CSD, the Debt Sponsor or other professional advisors as to the accuracy or completeness of the information contained in this Programme Memorandum or any other information provided by the Issuer. The Arranger, the Dealers, the JSE, the CSD, the Debt Sponsor or their respective affiliates and other professional advisors do not accept any liability in relation to the information contained in this Programme Memorandum, the Applicable Pricing Supplement(s) or any other information provided by the Issuer in connection with the Programme.

No person has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Programme Memorandum or any other document entered into in relation to the Programme or any other information supplied by the Issuer in connection with the Programme or any other documents which are deemed to be incorporated herein by reference and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Arranger, the Dealers, the JSE, the CSD, the Debt Sponsor and any of their agents or employees or other professional advisors.

Neither this Programme Memorandum nor any other information supplied in connection with the Programme is intended to provide a basis for any credit or other evaluation, or should be considered as a recommendation by the Issuer, the Arranger or any of the Dealers that any recipient of this Programme Memorandum or any other information supplied in connection with the Programme should subscribe for, or purchase, any Notes.

Each person contemplating the subscription for, or purchase of, any Notes should determine for itself the relevance of the information contained in this Programme Memorandum and should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and its subscription for, or purchase of, Notes should be based upon any such investigation as it deems necessary. Neither this Programme Memorandum nor any Applicable Pricing Supplement nor any other information supplied in connection with the Programme constitutes an offer to sell or the solicitation of an offer to buy or invitation by or on behalf of the Issuer, the Arranger, or any of the Dealers to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Programme Memorandum nor any Applicable Pricing Supplement nor the offering, sale or delivery of any Note shall at any time imply that the information contained herein is correct at any time subsequent to the date hereof or that any other financial statements or other information supplied in connection with the Programme is correct as at any time subsequent to the date indicated in the document containing the same. The Arranger, the Dealers, the JSE, the Debt Sponsor or any of their respective affiliates and other professional advisers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme. Investors should review, inter alia, the most recent financial statements, if any, of the Issuer when deciding whether or not to subscribe for, or purchase, any Notes.

The distribution of this Programme Memorandum and any Applicable Pricing Supplement and the issue, sale or offer of Notes may be restricted by law in certain jurisdictions. Persons into whose possession this Programme Memorandum or any Applicable Pricing Supplement or any Notes come are required by the Issuer, the Arranger and the Dealers to inform themselves about, and observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of this Programme Memorandum or any Applicable Pricing Supplement and other offering materially relating to the Notes, see the section headed "*Subscription and Sale*".

None of the Issuer, the Dealers, the Debt Sponsor or other professional advisors represents that this Programme Memorandum may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Arranger, the Dealers, the Debt Sponsor or other professional advisors which would permit a public offering of any Notes or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Programme Memorandum nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any Applicable Laws and regulations, and the Dealers have represented that all offers and sales by them will be made on the same terms.

**The Notes have not been and will not be registered under the United States Securities Act of 1933 (as amended) (the "Securities Act"). Notes may not be offered, sold or delivered within the United States of America or to U.S. persons except in accordance with Regulation S under the Securities Act.**

In connection with the issue and distribution of any Tranche of Notes under the Programme, the Dealer, if any, that is specified in the Applicable Pricing Supplement as the stabilising manager (or any person acting for the stabilising manager) may, if specified in that Applicable Pricing Supplement and only if such stabilising is permitted by the Applicable Laws and agreed with the JSE, over-allot or

effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail, for a limited period. However, there may be no obligation on the stabilising manager (or any agent of the stabilising manager) to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Such stabilising shall be in compliance with all Applicable Laws, regulations and rules.

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## DOCUMENTS INCORPORATED BY REFERENCE

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*Words used in this section headed "Documents Incorporated by Reference" 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 so long as any Note remains outstanding, the following documents shall be deemed to be incorporated in, and to form part of, this Programme Memorandum:

- (a) all amendments and supplements to this Programme Memorandum prepared by the Issuer from time to time;
- (b) the published annual report of the Issuer incorporating its audited annual financial statements, together with such statements, reports and the notes attached to or intended to be read with such financial statements of the Issuer for its 3 (three) financial years prior to the date of such issue as well as for each financial year thereafter ending on 30 June;
- (c) each Applicable Pricing Supplement relating to any Tranche of Notes issued under the Programme;
- (d) all information pertaining to the Issuer which is relevant to the Programme and/or this Programme Memorandum which is electronically submitted, after the date of this Programme Memorandum, by SENS or such other similar service, established by the JSE,

save that any statement contained in this Programme Memorandum or in any of the documents incorporated by reference in and forming part of this Programme Memorandum shall be deemed to be modified or superseded for purposes of this Programme Memorandum to the extent that a statement contained in any document subsequently incorporated by reference modifies or supersedes such earlier statement (whether expressly, by implication or otherwise).

The Issuer will, for so long as any Note remains outstanding and listed on the Interest Rate Market of the JSE, provide at the registered office of the Issuer and the Debt Sponsor, as set out at the end of this Programme Memorandum, without charge, upon request of any person, a copy of this Programme Memorandum and any or all of the documents which are incorporated herein by reference, unless such documents have been modified or superseded in which case the modified or superseding documentation will be provided. Requests for the documents should be directed to the Issuer at its registered office as set out at the end of this Programme Memorandum. This Programme Memorandum, Applicable Pricing Supplements and any supplementary documents thereto will be available on the JSE website, [www.jse.co.za](http://www.jse.co.za), and the Issuer's annual report, including the audited annual financial statements of the Issuer and this Programme Memorandum (and any supplementary documents thereto, including the Applicable Pricing Supplements) are also available on the Issuer's website, [www.umgeni.co.za](http://www.umgeni.co.za).

The Issuer will, for so long as any Note remains outstanding and listed on the Interest Rate Market of the JSE, publish a new Programme Memorandum or a supplement to this Programme Memorandum, as the case may be, if:

- (a) a change in the condition (financial or otherwise) of the Issuer has given rise to a Material Adverse Effect; or
- (b) an event has occurred which affects any matter contained in this Programme Memorandum, the disclosure of which would reasonably be required by Noteholders and/or potential investors in the Notes; or
- (c) any of the information contained in this Programme Memorandum becomes outdated in a material respect; or
- (d) this Programme Memorandum no longer contains all the materially correct information required by the Applicable Procedures,

provided that, in the circumstances set out in paragraphs (a), (c) and (d) above, no new Programme Memorandum or supplement to this Programme Memorandum, as the case may be, is required in respect of the Issuer's audited annual financial statements if such audited annual financial statements are incorporated by reference into this Programme Memorandum and such audited annual financial statements are published, as required by the Companies Act, and submitted to the JSE within 6 (six) months after the financial year end of the Issuer.

The Issuer will, for so long as any Note remains outstanding and listed on the Interest Rate Market of the JSE, announce by electronically publishing such announcement on SENS, or any other similar service, established by the JSE, when the Issuer's audited annual financial statements are available.

## GENERAL DESCRIPTION OF THE PROGRAMME

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*Words used in this section headed "General Description of the Programme" 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 may from time to time issue one or more Tranches of Notes under the Programme, pursuant to this Programme Memorandum and the provisions of the PFMA, provided that the aggregate outstanding Nominal Amount of all of the Notes issued under the Programme from time to time does not exceed the authorised Programme Amount.

A Tranche of Notes may be listed on the Interest Rate Market of the JSE or on such other or additional Financial Exchange(s) as may be determined by the Issuer, subject to Applicable Laws. Unlisted Notes may also be issued under the Programme but will not be regulated by the JSE. The Applicable Pricing Supplement will specify whether or not a Tranche of Notes will be listed and, if so, on which Financial Exchange.

This Programme Memorandum and any supplement will only be valid for the issue of Notes in an aggregate Nominal Amount which, when added to the aggregate Nominal Amount then outstanding of all the Notes previously or simultaneously issued under the Programme, does not exceed the authorised amount of ZAR4,000,000,000 (four billion Rand) or its equivalent in other currencies. For the purpose of calculating the South African Rand equivalent of the aggregate Nominal Amount of the Notes issued under the Programme from time to time, the South African Rand equivalent of the Notes denominated in another Specified Currency (as specified in the Applicable Pricing Supplement) shall be determined as of the date of agreement to issue such Notes (the "**Agreement Date**") on the basis of the spot rate for the sale of the South African Rand against the purchase of such Specified Currency in the South African foreign exchange market quoted by any leading bank selected by the Issuer on the Agreement Date (the "**Conversion Rate**") and in respect of:

- (a) Zero Coupon Notes and other Notes, the Conversion Rate shall be applied to the net subscription proceeds received by the Issuer for the relevant issue; and
- (b) Partly-Paid Notes and Index-Linked Notes, the Conversion Rate shall be applied to the Nominal Amount regardless of the amount paid up on such Notes.

From time to time the Issuer may wish to increase the Programme Amount. Subject to the Applicable Procedures, all Applicable Laws and the Programme Agreement (as defined in the section headed "*Subscription and Sale*"), the Issuer may, without the consent of Noteholders, increase the Programme Amount by delivering a notice thereof to (i) the Noteholders in accordance with Condition 18 (*Notices*) of the Terms and Conditions, (ii) the Arranger and the Dealer(s) and (iii) the relevant Financial Exchange (if required). Upon such notice being given and the conditions set out in the Programme Agreement to the exercise of this right having been met, all references in this Programme Memorandum (and each agreement,

deed or document relating to the Programme and/or this Programme Memorandum) to the Programme Amount will be, and will be deemed to be, references to the increased Programme Amount set out in such notice.

The Issuer may, at any time, obtain a Rating by a Rating Agency for itself, this Programme or any issue of Notes pursuant to this Programme, on a national scale or international scale basis, which Rating(s) (if applicable) (as well as the Rating Agency or Rating Agencies which assigned such Rating(s)) will be reflected in the Applicable Pricing Supplement. As at the date of this Programme Memorandum, the Programme has not been rated by a Rating Agency. A Tranche of Notes may, on or before the Issue Date, be rated by a Rating Agency on a national scale or international scale basis. Unrated Tranches of Notes may also be issued. Neither a Rating of a Tranche of Notes nor of the Programme nor of the Issuer is a recommendation to subscribe for, buy, sell or hold any Notes, and may be subject to revision, suspension or withdrawal at any time by the Rating Agency.

This Programme Memorandum will only apply to Notes issued under the Programme.

A summary of the Programme and the Terms and Conditions appears below.

## SUMMARY OF THE PROGRAMME

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*The following summary does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Programme Memorandum and, in relation to the Terms and Conditions of any particular Tranche of Notes, the Applicable Pricing Supplement. Words and expressions defined in the Terms and Conditions shall have the same meanings in this summary.*

### PARTIES

<b>Issuer</b>	Umgeni Water (established in South Africa under Proclamation No. 114 of 1974 (Government Gazette No. 4300 of 14 June 1974) and in terms of section 108(2) of the Water Act, 1956 and now deemed to be established in terms of the Water Services Act, 1997 read together with the PFMA).
<b>Arranger</b>	Investec.
<b>Calculation Agent</b>	Investec, or such other entity appointed by the Issuer as Calculation Agent, in which event that other entity will act as Calculation Agent, as specified in the Applicable Pricing Supplement.
<b>CSD</b>	Strate Proprietary Limited (registration Number 1998/022242/07), registered as a central securities depository in terms of the Financial Markets Act or such additional, alternative or successor central securities depository as may be agreed between the Issuer and the relevant Dealer(s).
<b>Dealer(s)</b>	Investec, Nedbank, RMB, and any additional Dealer appointed under the Programme by the Issuer from time to time, which appointment may be for a specific issue or on an on-going basis, subject to the Issuer's right to terminate the appointment of such Dealer.
<b>Debt Sponsor</b>	<p>(a) in relation to the Programme, Investec (but only for so long as Investec is also a Dealer) or such other Debt Sponsor as may be appointed by the Issuer subject to the approval of the JSE in accordance with the Applicable Procedures, as specified in the Applicable Pricing Supplement; or</p> <p>(b) in relation to each issuance of Notes, the entity</p>

appointed by the Issuer subject to the approval of the JSE in accordance with the Applicable Procedures, as specified in the Applicable Pricing Supplement;

**Paying Agent**

Absa, or such other entity appointed by the Issuer as Paying Agent, in which event that other entity will act as Paying Agent, as specified in the Applicable Pricing Supplement.

**Transfer Agent**

Computershare Investor Services Proprietary Limited (registration Number 2004/003647/07), a private company with limited liability duly incorporated in accordance with the company laws of South Africa ("**Computershare**"), or such other entity appointed by the Issuer as Transfer Agent, in which event that other entity will act as Transfer Agent, as specified in the Applicable Pricing Supplement.

**GENERAL**

**Blocked Rand**

Blocked Rand may be used to subscribe for, or purchase, Notes, subject to the Exchange Control Regulations.

**Clearing and Settlement**

Notes may be cleared and settled in accordance with the rules of the JSE and the CSD. The Notes have been accepted for clearance through the CSD, which forms part of the JSE clearing system that is managed by the CSD, and may be accepted for clearance through any additional clearing system as may be agreed between the JSE and the Issuer. As at the date of this Programme Memorandum, the Participants include (but are not limited to) FirstRand Bank Limited, Nedbank, Citibank N.A., South Africa branch, Standard Chartered Bank, Johannesburg branch, Société Générale, Johannesburg branch, The Standard Bank of South Africa Limited and the South African Reserve Bank. Euroclear Bank S.A./N.V. as operator of the Euroclear System ("**Euroclear**") and Clearstream Banking, société anonyme (Clearstream Luxembourg) ("**Clearstream**"), may hold Notes through their Participant.

**Cross-Default**

The terms of the Notes will contain a cross-default provision relating to Indebtedness for money borrowed having an aggregate outstanding amount of the greater from time to time of: (i) ZAR300,000,000; or (ii) an amount equal to 5% (five

percent) of the Total Assets of the Issuer (or its equivalent in any other currency or currencies).

**Denomination**

Notes will be issued in such denominations as may be agreed by the Issuer and the relevant Dealer(s) and as indicated in the Applicable Pricing Supplement, save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the central bank or regulator or any laws or regulations applicable to the Notes.

**Description of Programme**

Umgeni Water ZAR4,000,000,000 Domestic Medium Term Note Programme.

**Distribution**

Notes may be distributed by way of private placement, public auction or any other means permitted under South African law, and in each case on a syndicated or non-syndicated basis as may be determined by the Issuer and the relevant Dealer(s) and reflected in the Applicable Pricing Supplement.

**Form of Notes**

Notes will be issued in certificated form or electronically in uncertificated form as described in the section headed "*Form of the Notes*". Notes listed on the Interest Rate Market of the JSE must, subject to Applicable Laws and Applicable Procedures, be issued in uncertificated form in terms of section 33 of the Financial Markets Act.

**Governing Law**

The Notes will be governed by and construed in accordance with the laws of South Africa in force from time to time.

**Interest**

Notes may be interest-bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate or a floating rate or other variable rate or be index-linked, and the method of calculating interest may vary between the Issue Date and the Maturity Date.

**Interest Period(s)/Interest Payment Date(s)**

The Interest Rate, Interest Payment Date(s) and Interest Period(s), if any, applicable to a Tranche of Notes will be specified in the Applicable Pricing Supplement.

**Issue and Transfer Taxes**

As at the date of this Programme Memorandum, no securities transfer tax or any similar tax is payable in respect of the issue, transfer or redemption of the Notes (see the section of this Programme Memorandum headed "*South African Taxation*").

Any future transfer duties and/or taxes that may be introduced in respect of (or are applicable to) the transfer of Notes will be for the account of Noteholders.

**Issue Price**

Notes may be issued on a fully-paid or a partly-paid basis and at their Nominal Amount or at a discount or premium to their Nominal Amount, as specified in the Applicable Pricing Supplement.

**Listing**

This Programme has been approved by the JSE for the listing of the Notes on the Interest Rate Market of the JSE. Notes issued under the Programme may be listed on the Interest Rate Market of the JSE or on such other or additional Financial Exchange(s) as may be determined by the Issuer and the Dealer(s), subject to all Applicable Laws. Unlisted Notes may also be issued under the Programme but will not be regulated by the JSE. The Applicable Pricing Supplement will specify whether or not a Tranche of Notes will be listed and, if so, on which Financial Exchange(s).

**Maturities of Notes**

Such maturity(ies) that is/are acceptable to the JSE and as specified in the Applicable Pricing Supplement. The Notes are not subject to any minimum or maximum maturity.

**Negative Pledge**

Senior Notes will have the benefit of a negative pledge as described in Condition 7 (*Negative Pledge*) of the Terms and Conditions.

**Notes**

Notes may comprise:

**Fixed Rate Notes** Fixed Rate interest will be payable in arrear on such date or dates as may be agreed between the Issuer and the relevant Dealer(s), as indicated in the Applicable Pricing Supplement and on redemption, and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s).

**Floating Rate Notes** Floating Rate Notes will bear interest calculated at a rate determined: (i) on the same basis as the floating rate under a

notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the ISDA Definitions; or (ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quoting service; or (iii) on such other basis as may be agreed between the Issuer and the relevant Dealer(s).

The Margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer(s) for each issue of Floating Rate Notes.

Floating Rate Notes may also have a maximum interest rate, a minimum interest rate or both.

The Interest Period for Floating Rate Notes may be one, two, three, six or twelve months or such other period as the Issuer and the relevant Dealer(s) may agree, as indicated in the Applicable Pricing Supplement.

**Dual Currency Notes** Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer(s) may agree, as indicated in the Applicable Pricing Supplement.

**Exchangeable Notes** Exchangeable Notes may be redeemed by the Issuer in cash or by the delivery of securities as specified in the Applicable Pricing Supplement.

**Index-Linked Notes** Payments (whether in respect of interest on Indexed Interest Notes or in respect of principal on Indexed Redemption Amount Notes and whether at maturity or otherwise) will be calculated by reference to such index

and/or formula as the Issuer and the relevant Dealer(s) may agree, as indicated in the Applicable Pricing Supplement.

**Instalment Notes** The Applicable Pricing Supplement will set out the dates on which, and the amounts in which, Instalment Notes may be redeemed. Interest will accrue on the amount outstanding on the relevant Note from time to time and otherwise as specified in the Applicable Pricing Supplement.

**Mixed Rate Notes** Mixed Rate Notes will bear interest over respective periods at the rates applicable for any combination of Fixed Rate Notes, Floating Rate Notes, Zero Coupon Notes or Index-Linked Notes, each as specified in the Applicable Pricing Supplement.

**Partly Paid Notes** The Issue Price will be payable in 2 (two) or more instalments as set out in the Applicable Pricing Supplement.

**Zero Coupon Notes** Zero Coupon Notes will be issued at their Nominal Amount or at a discount to it and will not bear interest (except in the case of late payment as specified).

**Other Notes** Terms applicable to any other type of Notes that are approved by the JSE, or its successor, or such other Financial Exchange(s) as may be selected by the Issuer in relation to an issue of listed Notes, or as agreed between the Issuer and the relevant Dealer(s) in respect of unlisted Notes, will be set out in the Applicable Pricing Supplement.

## **Noteholders**

The holders of the listed or unlisted registered Notes (as recorded in the Register). The CSD will be named in the Register as the registered Noteholder of each Tranche of Notes in uncertificated form and which is held in the CSD. Each

holder of Notes which is represented by an Individual Certificate will be named in the Register as the registered Noteholder of such Notes.

**Paying Agent**

Absa, or such other entity appointed by the Issuer as Paying Agent, in which event that other entity will act as Paying Agent, as specified in the Applicable Pricing Supplement.

**Rating**

The Issuer may be rated by a Rating Agency on a national scale or international scale basis, which Rating (if applicable) will be reflected in the Applicable Pricing Supplement. As at the date of this Programme Memorandum, the Programme and the Notes to be issued under this Programme are not rated by any Rating Agency.

**Rating of Notes**

A Tranche of Notes may, on or before the Issue Date, be rated by a Rating Agency. Unrated Tranches of Notes may also be issued provided that the Rating Agency has confirmed in writing that all of its respective current Rating(s) of Tranches of Notes then in issue will not be downgraded or withdrawn as a result of the issue of such unrated Tranche of Notes. The Applicable Pricing Supplement will reflect the Rating, if any, which has been assigned to a Tranche of Notes, as well as the Rating Agency or Rating Agencies which assigned such Rating or Ratings. A Rating is not a recommendation to subscribe for, buy, sell or hold Notes and may be subject to revision, suspension or withdrawal at any time by the Rating Agency.

**Redemption**

The Applicable Pricing Supplement relating to a Tranche of Notes will indicate either that the Notes cannot be redeemed prior to their stated maturity (other than in specified instalments (see below), if applicable, or for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders (as the case may be) and, upon giving not less than 30 (thirty) nor more than 60 (sixty) calendar days' irrevocable notice (or such other notice period (if any) as is indicated in the Applicable Pricing Supplement) to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such terms as are indicated in the Applicable Pricing Supplement.

The Applicable Pricing Supplement may provide that Notes may be redeemable in 2 (two) or more instalments of such amounts and on such dates as indicated in the Applicable Pricing Supplement.

**Selling Restrictions**

The distribution of this Programme Memorandum and any offering or sale of or subscription for a Tranche of Notes may be restricted in certain jurisdictions, and is restricted by law in the United States of America, the European Economic Area, the United Kingdom and South Africa (see the section of this Programme Memorandum headed "*Subscription and Sale*"). Any other or additional restrictions which are applicable to the placing of a Tranche of Notes will be set out in the Applicable Pricing Supplement. Persons who come into possession of this Programme Memorandum or any Applicable Pricing Supplement must inform themselves about and observe all applicable selling restrictions.

**Size of the Programme**

As at the date of this Programme Memorandum, the authorised Programme Amount is ZAR4,000,000,000. This Programme Memorandum will only apply to Notes issued under the Programme in an aggregate outstanding Nominal Amount which does not exceed the Programme Amount. The Issuer may increase the Programme Amount as described in the section of this Programme Memorandum headed "*General Description of the Programme*".

**Specified Currency**

ZAR or, subject to all Applicable Laws and in the case of Notes listed on the Interest Rate Market of the JSE subject to the rules of the JSE, such other currency as is specified in the Applicable Pricing Supplement.

**Stabilisation**

In connection with the issue and distribution of any Tranche of Notes under the Programme, the Dealer, if any, that is specified in the Applicable Pricing Supplement as the stabilising manager (or any person acting for the stabilising manager) may, if specified in that Applicable Pricing Supplement and only if such stabilising is permitted by the Applicable Laws and agreed with the JSE, over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail,

for a limited period. However, there may be no obligation on the stabilising manager (or any agent of the stabilising manager) to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Such stabilising shall be in compliance with all Applicable Laws, regulations and rules.

**Status of Senior Notes**

Unless otherwise specified in the Applicable Pricing Supplement, the Senior Notes constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and rank *pari passu* and rateably without any preference among themselves and (save for certain debts required to be preferred by law) equally with all other unsecured and unsubordinated obligations of the Issuer from time to time outstanding.

**Status and Characteristics relating to Subordinated Notes**

Unless otherwise specified in the Applicable Pricing Supplement, the Subordinated Notes constitute direct, unsecured and subordinated obligations of the Issuer and will rank *pari passu* without any preference among themselves and will rank at least *pari passu* with all other present and future unsecured and subordinated obligations of the Issuer.

Subject to Applicable Law, in the event of the dissolution or disestablishment of the Issuer or if the Issuer is placed into liquidation, or wound up, then and in any such event the claims of the persons entitled to be paid amounts due in respect of the Subordinated Notes shall be subordinated to all other claims in respect of any other indebtedness of the Issuer except for other Subordinated Indebtedness of the Issuer, to the extent that, in any such event, and provided as aforesaid, no amount shall be eligible for setting-off or shall be payable to any or all of the persons entitled to be paid amounts due in respect of such Subordinated Notes in respect of the obligations of the Issuer thereunder until all other indebtedness of the Issuer which is admissible in any such dissolution or disestablishment, liquidation or winding-up (other than Subordinated Indebtedness) has been paid or discharged in full.

**Taxation**

All payments of principal and interest in respect of the Notes will be made without withholding or deduction for or on account of taxes levied in South Africa unless such withholding or

deduction is required by law.

For a summary of the current law in relation to the withholding or deduction of taxes levied in South Africa, see the section headed “*South African Taxation*” below.

In the event that withholding tax or such other deduction is required by law, then the Issuer will, subject to certain exceptions as provided in Condition 11 (*Taxation*), make such payments 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. For a summary of the position in relation to issue and transfer taxes, see “Issue and Transfer Taxes” above.

**Transfer Agent**

Computershare, or such other entity appointed by the Issuer as Transfer Agent, in which event that other entity will act as Transfer Agent, as specified in the Applicable Pricing Supplement.

**Use of Proceeds**

The Issuer will use the issue proceeds of the Notes for its general corporate purposes, or as may otherwise be described in the Applicable Pricing Supplement, as permitted by the Applicable Laws.

## RISK FACTORS

Words used in this section headed "Risk Factors" 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 described below, which are not set out in any particular order, represent key 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. Some risks are not yet known and some that are not currently deemed material could later turn out to be material. Accordingly, the Issuer does not represent or warrant that the statements below regarding the risks of holding of any Notes are exhaustive.

All of these risks could materially affect the Issuer, its reputation, business, results of its operations and overall financial condition.

The information set out below is therefore not intended as advice and does not purport to describe all of the considerations that may be relevant to a prospective investor.

Investors contemplating making an investment in the Notes should determine their own investment objectives and experience, and any other factors which may be relevant to them in connection with such investment.

## RISK ASSOCIATED WITH THE NOTES

Umgeni Water Defines "risk" as any exposure to the consequence of uncertainty that could affect the organisation's ability to meet its strategic objectives. Risk management is guided by an Integrated Risk management Framework, which is aligned to strategy, thereby ensuring a focused and directed process of risk management in the organisation. The board of Umgeni Water approves the organisation's risk appetite and tolerance framework on annual basis.

### 1. RISKS RELATING TO THE ISSUER'S BUSINESS

RISK	CAUSE & CONTEXT	TREATMENT
1. Performance of bulk wastewater infrastructure assets	Influent quality-illegal discharges from industries and storm water infiltration. Capacity and technology constraints, resulting in non-compliance with effluent	Initiatives planned and implemented at each wastewater treatment works (WWTW) and critical refurbishment and upgrades of major works included and implemented as part of capital

RISK	CAUSE & CONTEXT	TREATMENT
	discharge requirements.	programme
2. Infrastructure investment to meet service delivery mandate and growth plans.	<p>Alignment and prioritisation of the infrastructure plan and budget to increase capacity to meet demand, improve service levels and for growth.</p> <p>Inaccurate demand estimates obtained leading to inefficiency in infrastructure project planning and design.</p>	Critical supply infrastructure is annually identified, aligned, prioritised, funded and implemented as part of the organisation's capital Infrastructure programme linked to strategy.
3. Sustainable Tariff	Constraints on ability to charge a tariff that will ensure financial viability and protection of operating cash flows against operating risk including volatile sales volumes, above inflation input costs (major cost drivers) and high energy costs. Impacted by changes in operating rules, significant capital investments with low returns and high impairment costs. Uncertainty around tariff approval process.	<p>Tariff policy ensures transparency and formal tariff process. Scenario analysis on the impact of operational risk factors on financial viability.</p> <p>On-going optimisation of funding mix from tariff, grants and borrowing for capital programme. Enhanced stakeholder engagement to secure grant funding for developmental projects.</p>
4. Ability to deliver projects on time and within budget.	<p>Actual cost and delivery time of projects may significantly differ from approved plans. The variation may lead to undesirable</p> <p>impacts such as reputational damage and financial costs.</p>	Effective engineering, procurement and construction management (EPCM) process alignment within the specified time-frames.
5. Water resources availability	Capacity of Mgeni, systems currently sufficient to meet demand.	Integrated planning and implementation for short, medium and long-term

RISK	CAUSE & CONTEXT	TREATMENT
	<p>South Coast system supply currently exceeds demand which is &gt;98% assured yield. Water shortage in Hazelmere system.</p>	<p>augmentation of systems with stakeholders. Water conservation and demand management initiatives.</p> <p>Review of water resources mix including reuse and desalination.</p>
<p>6. Protection and Safeguarding of assets.</p>	<p>Illegal settlements and unauthorised construction on properties and servitudes. Umgeni Water's right of access limited.</p> <p>General encroachment and impact on assets.</p> <p>Remote locations are difficult to secure or monitor resulting in theft and vandalism.</p>	<p>Implementation of servitude management procedure. Safety and security measures to protect staff, assets and public. Properties and servitudes maintained and monitored. Disposal of property no longer in use.</p>
<p>7. Ability to secure funding to meet developmental goals.</p>	<p>Inability to secure required project grant funding. Delayed receipt of funding resulting in projects not being delivered on time.</p> <p>Budgetary pressure, rising cost of capital and cost cutting due to macro-economic pressures.</p>	<p>Enhanced stakeholder engagement to secure grant funding for developmental projects.</p> <p>On-going optimisation of funding mix from tariff, grants and borrowing.</p>
<p>8. Performance of bulk potable water infrastructure assets</p>	<p>Process failures, capacity and technology constraints at water treatment plants resulting in final water non-compliance with potable water standard</p>	<p>Initiatives planned and implemented at each WTW and critical refurbishment and upgrades of works included and implemented as part of asset programme</p>

## 2. RISKS RELATING TO THE ISSUER'S INDUSTRY

The abovementioned risks may be experienced by other water boards in South Africa. Furthermore the impact of climate change remains on the radar as an emerging risk other water boards may also face.

## 3. THE NOTES MAY NOT BE A SUITABLE INVESTMENT FOR ALL INVESTORS

3.1. 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:

3.1.1. 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;

3.1.2. 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;

3.1.3. have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;

3.1.4. understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and

3.1.5. 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.

3.2. The 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 and legal 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.

## 4. THERE IS NO ACTIVE TRADING MARKET FOR THE NOTES

The Notes issued with the Programme Memorandum will be new securities which may not be widely distributed and for which there is currently no active trading market. While application may be made for the Notes to be traded on the JSE or on such other Financial Exchange(s) as may be determined

by the Issuer, there can be no assurance that the Issuer will be able to maintain such listing or that a trading market will develop for the Notes. If the Notes are traded after their initial issuance, they may trade at a discount or premium to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general political and economic conditions, the Condition of the financial sector, the financial Condition of the Issuer, the Issuer's financial performance and future prospects.

## 5. THE NOTES MAY BE REDEEMED PRIOR TO MATURITY

- 5.1. In the event that the Issuer is obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of any taxes, the Issuer may redeem all outstanding Notes in accordance with the Terms and Conditions.
- 5.2. In addition, if the Terms and Conditions provide that Notes are in certain circumstances redeemable prior to the Maturity Date, the Notes may be redeemed 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.

## 6. RISKS RELATED TO NOTES GENERALLY

### 6.1. Change of law

No assurance can be given as to the impact of any possible judicial decision or change to South African law or the law of any other jurisdiction or administrative practice after the issuance of the Notes.

### 6.2. 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 advisors to determine whether and to what extent (i) Notes are legal investments for it, (ii) Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

### 6.3. Foreign Exchange Control

Foreign derived loan capital or equity capital may be introduced into South Africa through a formal system of Exchange Control as summarised in the section headed "*South African Exchange Control*" of this Programme Memorandum. However, unless the prior approval of

the South African Reserve Bank has been obtained, the proceeds from the sale of assets in South Africa owned by a non-resident are not remittable to the non-resident.

## 7. **FINANCIAL MARKETS**

A prospective investor of the Notes should be aware of the prevailing and widely reported global credit market conditions (which continue at the date hereof), whereby there is a general lack of liquidity in the secondary markets for instruments similar to the Notes. The Issuer cannot predict if and when these circumstances will change, and if and when they do, whether conditions of general market illiquidity for the Notes and instruments similar to the Notes will return in future.

## FORM OF THE NOTES

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*Words used in this section headed "Form of the 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.*

A Tranche of Notes may be issued in the form of listed or unlisted registered Notes, as specified in the Applicable Pricing Supplement.

### **Registered Notes**

A Tranche of registered Notes will be issued in certificated form or in uncertificated form as specified in the Applicable Pricing Supplement. Each Tranche of Notes which is listed on the Interest Rate Market of the JSE must, subject to Applicable Laws and Applicable Procedures, be issued in uncertificated form in terms of section 33 of the Financial Markets Act and will be held in the CSD in the name of, and for the account of, the CSD. A Tranche of unlisted Notes may also be held in the CSD.

Each Tranche of Notes will be issued in the form of registered Notes in accordance with the Terms and Conditions and by (i) Individual Certificates, or (ii) no Individual Certificates, if issued in uncertificated form in terms of section 33 of the Financial Markets Act.

### **Notes issued in certificated form**

A Tranche of Notes may, subject to Applicable Laws and Applicable Procedures, be issued in certificated form.

All certificated Notes will be represented by single Individual Certificates in registered form. Notes represented by Individual Certificates will be registered in the Register in the name of the individual Noteholders of such Notes.

Title to Notes represented by Individual Certificates will pass upon registration of transfer in accordance with Condition 14.1.2 (*Transfer of Notes represented by Individual Certificates*) of the Terms and Conditions.

The Issuer shall regard the Register as the conclusive record of title to the Notes represented by Individual Certificates.

Payments of all amounts due and payable in respect of Notes represented by Individual Certificates will be made in accordance with Condition 9 (*Payments*) of the Terms and Conditions to the person reflected as the registered Noteholder of such Notes in the Register at 17h00 (South African time) on the Last Day to Register, and the Issuer will be discharged by proper payment to or to the order of such registered holder in respect of each amount so paid.

**Notes issued in uncertificated form**

A Tranche of Notes which is listed on the Interest Rate Market of the JSE must, subject to Applicable Laws and Applicable Procedures, be issued in uncertificated form in terms of section 33 of the Financial Markets Act.

Notes issued in uncertificated form will not be represented by any certificate or written instrument. A Tranche of Notes issued in uncertificated form will be held in its entirety in the CSD, and the party recorded in the Uncertificated Securities Register in accordance with Applicable Law and the Applicable Procedures will be named in the Register as the registered Noteholder of that Tranche of Notes.

**Beneficial Interests in Notes held in the CSD**

A Tranche of Notes which is listed on the Interest Rate Market of the JSE will be issued in uncertificated form and held in the CSD. A Tranche of unlisted Notes may either be issued in certificated form or issued in uncertificated form. Unlisted, uncertificated Notes may also be lodged in the CSD. While a Tranche of Notes is held in its entirety in the CSD, the Register will indicate that the entire Tranche of such Notes is held in uncertificated form in the CSD.

The CSD will hold each Tranche of Notes subject to the Financial Markets Act and the Applicable Procedures. 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.

The CSD maintains central securities accounts only for Participants. As at the date of the Programme Memorandum, the Participants include (but are not limited to) FirstRand Bank Limited, Nedbank, Citibank N.A., South Africa branch, Standard Chartered Bank, Johannesburg branch, Société Générale, Johannesburg branch, The Standard Bank of South Africa Limited and the South African Reserve Bank. Beneficial Interests which are held by Participants will be held directly through the CSD, and the CSD will hold such Beneficial Interests, on behalf of such Participants, through the central securities accounts maintained by the CSD for such Participants.

The Participants are in turn required to maintain securities accounts for their clients. Beneficial Interests which are held by clients of Participants will be held indirectly through such Participants, and such Participants will hold such Beneficial Interests, on behalf of such clients, through the securities accounts maintained by such Participants for such clients. The clients of Participants may include the holders of Beneficial Interests in the Notes or their custodians. The clients of Participants, as the holders of Beneficial Interests or as custodians for such holders, may exercise their rights in respect of the Notes held by them in the CSD only through their Participants. Euroclear Bank S.A./N.V. as operator of the Euroclear System (“**Euroclear**”) and Clearstream Banking, société anonyme, (Clearstream Luxembourg) (“**Clearstream**”) may hold Notes through their Participant.

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 outstanding 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 outstanding Nominal Amount of such Notes standing to the account of any person shall be *prima facie* proof of such Beneficial Interest. The CSD (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 outstanding Nominal Amount of such Notes for all purposes.

Title to Beneficial Interests held by Participants directly through the CSD will pass on transfer thereof by electronic book entry in the central securities accounts maintained by the CSD for such Participants. Title to Beneficial Interests held by clients of Participants indirectly through such Participants will pass on transfer thereof by electronic book entry in the security accounts maintained by such Participants for such clients. Beneficial Interests may be transferred only in accordance with the Applicable Procedures. Noteholders of Beneficial Interests vote in accordance with the Applicable Procedures.

The holder of a Beneficial Interest will only be entitled to exchange such Beneficial Interest for Notes represented by an Individual Certificate in accordance with Condition 12 (*Exchange of Beneficial Interests and Replacement of Individual Certificates*) of the Terms and Conditions.

## PRO FORMA APPLICABLE PRICING SUPPLEMENT

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Set out below is the form of Applicable Pricing Supplement that will be completed for each Tranche of Notes issued under the Programme:



### UMGENI WATER

*(Established in the Republic of South Africa under Proclamation No. 114 of 1974 (Government Gazette No. 4300 of 14 June 1974) and in terms of section 108(2) of the Water Act, 1956 and now deemed to be established in terms of the Water Services Act, 1997 read together with the Public Finance Management Act, 1999)*

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]**

**Under its ZAR4,000,000,000 Domestic Medium Term Note Programme**

This Applicable Pricing Supplement must be read in conjunction with the Programme Memorandum, dated 29 February 2016 and approved by the JSE on [•] March 2016, prepared by Umgeni Water in connection with the Umgeni Water ZAR4,000,000,000 Domestic Medium Term Note Programme, as amended and/or supplemented from time to time (the “**Programme Memorandum**”).

Any capitalised terms not defined in this Applicable Pricing Supplement shall have the meanings ascribed to them in the section of the Programme Memorandum headed “*Terms and Conditions of the Notes*”.

This document constitutes the Applicable Pricing Supplement relating to the issue of Notes described herein. The Notes described herein are issued on and subject to the Terms and Conditions as amended and/or supplemented by the Terms and Conditions contained in this Applicable Pricing Supplement. To the extent that there is any conflict or inconsistency between the contents of this Applicable Pricing Supplement and the Programme Memorandum, the provisions of this Applicable Pricing Supplement shall prevail.

### DESCRIPTION OF THE NOTES

- |    |                 |                     |
|----|-----------------|---------------------|
| 1. | Issuer          | Umgeni Water        |
| 2. | Status of Notes | [Secured/Unsecured] |

3.	Form of Notes	[Listed/Unlisted] Registered Notes
4.	Series Number	[•]
5.	Tranche Number	[•]
6.	Aggregate Nominal Amount:	
	i. Series	[•]
	ii. Tranche	[•]
7.	Interest	[Interest-bearing/Non-interest-bearing]
8.	Interest Payment Basis	[Fixed Rate/Floating Rate/Zero Coupon/Index-Linked] Notes/other]
9.	Automatic/Optional Conversion from one Interest/Redemption/Payment Basis to another	[insert details including date for conversion]
10.	Form of Notes	[Registered Notes: [The Notes in this Tranche are issued in uncertificated form and held by the CSD]. [The Notes in this Tranche are issued in certificated form]].
11.	Issue Date	[•]
12.	Nominal Amount per Note	[•]
13.	Specified Denomination	[•]
14.	Issue Price	[•]
15.	Interest Commencement Date	[•]
16.	Maturity Date	[•]
17.	Applicable Business Day Convention	Floating Rate Business Day / Following Business Day / Modified Following Business Day / Preceding Business Day / other convention – insert details
18.	Final Redemption Amount	[•]
19.	Last Date to Register	[•]

20. Books Closed Period(s) The Register will be closed from [•] to [•] and from [•] to [•] (all dates inclusive) in each year until the Maturity Date
21. Default Rate [•]

#### FIXED RATE NOTES

22. i. Fixed Rate of Interest [•] per cent. per annum [payable [annually/semi-annually/quarterly] in arrear]
- ii. Fixed Interest Payment Date(s) [•] in each year up to and including the Maturity Date/other
- iii. Fixed Coupon Amount(s) [•] per [•] in Nominal Amount
- iv. Initial Broken Amount [•]
- v. Final Broken Amount [•]
- vi. Determination Date(s) [•] in each year
- vii. Day Count Fraction [•]
- viii. Any other terms relating to the particular method of calculating interest [•]

#### FLOATING RATE NOTES

23. i. Floating Interest Payment Date(s) [•]
- ii. Interest Period(s) [•]
- iii. Definition of Business Day (if different from that set out in Condition 1 (*Interpretation*)) [•]
- iv. Minimum Rate of Interest [•] per cent per annum
- v. Maximum Rate of Interest [•] per cent per annum
- vi. Other terms relating to the method of calculating interest (e.g.: Day Count Fraction, rounding up provision) [•]

23. Manner in which the Rate of Interest is to be determined [ISDA Determination / Screen Rate Determination/other – insert details]
24. Margin [[•] basis points to be added to/subtracted from the relevant ISDA Rate / Reference Rate]
25. If ISDA Determination:
- i. Floating Rate [•]
  - ii. Floating Rate Option [•]
  - iii. Designated Maturity [•]
  - iv. Reset Date(s) [•]
  - v. ISDA Definitions to apply [•]
26. If Screen Determination:
- i. Reference Rate (including relevant period by reference to which the Rate of Interest is to be calculated) [•]
  - ii. Interest Rate Determination Date(s) [•]
  - iii. Relevant Screen Page and Reference Code [•]
27. If Rate of Interest to be calculated otherwise than by ISDA Determination or Screen Determination, insert basis for determining Rate of Interest/Margin/ Fall-back provisions [•]
28. Calculation Agent responsible for calculating amount of principal and interest [•]

#### **ZERO COUPON NOTES**

29. i. Implied Yield [•]
- ii. Reference Price Percent [NACA] [NACM] [NACQ] [NACS] [other method of compounding]

- iii. Any other formula or basis for determining amount(s) payable [•]

#### **PARTLY PAID NOTES**

- 30.
  - i. Amount of each payment comprising the Issue Price [•]
  - ii. Dates upon which each payment is to be made by Noteholder [•]
  - iii. Consequences (if any) of failure to make any such payment by Noteholder [•]
  - iv. Interest Rate to accrue on the first and subsequent instalments after the due date for payment of such instalments [•] per cent per annum

#### **INSTALMENT NOTES**

- 31. Instalment Dates [•]
- 32. Instalment Amounts (expressed as a percentage of the aggregate Nominal Amount of the Notes) [•]

#### **MIXED RATE NOTES**

- 33. Period(s) during which the interest rate for the Mixed Rate Notes will be (as applicable) that for:
  - i. Fixed Rate Notes [•]
  - ii. Floating Rate Notes [•]
  - iii. Index-Linked Notes [•]
  - iv. [Other Notes [•]]
- 34. The interest rate and other pertinent details are set out under the headings relating to the applicable forms of Notes

## INDEX-LINKED NOTES

35.	i. Type of Index-Linked Notes	[Indexed Interest Notes / Indexed Redemption Amount Notes]
	ii. Index/Formula by reference to which Interest Rate / Interest Amount is to be determined	[•]
	iii. Manner in which the Interest Rate / Interest Amount is to be determined	[•]
	iv. Interest Period(s)	[•]
	v. Interest Payment Date(s)	[•]
	vi. [Base CPI for Indexed-Linked Notes]	[•]
	vii. Calculation Agent	[•] [Please note: if the performance of an instrument relates to the performance of an index and/or the calculation thereof, the index Calculation Agent for Debt Securities must be registered as such with the JSE – paragraph 4.11(j) of the JSE Debt Listings Requirements.]
	viii. Provisions where calculation by reference to Index and/or Formula is impossible or impracticable	[•]
	ix. Definition of Business Day (if different from that set out in Condition 1 ( <i>Interpretation</i> ))	[•]
	x. Minimum Rate of Interest	[•] per cent per annum
	xi. Maximum Rate of Interest	[•] per cent per annum
	xii. Other terms relating to the method of calculating interest (e.g.: Day Count Fraction, rounding up provision)	[•]
	xiii. Other terms relating to Index-Linked Notes	[Please Note: Additional JSE requirements may be applicable if Index-Linked Notes are issued.]

See the JSE guidelines for Acceptable Index Providers and section 19 of the JSE Listings Requirements.]

#### DUAL CURRENCY NOTES

- |     |      |                                                                                                         |                                                                |
|-----|------|---------------------------------------------------------------------------------------------------------|----------------------------------------------------------------|
| 36. | i.   | Type of Dual Currency Notes                                                                             | [Dual Currency Interest/Dual Currency Redemption Amount] Notes |
|     | ii.  | Rate of Exchange/method of calculating Rate of Exchange                                                 | [•]                                                            |
|     | iii. | Provisions applicable where calculation by reference to Rate of Exchange is impossible or impracticable | [•]                                                            |
|     | iv.  | Person at whose option Specified Currency(ies) is/are payable                                           | [•]                                                            |

#### EXCHANGEABLE NOTES

- |      |                                         |          |
|------|-----------------------------------------|----------|
| i.   | Mandatory Exchange applicable?          | [Yes/No] |
| ii.  | Noteholders' Exchange Right applicable? | [Yes/No] |
| iii. | Exchange Securities                     | [•]      |
| iv.  | Manner of determining Exchange Price    | [•]      |
| v.   | Exchange Period                         | [•]      |
| vi.  | Other                                   | [•]      |

#### EXTENDIBLE NOTES

- |     |      |                                                    |     |
|-----|------|----------------------------------------------------|-----|
| 37. | i.   | Last date to which Redemption Date may be extended | [•] |
|     | ii.  | Step-up Margin                                     | [•] |
|     | iii. | Requisite Notice                                   | [•] |
|     | iv.  | Other                                              | [•] |

**OTHER NOTES**

If the Notes are not Fixed Rate Notes, Floating Rate Notes or Zero Coupon Notes or if the Notes are a combination of any of the foregoing, set out the relevant description and any additional Terms and Conditions, approved by the JSE, relating to such Notes. [•]

**PROVISIONS REGARDING REDEMPTION / MATURITY**

38. Issuer's Optional Redemption: [Yes/No]

If yes:

- i. Optional Redemption Date(s) [•]
- ii. Optional Redemption Amount(s) and method, if any, of calculation of such amount(s) [•]
- iii. Minimum period of notice (if different from Condition 10.3 *(Redemption at the Option of the Issuer)*) [•]
- iv. If redeemable in part: [•]
  - Minimum Redemption Amount(s) [•]
  - Higher Redemption Amount(s) [•]
- v. Other terms applicable on Redemption

39. Redemption at the Option of the Senior Noteholders: [Yes/No]

If yes:

- i. Optional Redemption Date(s) [•]
- ii. Optional Redemption Amount(s) [•]
- iii. Minimum period of notice (if different from Condition 10.4 *(Redemption at*

*the Option of the Senior  
Noteholders)*

iv. If redeemable in part:

Minimum Redemption Amount(s) [•]

Higher Redemption Amount(s) [•]

v. Other terms applicable on Redemption [•]

vi. Attach pro forma put notice(s)

40. Early Redemption Amount(s) payable on redemption for taxation reasons or on Event of Default (if required). [Yes/No]

If an amount other than the Early Redemption Amount is payable on redemption for taxation reasons or on Event of Default [only complete if “no” elected in item 40 above]:

i. Amount payable; or [•]

ii. Method of calculation of amount payable [•]

**GENERAL**

41. Notes in issue As at the date of this issue, the Issuer has issued Notes in the aggregate total amount of ZAR[•] under the Programme.

The aggregate Nominal Amount of all Notes issued under the Programme as at the Issue Date, together with the aggregate Nominal Amount of this Tranche (when issued), will not exceed the Programme Amount.

42. Financial Exchange [•]

43. Calculation Agent [•]

44. Paying Agent [•]

45. Specified office of the Paying Agent [•]

46.	Transfer Agent	[•]
47.	Additional selling restrictions	[•]
48.	ISIN No.	[•]
49.	Stock Code	[•]
50.	Method of distribution	<i>[Dutch auction or other]</i>
51.	If syndicated, names of Managers	[•]
52.	If non-syndicated, name of Dealer	[•]
53.	Governing law (if the laws of South Africa are not applicable)	[•]
54.	Use of proceeds	[•]
55.	Pricing Methodology	[Standard JSE pricing methodology / other – insert details]
56.	Other provisions	[•]
57.	Rating and issue date thereof	[•]
58.	Date of rating review	[•]
59.	Rating Agency	[•]

**DISCLOSURE REQUIREMENTS IN TERMS OF PARAGRAPH 3(5) OF THE COMMERCIAL PAPER REGULATIONS**

1. Paragraph 3(5)(a)

The ultimate borrower is the Issuer.

2. Paragraph 3(5)(b)

The Issuer is a going concern and can in all circumstances be reasonably expected to meet its commitments under the Notes.

3. Paragraph 3(5)(c)

The auditor of the Issuer is **[insert]**.

4. Paragraph 3(5)(d)

As at the date of this issue:

- (i) the Issuer has [not issued any commercial paper]/[already issued ZAR●,000,000 commercial paper (excluding commercial paper relating to this issuance)]; and
- (ii) the Issuer estimates that it may still issue ZAR●,000,000 of commercial paper (excluding commercial paper relating to this issuance) during the current financial year, ending [date].

5. Paragraph 3(5)(e)

All information that may reasonably be necessary to enable the investor to ascertain the nature of the financial and commercial risk of its investment in the Notes is contained in the Programme Memorandum and the Applicable Pricing Supplement.

6. Paragraph 3(5)(f)

There has been no material adverse change in the financial or trading position of the Issuer since the date of its last audited financial statements up to the date of this Programme Memorandum.

7. Paragraph 3(5)(g)

The Notes issued will be [listed/unlisted].

8. Paragraph 3(5)(h)

The funds to be raised through the issue of the Notes are to be used by the Issuer for its [general corporate purposes/funding of its business operations/other].

9. Paragraph 3(5)(i)

The obligations of the Issuer in respect of the Notes are [secured]/[unsecured].

10. Paragraph 3(5)(j)

**[insert]**, the statutory auditors of the Issuer, have confirmed that [their review did not reveal anything which indicates / nothing has come to their attention to indicate] that this issue of Notes issued under the Programme will not comply in all respects with the relevant provisions of the Commercial Paper Regulations.

**Responsibility:**

The Issuer accepts full responsibility for the accuracy of the information contained in this Applicable Pricing Supplement and the annual financial report, the amendments to the annual financial report or any supplements from time to time, except as otherwise stated therein. The Issuer certifies that to the best of its knowledge and belief there are no facts that have been omitted which would make any statement false or misleading and that all reasonable enquiries to ascertain such facts have been made as well as that this Applicable Pricing Supplement contains all information required by law and the JSE Listings Requirements.

Application [is hereby]/[will not be] made to list this issue of Notes [on ● ●●●●].

SIGNED at \_\_\_\_\_ on this \_\_\_\_\_ day of \_\_\_\_\_ 20[●]

for and on behalf of

**UMGENI WATER**

\_\_\_\_\_  
Name:  
Capacity:  
Who warrants his/her authority hereto

\_\_\_\_\_  
Name:  
Capacity:  
Who warrants his/her authority hereto

## TERMS AND CONDITIONS OF THE NOTES

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*The following are the Terms and Conditions of the Notes to be issued by the Issuer which will be incorporated by reference into each Note. A Tranche of Notes will be issued on, and subject to, the below Terms and Conditions, as replaced, amended and/or supplemented by the terms and conditions of that Tranche of Notes set out in the Applicable Pricing Supplement.*

Before the Issuer issues any Tranche of listed Notes, the Issuer shall complete, sign and deliver to the JSE or such other or further Financial Exchange(s) and the CSD, a pricing supplement based on the *pro forma* Applicable Pricing Supplement included in the Programme Memorandum setting out details of such Notes.

If there is any conflict or inconsistency between provisions set out in the Applicable Pricing Supplement and the provisions set out in these Terms and Conditions of the Notes, then the provisions in the Applicable Pricing Supplement will prevail.

Words and expressions used in the Applicable Pricing Supplement shall have the same meanings where used in these Terms and Conditions unless the context otherwise requires or unless otherwise stated.

### 1. INTERPRETATION

In these Terms and Conditions, unless inconsistent with the context or separately defined in the Applicable Pricing Supplement, the following expressions shall have the following meanings:

<b>“Absa”</b>	Absa Bank Limited (acting through its Corporate and Investment Banking Division);
<b>“Applicable Laws”</b>	in relation to a person, all and any (i) statutes and subordinate legislation; (ii) regulations, ordinances and directives; (iii) by-laws; (iv) codes of practice, circulars, guidance notes, judgments and decisions of any competent authority, and (v) other similar provisions, from time to time;
<b>“Applicable Pricing Supplement”</b>	in relation to a Tranche of Notes, the pricing supplement completed and signed by the Issuer in relation to that Tranche of Notes, setting out the additional and/or other terms and conditions as are applicable to that Tranche of Notes, based upon the <i>pro forma</i> pricing supplement which is set out in the section of the Programme Memorandum headed “ <i>Pro Forma Applicable Pricing Supplement</i> ”;
<b>“Applicable Procedures”</b>	the rules and operating procedures for the time being of the CSD, the Participants and the JSE, or such other or further Financial Exchanges on which the Notes may be listed, as the case may

be;

<b>“Arranger”</b>	Investec, or such other Arranger as may be appointed by the Issuer, as specified in the Applicable Pricing Supplement;
<b>“Banks Act”</b>	the Banks Act, 1990 (as amended or replaced from time to time);
<b>“Beneficial Interest”</b>	in relation to a Tranche of Notes which is held in the CSD, the beneficial interest as co-owner of an undivided share of all of the Notes in that Tranche, as contemplated in section 37(1) of the Financial Markets Act, the nominal value of which beneficial interest, in relation to any number of Notes in that Tranche, is determined with reference to the proportion that the aggregate outstanding Nominal Amount of such number of Notes bears to the aggregate outstanding Nominal Amount of all of the Notes in that Tranche, as provided for in section 37(3) of the Financial Markets Act;
<b>“BESA Guarantee Fund Trust”</b>	the guarantee fund established and operated by the JSE as a separate guarantee fund, in terms of the rules of the JSE, as required by sections 8(1)(h) and 17(2)(w) of the Financial Markets Act, or any successor fund;
<b>“Books Closed Period”</b>	the period, as specified in the Applicable Pricing Supplement, commencing after the Last Day to Register, during which transfers of the Notes will not be registered, or such shorter period as the Issuer may decide in order to determine those Noteholders entitled to receive interest or redemption monies;
<b>“Blocked Rand”</b>	funds which may not be remitted out of South Africa or paid into a non-South African resident’s bank account as regulated by the Exchange Control Regulations;
<b>“Business Day”</b>	a day (other than a Saturday or Sunday or public holiday within the meaning of the Public Holidays Act, 1994) on which commercial banks settle ZAR payments in Johannesburg or any other business centre specified in the Applicable Pricing Supplement;
<b>“Calculation Agent”</b>	Investec, unless the Issuer elects to appoint, in relation to a particular Tranche or Series of Notes, another entity as Calculation Agent in respect of that Tranche or Series of Notes;

<b>“Class of Noteholders”</b>	the holders of a Series of Notes or, where appropriate, the holders of different Series of Notes;
<b>“Commercial Paper Regulations”</b>	the commercial paper regulations of 14 December 1994 issued pursuant to paragraph (cc) of the definition of “the business of a bank” in the Banks Act, set out in Government Notice 2172 and published in Government Gazette 16167 of 14 December 1994;
<b>“Common Monetary Area”</b>	South Africa, Lesotho, Namibia, and Swaziland;
<b>“Companies Act”</b>	the Companies Act, 2008 (as amended or replaced from time to time);
<b>“Court Day”</b>	during the term of a court, any day other than a Saturday, Sunday or public holiday;
<b>“CSD”</b>	Strate Proprietary Limited (registration Number 1998/022242/07), or its nominee, being a registered central securities depository operating in terms of the Financial Markets Act (or any successor legislation thereto), or any additional or alternate depository approved by the Issuer;
<b>“Day Count Fraction”</b>	<p>in relation to a Tranche of Notes (where applicable) and the calculation of an amount for any period of time (the “<b>Calculation Period</b>”), the day count fraction specified as such in the Terms and Conditions or the Applicable Pricing Supplement and:</p> <p>(a) if “Actual/365”, “Act/365”, or “Act/Act” is so specified, means the actual number of days in the Interest Period in respect of which payment is being made divided by 365 (three hundred and sixty-five) (or, if any portion of the Interest Period falls in a leap year, the sum of (i) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 (three hundred and sixty-six) and (ii) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365 (three hundred and sixty-five));</p> <p>(b) if “Actual/Actual (ISMA)” is so specified, means:</p> <ol style="list-style-type: none"> <li>1. where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period</li> </ol>

divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and

2. where the calculation Period is longer than one Regular Period, the sum of:
  - a. the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
  - b. the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods normally ending in any year;
- (c) if “Actual/Actual (ISDA)” is so specified, means the actual number of days in the Calculation Period divided by 365 (three hundred and sixty-five) (or, if any portion of the Calculation Period falls in a leap year, the sum of (i) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 (three hundred and sixty-six) and (ii) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365 (three hundred and sixty-five));
- (d) if “Actual/365 (Fixed)” is so specified, means the actual number of days in the Calculation Period divided by 365 (three hundred and sixty-five);
- (e) if “Actual/360” is so specified, means the actual number of days in the Calculation Period divided by 360 (three hundred and sixty);
- (f) if “30/360”, “360/360” or “Bond Basis” is so specified, means the number of days in the Calculation period

divided by 360 (three hundred and sixty), calculated on a formula basis as follows:

Day count fraction =

$$\frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y1” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y2” is the year, expressed as a number, in which the first day immediately following the last day included in the Calculation Period falls;

“M1” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M2” is the calendar month, expressed as a number, in which the first day immediately following the last day included in the Calculation Period falls;

“D1” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31 (thirty one), in which case D1 will be 30 (thirty); and

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period unless such number would be 31 (thirty one) and D1 is greater than 29 (twenty nine), in which case D2 will be 30 (thirty);

- (g) if “30E/360” or “Eurobond Basis” is so specified, means the number of days in the Calculation Period divided by 360 (three hundred and sixty), calculated on a formula basis as follows:

Day count fraction =

$$\frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y1” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y2” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M1” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M2” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D1” is the first calendar day, expressed as a number, of the Calculation Period unless such number would be 31 (thirty one), in which case D1 will be 30 (thirty); and

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period unless such number would be 31 (thirty one), in which case D2 will be 30 (thirty);

- (h) if “30E/360 (ISDA)” is so specified, means the number of days in the Calculation Period divided by 360 (three hundred and sixty), calculated on a formula basis as follows:

Day Count Fraction =

$$\frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y1” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y2” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M1” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M2” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D1” is the first calendar day, expressed as a number, of the Calculation Period unless (i) that day is the last day of February or (ii) such number would be 31 (thirty one), in which case D1 will be 30 (thirty); and

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31 (thirty one), in which case D2 will be 30 (thirty);

**“Dealer(s)”**

Investec, Nedbank and RMB, unless the Issuer elects to appoint any other entity(ies) as Dealer, which appointment may be for a specific issue or on an on-going basis, subject to the Issuer’s right to terminate the appointment of any such Dealer, as indicated in the Applicable Pricing Supplement;

**“Debt Sponsor”**

- (a) in relation to the Programme, Investec (but only for so long as Investec is also a Dealer) or such other Debt Sponsor as may be appointed by the Issuer subject to the approval of the JSE in accordance with the Applicable Procedures, as specified in the Applicable Pricing Supplement; or
- (b) in relation to each issuance of Notes, the entity appointed by the Issuer subject to the approval of the JSE in accordance with the Applicable Procedures, as specified in the Applicable Pricing Supplement;

**“Default Rate”**

in relation to a Tranche of Notes, the default rate specified as such in the Applicable Pricing Supplement;

**“Determination Date”**

in relation to a Tranche of Fixed Rate Notes, the date specified as such in the Applicable Pricing Supplement;

<b>“Dual Currency Notes”</b>	Notes which pay interest in a base currency and the principal in a non-base currency or <i>vice versa</i> as indicated in the Applicable Pricing Supplement, subject to Exchange Control Regulations;
<b>“Early Redemption Amount”</b>	the amount, as set out in Condition 10.5 ( <i>Early Redemption Amounts</i> ) or the Applicable Pricing Supplement, at which the Notes will be redeemed by the Issuer, pursuant to the provisions of Conditions 10.2 ( <i>Redemption for Tax Reasons</i> ) and/or Condition 16 ( <i>Events of Default</i> );
<b>“Encumbrances”</b>	any mortgage, pledge, hypothecation, assignment, cession <i>in securitatem debiti</i> , deposit by way of security or any other agreement or arrangement (whether conditional or not and whether relating to existing or to future assets), having the effect of providing a security interest to a creditor or any agreement or arrangement to give any form of a secured claim to a creditor but excluding statutory preferences and any security interest arising by operation of law;
<b>“Event of Default”</b>	any of the events described in Condition 16 ( <i>Events of Default</i> );
<b>“Exchangeable Notes”</b>	Notes which may be redeemed by the Issuer in the manner indicated in the Applicable Pricing Supplement by the delivery to the Noteholders of cash or of so many of the Exchange Securities as is determined in accordance with the Applicable Pricing Supplement;
<b>“Exchange Control Regulations”</b>	the Exchange Control Regulations, 1961, promulgated pursuant to the Currency and Exchanges Act, 1933 (as amended from time to time);
<b>“Exchange Period”</b>	in respect of Exchangeable Notes to which the Noteholders’ Exchange Right applies (as indicated in the Applicable Pricing Supplement), the period indicated in the Applicable Pricing Supplement during which such right may be exercised;
<b>“Exchange Price”</b>	the amount determined in accordance with the manner described in the Applicable Pricing Supplement, according to which the number of Exchange Securities which may be delivered in redemption of an Exchangeable Note will be determined;
<b>“Exchange Securities”</b>	the securities indicated in the Applicable Pricing Supplement which may be delivered by the Issuer in redemption of

	Exchangeable Notes to the value of the Exchange Price;
<b>“Extendible Note”</b>	any Note with a maturity of not more than 18 (eighteen) months, which entitles the Issuer to extend the Redemption Date to a pre-determined future date, as indicated in the Applicable Pricing Supplement;
<b>“Extraordinary Resolution”</b>	a resolution passed at a meeting (duly convened) of the Noteholders or, as the case may be, by a majority consisting of not less than 75% (seventy-five per cent) of the persons voting at such meeting upon a show of hands or if a poll be duly demanded then by a majority consisting of not less than 75% (seventy-five per cent) of the votes given on such poll; provided that in addition to the aforesaid requirement, in relation to any amendments to the Terms and Conditions (other than amendments contemplated in Condition 19.2), a majority of the relevant Noteholders holding Notes representing a value of not less than 66.67% (sixty-six point sixty seven percent) of the value of all relevant Notes Outstanding will be required;
<b>“Final Broken Amount”</b>	in relation to a Tranche of Notes, the final broken amount specified as such in the Applicable Pricing Supplement;
<b>“Final Redemption Amount”</b>	the amount of principal specified in the Applicable Pricing Supplement payable in respect of each Tranche of Notes upon the Maturity Date;
<b>“Financial Exchange”</b>	the JSE and/or such other (or additional) financial exchange(s) as may be determined by the Issuer and the relevant Dealer, subject to Applicable Laws;
<b>“Financial Markets Act”</b>	the Financial Markets Act, 2012, as may be amended, supplemented or replaced from time to time;
<b>“Fitch”</b>	Fitch Ratings Limited (or, if applicable, any South African subsidiary or associated company of Fitch Ratings Limited) and its successors in title;
<b>“Fixed Coupon Amount”</b>	in relation to a Tranche of Notes (where applicable), the amount specified as such in the Applicable Pricing Supplement;
<b>“Fixed Interest Payment Date”</b>	in relation to a Tranche of Fixed Rate Notes, the date specified as

such in the Applicable Pricing Supplement;

<b>“Fixed Interest Period”</b>	in relation to a Tranche of Fixed Rate Notes, the period from (and including) a Fixed Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date;
<b>“Fixed Rate Notes”</b>	Notes which will bear interest at the Fixed Rate of Interest, as indicated in the Applicable Pricing Supplement;
<b>“Fixed Rate of Interest”</b>	in relation to a Tranche of Notes, the fixed rate of interest specified as such in the Applicable Pricing Supplement;
<b>“Floating Rate Notes”</b>	Notes which will bear interest at a floating Interest Rate as indicated in the Applicable Pricing Supplement and more fully described in Condition 8.2 ( <i>Floating Rate Notes and Indexed Interest Notes</i> );
<b>“GCR”</b>	Global Credit Ratings Co. Proprietary Limited (Registration Number: 1995/005001/07) (or, if applicable, any South African subsidiary or associated company of Global Credit Ratings Co. Proprietary Limited) and its successors in title;
<b>“Higher Redemption Amount”</b>	in relation to a Tranche of Notes, the higher redemption amount specified as such in the Applicable Pricing Supplement;
<b>“IFRS”</b>	the International Financial Reporting Standards (formerly International Accounting Standards) issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretations Committee of IASB (as amended, supplemented or re-issued from time to time);
<b>“Implied Yield”</b>	the yield accruing on the Issue Price of Zero Coupon Notes, as specified in the Applicable Pricing Supplement;
<b>“Income Tax Act”</b>	Income Tax Act, 1962 (as amended or replaced from time to time);
<b>“Indebtedness”</b>	in respect of the Issuer, any indebtedness in respect of monies borrowed from any third party lender, and (without double counting) guarantees, suretyships and indemnities (other than those given in the ordinary course of business) given, whether

present or future, actual or contingent;

<b>“Index Interest Notes”</b>	Notes in respect of which the Interest Amount is calculated by reference to an index and/or a formula, as indicated in the Applicable Pricing Supplement;
<b>“Index-Linked Notes”</b>	an Indexed Interest Note and/or an Indexed Redemption Amount Note, as applicable;
<b>“Indexed Redemption Amount Notes”</b>	Notes in respect of which the Final Redemption Amount is calculated by reference to an index and/or formula as may be indicated in the Applicable Pricing Supplement;
<b>“Individual Certificate”</b>	a Note in the definitive registered form of a single certificate and being a certificate exchanged for a Beneficial Interest in accordance with Condition 12 ( <i>Exchange of Beneficial Interests and Replacement of Individual Certificates</i> ) and any further certificate issued in consequence of a transfer thereof;
<b>“Initial Broken Amount”</b>	in relation to a Tranche of Notes, the initial broken amount specified as such in the Applicable Pricing Supplement;
<b>“Instalment Amount”</b>	the amount expressed as a percentage of the Nominal Amount of an Instalment Note, being an instalment of principal (other than the final instalment) on an Instalment Note;
<b>“Instalment Dates”</b>	in relation to a Tranche of Instalment Notes, the dates specified as such in the Applicable Pricing Supplement;
<b>“Instalment Notes”</b>	Notes issued on the same date but redeemed in Instalment Amounts by the Issuer on an amortised basis on different Instalment Dates, as indicated in the Applicable Pricing Supplement;
<b>“Interest Amount”</b>	the amount of interest payable in respect of each Nominal Amount of Fixed Rate Notes, Floating Rate Notes and Indexed-Linked Notes, as determined in accordance with Condition 8 ( <i>Interest</i> );
<b>“Interest Commencement Date”</b>	the first date from which interest on the Notes, other than Zero Coupon Notes, will accrue, as specified in the Applicable Pricing Supplement;
<b>“Interest Determination Date”</b>	in relation to a Tranche of Notes, the date specified as such in the

Applicable Pricing Supplement;

<b>“Interest Payment Date”</b>	the Interest Payment Date(s) specified in the Applicable Pricing Supplement or, if no express Interest Payment Date(s) is/are specified in the Applicable Pricing Supplement, the last day of the Interest Period commencing on the preceding Interest Payment Date, or, in the case of the first Interest Payment Date, commencing on the Interest Commencement Date;
<b>“Interest Period”</b>	in relation to a Tranche of Notes, each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date;
<b>“Interest Rate” and “Rate of Interest”</b>	the rate or rates of interest applicable to Notes other than Zero Coupon Notes as indicated in the Applicable Pricing Supplement;
<b>“Interest Rate Market of the JSE”</b>	the separate platform or sub-market of the JSE designated as the “Interest Rate Market” and on which notes and other debt securities may be listed;
<b>“Investec”</b>	Investec Bank Limited (registration number 1969/004763/06), a registered bank and public company duly registered and incorporated in accordance with the banking and company laws of South Africa;
<b>“ISDA”</b>	the International Swaps and Derivatives Association Inc.;
<b>“ISDA Definitions”</b>	the 2006 ISDA Definitions as published by ISDA (as amended, supplemented, revised or republished from time to time) as specified in the Applicable Pricing Supplement;
<b>“Issue Date”</b>	in relation to a Tranche of Notes, the date specified as such in the Applicable Pricing Supplement;
<b>“Issue Price”</b>	in relation to a Tranche of Notes, the price specified as such in the Applicable Pricing Supplement;
<b>“Issuer”</b>	Umgeni Water (established in South Africa under Proclamation No. 114 of 1974 (Government Gazette No. 4300 of 14 June 1974) and in terms of section 108(2) of the Water Act, 1956 and now deemed to be established in terms of the Water Services Act, read together with the PFMA);

<b>“JSE”</b>	the JSE Limited (Registration Number 2005/022939/06), a licensed financial exchange in terms of the Financial Markets Act or any other exchange which operates as a successor exchange to the JSE;
<b>“Last Day to Register”</b>	with respect to a particular Tranche of Notes (as reflected in the Applicable Pricing Supplement), the last date or dates preceding a Payment Day on which the Transfer Agent will accept Transfer Forms and record the transfer of Notes in the Register for that particular Tranche of Notes and whereafter the Register is closed for further transfers or entries until the Payment Day;
<b>“Mandatory Exchange”</b>	in relation to a Tranche of Exchangeable Notes, the mandatory exchange specified as such in the Applicable Pricing Supplement;
<b>“Margin”</b>	in relation to a Tranche of Notes (where applicable), the margin specified as such in the Applicable Pricing Supplement;
<b>“Material Adverse Effect”</b>	any fact or circumstances which is likely to have a material adverse effect on the ability of the Issuer to perform its payment obligations under the Notes;
<b>“Material Indebtedness”</b>	any Indebtedness amounting in aggregate equal to and greater than the greater of: (i) ZAR300,000,000; or (ii) 5% (five percent) of the Total Assets of the Issuer (or its equivalent in other currencies at the time of the occurrence of an Event of Default);
<b>“Material Subsidiary”</b>	any Subsidiary (i) of which the Issuer owns more than 50% (fifty percent) of the ordinary shares and (ii) which represents at least 15% (fifteen percent) of the Total Assets of the Issuer from time to time, as published in the Issuer’s latest audited financial statements;
<b>“Maturity Date”</b>	in relation to a Tranche of Notes, the date specified as such in the Applicable Pricing Supplement;
<b>“Minimum Redemption Amount”</b>	in relation to a Tranche of Notes, the minimum redemption amount specified as such in the Applicable Pricing Supplement;
<b>“Mixed Rate Notes”</b>	Notes which will bear interest over respective periods at differing Interest Rates applicable to any combination of Fixed Rate Notes, Floating Rate Notes, Zero Coupon Notes or Index-Linked Notes each as indicated in the Applicable Pricing Supplement and as

	more fully described in Condition 8.4 ( <i>Mixed Rate Notes</i> );
<b>“Moody’s”</b>	Moody’s Investor Services Limited (or, if applicable, any South African subsidiary or associated company of Moody’s Investor Services Limited) and its successors in title and assigns;
<b>“NACA”</b>	nominal annual compounded annually;
<b>“NACM”</b>	nominal annual compounded monthly;
<b>“NACQ”</b>	nominal annual compounded quarterly;
<b>“NACS”</b>	nominal annual compounded semi-annually;
<b>“National Water Act”</b>	the National Water Act, 1998 (as amended);
<b>“Nedbank”</b>	Nedbank Limited (Registration Number 1951/000009/06);
<b>“Nominal Amount”</b>	in relation to any Note, the total amount, excluding interest and any adjustments on account of any formula, owing by the Issuer under the Note;
<b>“Noteholder(s)”</b>	the holder(s) of the listed and/or unlisted registered Notes (as recorded in the Register);
<b>“Noteholders’ Exchange Right”</b>	if indicated as applicable in the Applicable Pricing Supplement, the right of Noteholders of Exchangeable Notes to elect to receive delivery of the Exchange Securities <i>in lieu</i> of cash from the Issuer upon redemption of such Notes;
<b>“Notes”</b>	the secured or unsecured notes issued or to be issued by the Issuer under the Programme, pursuant to this Programme Memorandum;
<b>“Outstanding”</b>	in relation to the Notes, all the Notes issued other than: <ul style="list-style-type: none"> <li>(a) those which have been redeemed in full;</li> <li>(b) those in respect of which the date for redemption in accordance with the Terms and Conditions has occurred and the redemption monies wherefor (including all interest (if any) accrued thereon to the date for such redemption and any interest (if any) payable under the Terms and Conditions after such date) remain available for payment;</li> </ul>

- (c) those which have been purchased and cancelled as provided in Condition 10 (*Redemption and Purchase*);
- (d) those which have become prescribed under Condition 15 (*Prescription*);
- (e) those represented by those mutilated or defaced Individual Certificates which have been surrendered in exchange for replacement Individual Certificates pursuant to Condition 12 (*Exchange of Beneficial Interests and Replacement of Individual Certificates*);
- (f) (for the purpose only of determining how many Notes are Outstanding and without prejudice to their status for any other purpose) those Notes represented by Individual Certificates alleged to have been lost, stolen or destroyed and in respect of which replacement Individual Certificates have been issued pursuant to Condition 12 (*Exchange of Beneficial Interests and Replacement of Individual Certificates*),

provided that for each of the following purposes:

- (i) the right to attend and vote at any meeting of the Noteholders; and
- (ii) the determination of how many and which Notes are for the time being Outstanding for the purposes of Conditions 19 (*Amendment of these Conditions*) and 20 (*Meetings of Noteholders*),

all Notes (if any) which are for the time being held by the Issuer (subject to any applicable law) or by any person for the benefit of the Issuer and not cancelled shall (unless and until ceasing to be so held), be deemed not to be Outstanding;

**“Optional Redemption Amount”**

in relation to a Tranche of Notes, the optional redemption amount specified as such in the Applicable Pricing Supplement;

**“Participant”**

a person accepted by the CSD as a participant in terms of section 31 of the Financial Markets Act;

<b>“Partly Paid Notes”</b>	Notes which are issued with the Issue Price partly paid and which Issue Price is paid up fully by the Noteholder in instalments (as indicated in the Applicable Pricing Supplement);
<b>“Paying Agent”</b>	Absa, or such other entity appointed by the Issuer as Paying Agent and specified in the Applicable Pricing Supplement, in which event that other entity shall act as Paying Agent in respect of that Tranche or Series of Notes;
<b>“Payment Day”</b>	any day which is a Business Day and upon which a payment is due by the Issuer in respect of the Notes;
<b>“Permitted Encumbrance”</b>	<ul style="list-style-type: none"><li>(a) any Encumbrance existing as at the date of the Applicable Pricing Supplement; or</li><li>(b) any Encumbrance with regard to receivables or which is created pursuant to any securitisation or like arrangement in accordance with normal market practice; or</li><li>(c) any Encumbrance with respect to inter-company Indebtedness incurred between the Issuer and any Subsidiary; or</li><li>(d) any Encumbrance created over any asset owned, acquired, developed or constructed, provided that, at the time of its creation, the Indebtedness so secured shall not exceed the <i>bona fide</i> market value of such asset or the cost of that acquisition, development or construction (including all interest and other finance charges, adjustments due to changes in circumstances and other charges reasonably incidental to such cost, whether contingent or otherwise) and where such market value or cost both apply, the higher of the two; or</li><li>(e) any Encumbrance incurred, assumed or guaranteed by the Issuer as part of any financing of all or part of the costs of the acquisition, construction or development of any project where the person or persons providing such financing expressly agrees to limit their recourse to the project financed and the revenues derived from such project as the sole source of repayment for monies advanced in relation to such financing; or</li></ul>

- (f) any Encumbrance over deposit accounts securing a loan equal to the amounts standing to the credit of such deposit accounts, including any cash management system; or
- (g) any Encumbrance created in the ordinary course of business over stock-in-trade, inventories, accounts receivable or deposit accounts; or
- (h) any Encumbrance subsisting over any asset of any Subsidiary of the Issuer prior to the date of such entity becoming a Subsidiary of the Issuer and not created in contemplation of such entity becoming a Subsidiary of the Issuer and any substitute Encumbrance created over that asset (but in any such case the amount of the Indebtedness secured by such Encumbrance, may not be increased, save in the ordinary course of business as set out in sub-clauses (a) to (g)(h) above and (i) below);
- (i) in addition to any Encumbrance referred to in (a) to (g) above, any Encumbrance securing in aggregate not more than the greater of (i) ZAR300,000,000; or (ii) 5% (five percent) of the Total Assets, at the time the Encumbrance is established;

**“PFMA”**

the Public Finance Management Act, 1999 (as amended);

**“Programme”**

the Umgeni Water ZAR4,000,000,000 Domestic Medium Term Note Programme under which the Issuer may from time to time issue Notes, which (as at the date of this Programme Memorandum) amends, restates, replaces and supersedes the Umgeni Water ZARZ,000,000,000 Domestic Medium Term Note Programme dated 9 December 2015;

**“Programme Amount”**

the maximum aggregate outstanding Nominal Amount of all of the Notes that may be issued under the Programme at any one point in time, being the authorised amount of ZAR4,000,000,000 or such increased amount as is determined by the Issuer from time to time, subject to the Applicable Procedures, Applicable Laws and the Programme Agreement, as set out in the section of this Programme Memorandum headed “*General Description of the*

*Programme*”;

<b>“Rating”</b>	in relation to a Tranche of Notes (as and where applicable), the rating of the Tranche of Notes, the Issuer or the Programme granted by the Rating Agency, specified in the Applicable Pricing Supplement and in relation to the Issuer, the rating of the Issuer granted by the Rating Agency, as specified in the Applicable Pricing Supplement, and where a Tranche of Notes and/or the Issuer (as the case may be) is rated by more than 1 (one) Rating Agency, the lowest rating applied to such Tranche of Notes and/or the Issuer (as the case may be) will be deemed to be the applicable rating of such Tranche of Notes and/or the Issuer (as the case may be);
<b>“Rating Agency”</b>	Moody’s and/or Fitch and/or S&P and/or GCR and/or such other internationally-recognised rating agency(ies) as may be appointed by the Issuer for the purpose of rating a Tranche of Notes, the Issue or the Programme and as specified in the Applicable Pricing Supplement;
<b>“Redemption Date”</b>	the date upon which the Notes are redeemed by the Issuer, whether by way of redemption or maturity in terms of Condition 10.1 ( <i>Redemption at Maturity</i> ) or redemption for tax reasons in terms of Condition 10.2 ( <i>Redemption for Tax Reasons</i> ), as the case may be;
<b>“Reference Banks”</b>	four leading banks in the South African inter-bank market selected by the Calculation Agent;
<b>“Reference Price”</b>	in relation to a Tranche of Notes (where applicable), the price specified as such in the Applicable Pricing Supplement;
<b>“Reference Rate”</b>	in relation to a Tranche of Notes (where applicable), the rate specified as such in the Applicable Pricing Supplement;
<b>“Register”</b>	the register maintained by the Transfer Agent in terms of Condition 13 ( <i>Register</i> );
<b>“Regular Period”</b>	(a) in the case of Notes where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to, but excluding the first Interest Payment Date and, each successive period from and including one Interest

Payment Date to, but excluding the next Interest Payment Date;

- (b) in the case of Notes where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to, but excluding the next Regular Date, where “**Regular Date**” means the day and the month (but not the year) on which any Interest Payment Date falls; and
- (c) in the case of Notes where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to, but excluding the next Regular Date, where “**Regular Date**” means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period;

**“Relevant Date”**

in respect of any payment relating to the Notes, the date on which such payment first becomes due, except that, in relation to monies payable to the CSD in accordance with these Terms and Conditions, it means the first date on which (i) the full amount of such monies have been received by the CSD, (ii) such monies are available for payment to the holders of Beneficial Interests and (iii) notice to that effect has been duly given to such holders in accordance with the Applicable Procedures;

**“Relevant Screen Page”**

in relation to a Tranche of Notes (where applicable), the page, section or other part of a particular information service (including, without limitation, Reuters) specified as the Relevant Screen Page in the Applicable Pricing Supplement, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

**“Representative”**

a person duly authorised to act on behalf of a Noteholder, the Transfer Agent and the Paying Agent who may be regarded by

the Issuer (acting in good faith) as being duly authorised based upon the tacit or express representation thereof by such Representative, in the absence of express notice to the contrary from such Noteholder, Transfer Agent or Paying Agent;

<b>“RMB”</b>	Rand Merchant Bank, a division of FirstRand Bank Limited (registration number 1929/001225/06), a registered bank and public company duly registered and incorporated in accordance with the banking and company laws of South Africa;
<b>“S&amp;P”</b>	Standard & Poor’s Rating Services, a division of The McGraw-Hill Companies Incorporated (Registration No, 1996/014081/10), its successors-in-title and assigns;
<b>“Senior Notes”</b>	Notes issued with the status and characteristics set out in Condition 5 ( <i>Status of Senior Notes</i> );
<b>“Senior Noteholders”</b>	the holders of Senior Notes;
<b>“Series”</b>	a Tranche of Notes together with any further Tranche or Tranches of Notes which are: <ul style="list-style-type: none"> <li>(i) expressed to be consolidated and form a single series; and</li> <li>(ii) identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices;</li> </ul>
<b>“South Africa” or “RSA”</b>	the Republic of South Africa;
<b>“Specified Currency”</b>	in relation to each Note in a Tranche of Notes, subject to all Applicable Laws and in the case of Notes listed on the Interest Rate Market of the JSE subject to the rules of the JSE, the currency specified in the Applicable Pricing Supplement;
<b>“Specified Denomination”</b>	in relation to each Note in a Tranche of Notes, the amount specified as such in the Applicable Pricing Supplement, save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the central bank or regulator or any laws or regulations applicable to the Notes;
<b>“Subordinated Indebtedness”</b>	in the event of the dissolution or disestablishment of the Issuer or if the Issuer is wound up or placed in liquidation or any indebtedness of the Issuer, including any guarantee by the Issuer,

under which the right of payment of the person(s) entitled thereto is, or is expressed to be, or is required by any present or future agreement of the Issuer to be, subordinated to the rights of all unsubordinated creditors of the Issuer;

<b>“Subordinated Notes”</b>	Notes issued with the status and characteristics set out in Condition 6 ( <i>Status and characteristics of Subordinated Notes</i> );
<b>“Subsidiary”</b>	a subsidiary company as defined in Section 3(1)(a) of the Companies Act;
<b>“Sub-unit”</b>	with respect to any currency, the lowest amount of such currency that is available as legal tender in the country of such currency;
<b>“Terms and Conditions” or “Conditions”</b>	the terms and conditions incorporated in this section headed “ <i>Terms and Conditions of the Notes</i> ” and in accordance with which the Notes will be issued;
<b>“Total Assets of the Issuer”</b>	the aggregate of all of the assets of the Issuer as set out in the most recently published audited financial statements of the Issuer from time to time;
<b>“Tranche”</b>	in relation to any particular Series, all Notes which are identical in all respects (including as to listing);
<b>“Transfer Agent”</b>	Investec, unless the Issuer elects to appoint another entity as Transfer Agent in which event that other entity shall act as Transfer Agent in respect of that Tranche or Series of Notes, as specified in the Applicable Pricing Supplement;
<b>“Transfer Form”</b>	the written form for the transfer of a Note, in the form approved by the Transfer Agent, and signed by the transferor and transferee;
<b>“Umgeni Group”</b>	the Issuer and any other company or entity whose financial results are consolidated with the financial results of the Issuer in accordance with IFRS;
<b>“Uncertificated Securities Register”</b>	will bear the meaning ascribed thereto in the Financial Markets Act (as read together with the Companies Act);
<b>“Water Services Act”</b>	the Water Services Act, 1997 (as amended);
<b>“Wholly-Owned Subsidiary”</b>	a wholly-owned subsidiary as defined in Section 1 of the

Companies Act;

<b>“ZAR”</b>	the lawful currency of South Africa, being South African Rand, or any successor currency;
<b>“ZAR-JIBAR-SAFEX”</b>	the mid-market rate for deposits in ZAR for a period of the Designated Maturity (as indicated in the Applicable Pricing Supplement) that appears on the Reuters Screen SAFEY Page as at 11h00, Johannesburg time on the relevant date; and
<b>“Zero Coupon Notes”</b>	Notes which will be offered and sold at a discount to their Nominal Amount or at par and will not bear interest other than in the case of late payment.

## 2. ISSUE

- 2.1. The Issuer may, at any time and from time to time (without the consent of any Noteholder), subject to the PFMA, issue one or more Tranche(s) of Notes pursuant to the Programme; provided that the aggregate outstanding Nominal Amount of all of the Notes issued under the Programme from time to time does not exceed the Programme Amount.
- 2.2. Notes will be issued in individual Tranches which, together with other Tranches, may form a Series of Notes. A Tranche of Notes will be issued on, and subject to, the applicable Terms and Conditions of that Tranche of Notes. The applicable Terms and Conditions of a Tranche of Notes are the Terms and Conditions, as replaced, amended and/or supplemented by the terms and conditions of that Tranche of Notes set out in the Applicable Pricing Supplement relating to that Tranche of Notes.
- 2.3. The applicable Terms and Conditions of a Tranche of Notes are incorporated by reference into the Individual Certificate(s) (if any) representing the Notes in that Tranche. The Applicable Pricing Supplement relating to a Tranche of Notes issued in certificated form will be attached to the Individual Certificate(s) representing the Notes in that Tranche.

## 3. FORM AND DENOMINATION

### 3.1. General

- 3.1.1. A Tranche of Notes may be issued in the form of listed or unlisted registered Notes, as specified in the Applicable Pricing Supplement.
- 3.1.2. Each Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index-Linked Note, a Dual Currency Note, a Mixed Rate Note, an Instalment Note, an Exchangeable Note, an Extendible Note, a Partly Paid Note or such combination of any of the foregoing or such other type of Note that is

approved by the JSE, or its successor, or such other or further Financial Exchange(s), as may be determined by the Issuer and specified in the Applicable Pricing Supplement.

3.1.3. All payments in relation to the Notes will be made in the Specified Currency. Each Note will be issued in the Specified Denomination.

3.1.4. A Tranche of Notes may be listed on the Interest Rate Market of the JSE or on such other or further Financial Exchange(s) as may be determined by the Issuer and the Dealer(s), subject to any Applicable Laws. Unlisted Notes may also be issued under the Programme. Unlisted Notes are not regulated by the JSE.

### 3.2. Registered Notes

A Tranche of registered Notes will be issued in certificated form, as contemplated in Condition 3.2.1 (*Notes issued in certificated form*), or in uncertificated form, as contemplated in Condition 3.2.2 (*Notes issued in uncertificated form*), as specified in the Applicable Pricing Supplement. Each Tranche of Notes which is listed on the Interest Rate Market of the JSE will be held in the CSD, as contemplated in Condition 3.2.2 (*Notes issued in uncertificated form*). A Tranche of unlisted Notes may also be held in the CSD, as contemplated in Condition 3.2.2 (*Notes issued in uncertificated form*).

#### 3.2.1. Notes issued in certificated form

3.2.1.1. Each Tranche of Notes may, subject to Applicable Laws and the Applicable Procedures, be issued in certificated form.

3.2.1.2. All Notes issued in certificated form will be represented by Individual Certificates and a Register of Noteholders will be maintained.

#### 3.2.2. Notes issued in uncertificated form

A Tranche of Notes which is listed on the Interest Rate Market of the JSE must, subject to Applicable Laws and the Applicable Procedures, be issued in uncertificated form in terms of section 33 of the Financial Markets Act. Notes issued in uncertificated form will be held in the CSD. Notes issued in uncertificated form will not be represented by any certificate or written instrument. A Note which is represented by an Individual Certificate may be replaced by uncertificated securities in terms of section 33 of the Financial Markets Act.

### 3.2.3. Beneficial Interests in Notes held in the CSD

- 3.2.3.1. A Tranche of Notes which is listed on the Interest Rate Market of the JSE will be issued in uncertificated form and held in the CSD. A Tranche of unlisted Notes may also be held in the CSD.
- 3.2.3.2. The CSD will hold Notes issued in uncertificated form subject to the Financial Markets Act and the Applicable Procedures.
- 3.2.3.3. 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.
- 3.2.3.4. A holder of a Beneficial Interest shall only be entitled to exchange such Beneficial Interest for Notes represented by an Individual Certificate in accordance with Condition 12 (*Exchange of Beneficial Interests and Replacement of Individual Certificates*).

### 3.2.4. 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 , even if such Notes are settled through the electronic settlement procedures of the JSE and the CSD. 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 can in no way relate to a default by the Issuer of its obligations under the Notes listed on the Interest Rate Market of the JSE. Any claims against the BESA Guarantee Fund Trust may only be made in accordance with the rules of the BESA Guarantee Fund Trust . Unlisted Notes are not regulated by the JSE.

## 4. **TITLE**

### 4.1. Notes issued in certificated form

- 4.1.1. Each holder of Notes represented by an Individual Certificate will be named in the Register as the registered holder of such Notes.
- 4.1.2. Title to registered Notes issued in certificated form will pass upon registration of transfer in the Register in accordance with Condition 14.1.2 (*Transfer of Notes Represented by Individual Certificates*).
- 4.1.3. The Issuer, the Transfer Agent and the Paying Agent shall recognise a Noteholder as the sole and absolute owner of the Notes registered in that Noteholder name in the Register (notwithstanding any notice of ownership or

writing thereon or notice of any previous loss or theft thereof) and 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 Note may be subject.

4.2. Notes issued in uncertificated form

The party recorded in the Uncertificated Securities Register in accordance with Applicable Law and the Applicable Procedures will be named in the Register as the registered holder of each Tranche of Notes issued in uncertificated form.

4.3. Beneficial Interests in Notes held in the CSD

4.3.1. While a Tranche of Notes is held in its entirety in the CSD, the Register will indicate that the entire Tranche of Notes is held in uncertificated form in the CSD. The party recorded in the Uncertificated Securities Register in accordance with Applicable Law and the Applicable Procedures will be named in the Register as the registered Noteholder of in that Tranche of Notes.

4.3.2. Beneficial Interests which are held by Participants will be held directly through the CSD, and the CSD will hold such Beneficial Interests, on behalf of such Participants, through the central securities accounts maintained by the CSD for such Participants.

4.3.3. Beneficial Interests which are held by clients of Participants will be held indirectly through such Participants, and such Participants will hold such Beneficial Interests, on behalf of such clients, through the securities accounts maintained by such Participants for such clients. The clients of Participants may include the holders of Beneficial Interests or their custodians. The clients of Participants, as the holders of Beneficial Interests or as custodians for such holders, may exercise their rights in respect of the Notes held by them in the CSD only through their Participants.

4.3.4. 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 Outstanding of Notes, a certificate or other document issued by the CSD or the relevant Participant, as the case may be, as to the aggregate Nominal Amount Outstanding of such Notes standing to the account of such person shall be prima facie proof of such Beneficial Interest. The party recorded in the Uncertificated Securities Register (and named in the Register as the registered holder of the Notes will be treated by the Issuer, the

Paying Agent, the Transfer Agent and the relevant Participant as the holder of that aggregate Nominal Amount Outstanding of such Notes for all purposes.

4.3.5. Beneficial Interests in Notes may be transferred only in accordance with the Applicable Procedures. Such transfers will not be recorded in the Register and the party recorded in the Uncertificated Securities Register in accordance with Applicable Law and the Applicable Procedures will continue to be reflected in the Register as the registered holder of such Notes, notwithstanding such transfers.

4.3.6. Any reference in the Terms and Conditions to the relevant Participant shall, in respect of a Beneficial Interest, be a reference to the Participant appointed to act as such by the holder of such Beneficial Interest.

## 5. STATUS OF SENIOR NOTES

Senior Notes are direct, unconditional, unsubordinated and unsecured obligations of the Issuer and rank *pari passu* and rateably without any preference among themselves and (save for certain debts required to be preferred by law) equally with all other unsecured and unsubordinated obligations of the Issuer from time to time outstanding.

## 6. STATUS AND CHARACTERISTICS OF SUBORDINATED NOTES

6.1. Subordinated Notes constitute direct, unconditional, unsecured and subordinated obligations of the Issuer and rank *pari passu* without any preference among themselves and at least *pari passu* with all other Subordinated Indebtedness of the Issuer, save for the claims of those creditors that have been accorded preferential rights by law.

6.2. Subject to Applicable Laws, in the event of the dissolution or disestablishment of the Issuer or if the Issuer is placed into liquidation or wound-up, the claims of the persons entitled to payment of amounts due in respect of the Subordinated Notes, shall be subordinated to all other claims in respect of any other indebtedness of the Issuer except for other Subordinated Indebtedness, to the extent that in any such event, and provided as aforesaid, no amount shall be eligible for setting-off or shall be payable to any or all of the persons entitled to payment of amounts due in respect of such Subordinated Notes in respect of the obligations of the Issuer thereunder until all other indebtedness of the Issuer which is admissible in any such dissolution, disestablishment, insolvency or winding-up (other than Subordinated Indebtedness) has been paid or discharged in full.

## 7. NEGATIVE PLEDGE

7.1. So long as any Tranche of the Senior Notes remains Outstanding, the Issuer undertakes that it shall not, and shall procure that no Material Subsidiary shall, create or permit the

creation of any Encumbrances, other than Permitted Encumbrances, over any of its present or future business undertakings, assets or revenues to secure any present or future Indebtedness (save for those which have been accorded a preference by law) without at the same time securing all Senior Notes equally and rateably with such Indebtedness or providing such other security as may be approved by Extraordinary Resolution of the Senior Noteholders, unless the provision of any such security is waived by an Extraordinary Resolution of the Senior Noteholders.

- 7.2. The Issuer shall be entitled, but not obliged, to form, or procure the formation of, a trust or special purpose company (or more than one), or appoint, or procure the appointment of, an agent or agents to hold any such rights of security (as described in Condition 7.1 above) for the benefit or on behalf of such Noteholders.

## 8. INTEREST

### 8.1. Fixed Rate Notes

Each Fixed Rate Note bears interest on its outstanding Nominal Amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date specified in the Applicable Pricing Supplement at the rate(s) per annum equal to the Fixed Rate of Interest so specified, payable in arrear on the Fixed Interest Payment Dates in each year up to and including the Maturity Date.

The first payment of interest will be made on the Fixed Interest Payment Date immediately following the Interest Commencement Date.

Except as provided in the Applicable Pricing Supplement, the amount of interest payable per Note on each Fixed Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount, provided that:

- 8.1.1. if an Initial Broken Amount is specified in the Applicable Pricing Supplement, then the first Interest Amount shall equal the Initial Broken Amount specified in the Applicable Pricing Supplement; and
- 8.1.2. if a Final Broken Amount is specified in the Applicable Pricing Supplement, then the final Interest Amount shall equal the Final Broken Amount.

If interest is required to be calculated for a period other than a Fixed Interest Period, such interest shall be calculated by applying the Fixed Rate of Interest to each Specified Denomination, and multiplying such sum by the applicable Day Count Fraction, as specified in the Applicable Pricing Supplement, and rounding the resultant figure to the nearest Sub-unit of the relevant Specified Currency, half such Sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

## 8.2. Floating Rate Notes and Indexed Interest Notes

### 8.2.1. Interest Payment Dates

Each Floating Rate Note and Indexed Interest Note bears interest on its outstanding Nominal Amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date specified in the Applicable Pricing Supplement, and such interest will be payable in arrear on the Interest Payment Date(s) in each year specified in the Applicable Pricing Supplement. Such interest will be payable in respect of each Interest Period (which expression shall, in these Terms and Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

### 8.2.2. Rate of Interest

The Rate of Interest payable from time to time in respect of the Floating Rate Notes and Indexed Interest Notes will be determined in the manner specified in the Applicable Pricing Supplement.

### 8.2.3. Minimum and/or Maximum Rate of Interest

If the Applicable Pricing Supplement specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of any such Interest Period determined in accordance with the above provisions is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest. If the Applicable Pricing Supplement specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of any such Interest Period determined in accordance with the above provisions is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

### 8.2.4. Determination of Rate of Interest and Calculation of Interest Amount

The Calculation Agent, in the case of Floating Rate Notes and Indexed Interest Notes will at, or as soon as is practicable after, each time at which the Rate of Interest is to be determined, determine the Rate of Interest and calculate the Interest Amount payable in respect of each Floating Rate Note and Indexed Interest Note in respect of each Specified Denomination for the relevant Interest Period, and the Calculation Agent shall notify the Issuer of the Rate of Interest for the relevant Interest Period as soon as is practicable after calculating the same. Each Interest Amount shall be calculated by applying the Rate of Interest

to the Specified Denomination, multiplying such sum by the applicable Day Count Fraction and rounding the resultant figure to the nearest Sub-unit of the relevant Specified Currency, half a Sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

8.2.5. Interest Determination, Screen Rate Determination including Fallback Provisions

Where ISDA Determination is specified in the Applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the Applicable Pricing Supplement) the Margin (if any). For the purposes of this sub-paragraph, “**ISDA Rate**” for an Interest Period means a rate equal to the Floating Rate that would be determined by such agent as is specified in the Applicable Pricing Supplement under an interest rate swap transaction if that agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the most recent ISDA Definitions and under which:

- 8.2.5.1. the Floating Rate Option is as specified in the Applicable Pricing Supplement;
- 8.2.5.2. the Designated Maturity is the period specified in the Applicable Pricing Supplement; and
- 8.2.5.3. the relevant Reset Date is either (a) if the applicable Floating Rate Option is based on ZAR-JIBAR-SAFEX, the first day of that Interest Period; or (b) in any other case, as specified in the Applicable Pricing Supplement.

For the purposes of the above sub-paragraph “**Floating Rate**”, “**Floating Rate Option**”, “**Designated Maturity**” and “**Reset Date**” have the meanings given to those terms in the ISDA Definitions specified in the Applicable Pricing Supplement.

Where Screen Rate Determination is specified in the Applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject to the provisions below, be either:

- 8.2.5.4. if the Relevant Screen Page is available,
- 8.2.5.4.1. the offered quotation (if only one quotation appears on the screen page); or
- 8.2.5.4.2. the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,
- (expressed as a percentage per annum) for the Reference Rate which appears on the Relevant Screen Page as at 11h00 (or as otherwise specified in the Applicable Pricing Supplement) (Johannesburg time) on the Interest Determination Date in question plus or minus (as indicated in the Applicable Pricing Supplement) the Margin (if any), all as determined by the Calculation Agent. If five or more such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations; or
- 8.2.5.5. if the Relevant Screen Page is not available or if, in the case of clause 8.2.5.4.1 above, no such offered quotation appears or, in the case of clause 8.2.5.4.2 above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph, the Calculation Agent shall request the principal Johannesburg office of each of the Reference Banks to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately 11h00 (Johannesburg time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of such offered quotations plus or minus

(as appropriate) the Margin (if any), all as determined by the Calculation Agent; or

- 8.2.5.6. if the Rate of Interest cannot be determined by applying the provisions of clauses 8.2.5.4 and 8.2.5.5 above, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Calculation Agent determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any 2 (two) or more of them, at which such banks offered, at approximately 11h00 (Johannesburg time) on the relevant Interest Determination Date, deposits in an amount approximately equal to the nominal amount of the Notes of the relevant Series, for a period equal to that which would have been used for the Reference Rate to prime banks in the Johannesburg inter-bank market plus or minus (as appropriate) the Margin (if any). If fewer than 2 (two) of the Reference Banks provide the Calculation Agent with such offered rates, the Rate of Interest for the relevant Interest Period will be determined by the Calculation Agent as the arithmetic mean (rounded as provided above) of the rates for deposits in an amount approximately equal to the nominal amount of the Notes of the relevant Series, for a period equal to that which would have been used for the Reference Rate, quoted at approximately 11h00 (Johannesburg time) on the relevant Interest Determination Date, by the Reference Banks plus or minus (as appropriate) the Margin (if any). If the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period, in place of the Margin relating to that last preceding Interest Period).

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the Applicable Pricing Supplement as being other than ZAR-JIBAR-SAFEX, the Rate of Interest in respect of such Notes will be determined as provided in the Applicable Pricing Supplement.

8.2.6. Notification of Rate of Interest and Interest Amount

The Issuer will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the JSE and the CSD and/or every other relevant Financial Exchange or authority as soon as possible after their determination but in any event no later than the fourth Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to the JSE, the CSD and/or every other relevant Financial Exchange or authority and to the Noteholders in accordance with Condition 18 (*Notices*).

8.2.7. Certificates to be Final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this sub-paragraph 8.2 (*Floating Rate Notes and Indexed Interest Notes*), by the Calculation Agent shall (in the absence of wilful deceit, bad faith or manifest error or proven error) be binding on the Issuer and all Noteholders and in the absence as aforesaid no liability to the Issuer or the Noteholders shall attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

8.3. Dual Currency Notes

In the case of Dual Currency Notes, the Interest Rate or Interest Amount payable shall be determined in the manner specified in the Applicable Pricing Supplement.

8.4. Mixed Rate Notes

The Interest Rate payable from time to time on Mixed Rate Notes shall be the Interest Rate payable on the form of interest-bearing Note (be it a Fixed Rate Note or Floating Rate Note or Index-Linked Note) specified for each respective period, each as specified in the Applicable Pricing Supplement. During each such applicable period, the Interest Rate on the Mixed Rate Notes shall be determined and fall due for payment on the basis that such Mixed Rate Notes are Fixed Rate Notes, Floating Rate Notes or Index-Linked Notes, as the case may be.

8.5. Interest on Indexed Notes

In the case of Indexed Notes, if the Interest Rate or Final Redemption Amount falls to be determined by reference to an index and/or a formula, such rate or amount payable shall be determined in the manner specified in the Applicable Pricing Supplement. Any interest payable shall fall due for payment on the Interest Payment Date(s).

8.6. Interest on Partly Paid Notes

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue on the paid-up Nominal Amount of such Notes and otherwise as specified in the Applicable Pricing Supplement.

8.7. Interest on Instalment Notes

In the case of Instalment Notes, interest will accrue on the amount outstanding on the relevant Note from time to time and otherwise as specified in the Applicable Pricing Supplement.

8.8. Interest on Extendible Notes

If the Redemption Date of Extendible Notes is extended by the Issuer, the Interest Rate in respect of the Nominal Amount Outstanding will be increased by the Step-up Margin, from (and including) the Redemption Date to (but excluding) the Actual Redemption Date.

8.9. Accrual of Interest

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date of its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue at the Default Rate specified in the Applicable Pricing Supplement until the date on which all amounts due in respect of such Note have been paid, or, in respect of uncertificated Notes, the date on which the full amount of the money payable has been received by the CSD and/or the Participants and notice to that effect has been given to Noteholders in accordance with Condition 18 (*Notices*).

8.10. Business Day Convention

If any Interest Payment Date (or other date), which is specified in the Applicable Pricing Supplement to be subject to adjustment in accordance with a Business Day Convention, falls on a day that is not a Business Day, then, if the Business Day Convention specified is:

- 8.10.1. the “**Floating Rate Business Day Convention**”, such Interest Payment Date (or other date) shall be postponed to the next day which is a Business Day

unless it would thereby fall into the next calendar month, in which event: (i) such Interest Payment Date (or other date) shall be brought forward to the first preceding Business Day and (ii) each subsequent Interest Payment Date (or other date) shall be the last Business Day in the month which falls the number of months, or other period specified as the Interest Period in the Applicable Pricing Supplement, after the preceding applicable Interest Payment Date (or other date) has occurred; or

8.10.2. the “**Following Business Day Convention**”, such Interest Payment Date (or other date) shall be postponed to the next day which is a Business Day; or

8.10.3. the “**Modified Following Business Day Convention**”, such Interest Payment Date (or other date) shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date (or other such date) shall be brought forward to the first preceding Business Day; or

8.10.4. the “**Preceding Business Day Convention**”, such Interest Payment Date (or other date) shall be brought forward to the first preceding Business Day.

## 9. PAYMENTS

### 9.1. General

Where any amounts are due and payable under the Senior Notes, such amounts shall be settled in full before any amounts are paid under the Subordinated Notes.

Payments of principal and/or interest on an Individual Certificate shall be made to the Transfer Agent, who will in turn, acting on behalf of the Issuer in accordance with the terms and conditions of the agency agreement entered into amongst the Issuer, the Calculation Agent, the Paying Agent and the Transfer Agent on or about 9 December 2015, as amended, supplemented or restated from time to time, make payment to the registered holder of such Note, as set forth in the Register on the close of business on the Last Day to Register (as specified in the Applicable Pricing Supplement). In addition to the above, in the case of a final redemption payment, the holder of the Individual Certificate shall be required, on or before the Last Day to Register prior to the Maturity Date, to surrender such Individual Certificate at the offices of the Transfer Agent.

Payments of principal and/or interest in respect of uncertificated Notes shall be made to the CSD and/or the Participants, as shown in the Register on the Last Day to Register, and the Issuer will be discharged by proper payment to the CSD and/or the Participants, in respect of each amount so paid. Each of the persons shown in the records of the CSD and 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.

9.2. Method of Payment

Payments will be made in the Specified Currency by credit or transfer, by means of electronic settlement, to the Noteholder.

Payments will be subject in all cases to any fiscal or other laws, directives and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 11 (*Taxation*).

If the Issuer is prevented or restricted directly or indirectly from making any payment by electronic funds transfer in accordance with the preceding paragraph (whether by reason of strike, lockout, fire, explosion, floods, riot, war, accident, act of God, embargo, legislation, shortage of or breakdown in facilities, civil commotion, unrest or disturbances, cessation of labour, Government interference or control or any other cause or contingency beyond the control of the Issuer), the Issuer shall make such payment by cheque marked “not transferable” (or by such number of cheques as may be required in accordance with applicable banking law and practice to make payment of any such amounts). Such payments by cheque shall be sent by post to the address of the Noteholder as set forth in the Register or, in the case of joint Noteholders, the address set forth in the Register of that one of them who is first named in the Register in respect of that Note.

Each such cheque shall be made payable to the relevant Noteholder or, in the case of joint Noteholders, the first one of them named in the Register. Cheques may be posted by ordinary post, provided that neither the Issuer, nor the Transfer Agent shall be responsible for any loss in transmission and the postal authorities shall be deemed to be the agent of the Noteholders for the purposes of all cheques posted in terms of this Condition 9.2 (*Method of Payment*).

In the case of joint Noteholders, payment by electronic funds transfer will be made to the account of the Noteholder first named in the Register. Payment by electronic transfer to the Noteholder first named in the Register shall discharge the Issuer of its relevant payment obligations under the Notes.

Payments will be subject in all cases to any fiscal or other laws, directives and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 11 (*Taxation*).

### 9.3. Payment Day

Unless a different Business Day Convention is specified in the Applicable Pricing Supplement and if the date for payment of any amount in respect of any Note is not a Business Day, the holder thereof shall not be entitled to payment until the next following Business Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay.

### 9.4. Interpretation of Principal and Interest

Any reference in these Terms and Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- 9.4.1. any additional amounts which may be payable with respect to principal under Condition 11 (*Taxation*);
- 9.4.2. the Final Redemption Amount of the Notes or the Early Redemption Amount of the Notes, as the case may be;
- 9.4.3. the Optional Redemption Amount(s) (if any);
- 9.4.4. in relation to Instalment Notes, the Instalment Amounts;
- 9.4.5. in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 10.5.3); and
- 9.4.6. any premium and any other amounts which may be payable by the Issuer under or in respect of the Notes, but excluding for the avoidance of doubt, interest.

Any reference in these Terms and Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 11 (*Taxation*).

## 10. **REDEMPTION AND PURCHASE**

### 10.1. Redemption at Maturity

Unless previously redeemed or purchased and cancelled as specified below, each Note will be redeemed by the Issuer in the Specified Currency at its Final Redemption Amount specified in, or determined in the manner specified in, the Applicable Pricing Supplement on the Maturity Date.

## 10.2. Redemption for Tax Reasons

Notes may be redeemed at the option of the Issuer at any time (in the case of Notes other than Floating Rate Notes having an Interest Rate then determined on a floating basis) or on any Interest Payment Date (in the case of Floating Rate Notes), on giving not less than 30 (thirty) nor more than 60 (sixty) calendar days' notice to the Noteholders prior to such redemption, in accordance with Condition 18 (*Notices*) (which notice shall be irrevocable), if the Issuer, immediately prior to the giving of such notice, is of the reasonable opinion that:

- 10.2.1. as a result of any change in, or amendment to, the laws or regulations of South Africa or any political sub-division of, or any authority in, or of, South Africa having power to tax, or any change or amendment which becomes effective after the relevant Issue Date, the Issuer is or would be required to pay additional amounts as provided or referred to in Condition 11 (*Taxation*); and
- 10.2.2. the requirement cannot be avoided by the Issuer taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 (ninety) calendar days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Notes may be redeemed by the Issuer in accordance with this Condition 10.2 (*Redemption for Tax Reasons*) in whole or in part. A redemption in part may be effected by the Issuer:

- 10.2.3. notwithstanding that such partial redemption may not entirely avoid such obligation to pay additional amounts as provided for or referred to in Condition 11 (*Taxation*); and
- 10.2.4. *mutatis mutandis* in the manner described in Condition 10.3 (*Redemption at the Option of the Issuer*), provided that the references to the giving of notice therein and to the Minimum Redemption Amount and the Higher Redemption Amount (both as specified in the Applicable Pricing Supplement) therein shall be disregarded for such purposes.

Notes redeemed for tax reasons pursuant to this Condition 10.2 (*Redemption for Tax Reasons*) will be redeemed at their Early Redemption Amount referred to in Condition 10.5 (*Early Redemption Amounts*), together (if appropriate) with interest accrued from (and including) the immediately preceding Interest Payment Date to (but excluding) the date of redemption or as specified in the Applicable Pricing Supplement.

### 10.3. Redemption at the Option of the Issuer

If the Issuer is specified in the Applicable Pricing Supplement as having an option to redeem, the Issuer may, having given not less than 30 (thirty) nor more than 60 (sixty) calendar days' irrevocable notice to the Noteholders in accordance with Condition 18 (*Notices*), redeem all or some of the Notes (to which such Applicable Pricing Supplement relates) then Outstanding on the Optional Redemption Date(s) and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the Applicable Pricing Supplement, together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date(s).

Any such redemption must be of a Nominal Amount equal to the Minimum Redemption Amount or a Higher Redemption Amount, both as indicated in the Applicable Pricing Supplement.

In the case of a partial redemption of Notes, the Notes to be redeemed ("**Redeemed Notes**") will be selected individually by lot, in the case of Redeemed Notes represented by Individual Certificates, and in accordance with the Applicable Procedures in the case of Redeemed Notes which are uncertificated, and in each case not more than 60 (sixty) calendar days prior to the date fixed for redemption (such date of selection being hereinafter called the "**Selection Date**").

In the case of Redeemed Notes represented by Individual Certificates, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 18 (*Notices*) not less than 30 (thirty) calendar days prior to the date fixed for redemption. The aggregate Nominal Amount of Redeemed Notes represented by Individual Certificates shall bear the same proportion to the aggregate Nominal Amount of all Redeemed Notes as the aggregate Nominal Amount of Individual Certificates outstanding bears to the aggregate Nominal Amount of the Notes outstanding, in each case on the Selection Date, provided that such first mentioned Nominal Amount shall, if necessary, be rounded downwards to the nearest integral multiple of the Specified Denomination and the aggregate Nominal Amount of Redeemed Notes which are uncertificated shall be equal to the balance of the Redeemed Notes. No exchange of the relevant uncertificated Notes will be permitted during the period from and including the Selection Date to and including the date fixed for redemption pursuant to this sub-paragraph, and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 18 (*Notices*) at least 10 (ten) calendar days prior to the Selection Date.

Holder of Redeemed Notes shall surrender the Individual Certificates, if any, representing the Notes in accordance with the provisions of the notice given to them by the Issuer as contemplated above. Where only a portion of the Notes represented by such Individual

Certificates are redeemed, the Transfer Agent shall deliver new Individual Certificates to the CSD or such Noteholders, as the case may be, in respect of the balance of the Notes.

#### 10.4. 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 Notes, such Senior Noteholders may exercise such option in respect of such Notes represented by Individual Certificates by delivering to the Transfer Agent, in accordance with Condition 18 (*Notices*), a duly executed notice (“**Put Notice**”) in unaltered form, at least 30 (thirty) calendar days but not more than 60 (sixty) calendar days, prior to the Optional Redemption Date.

Where redemption in part has been permitted in the Applicable Pricing Supplement, the redemption amount specified in such Put Notice in respect of any such 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 Notes shall take place in accordance with the Applicable Procedures.

The Issuer shall proceed to redeem the 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 Noteholder is the holder of an Individual Certificate, then such Noteholder shall (attached to the Put Notice) deliver the Individual Certificate to the Transfer Agent at least 1 (one) Business Day prior to the Optional Redemption Date, for cancellation failing which the Put Notice shall be invalid. A holder of an Individual Certificate shall in that holder’s Put Notice specify a bank account in South Africa 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 Issuer and 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 Noteholder, at its option, may elect by notice to the Issuer, delivered at least 1 (one) Business Day prior to the Optional Redemption Date, 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 obligation to remedy any defects in any Put Notice or bring any such defects to the attention of any Noteholder and shall not be liable whatsoever for any claims or losses arising in connection with a defective or invalid Put Notice.

#### 10.5. Early Redemption Amounts

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

- 10.5.1. in the case of Notes with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof; or
- 10.5.2. 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 Applicable Pricing Supplement, at their Nominal Amount; or
- 10.5.3. 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 such other amount as is provided 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.

#### 10.6. 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*) or 16 (*Events of Default*), the Early Redemption Amount will be determined pursuant to Condition 10.5 (*Early Redemption Amounts*).

10.7. 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 10.7 (*Partly Paid Notes*) and the Applicable Pricing Supplement. In the case of early redemption in accordance with Conditions 10.2 (*Redemption for Tax Reasons*) or 16 (*Events of Default*), the Early Redemption Amount will be determined pursuant to Condition 10.5 (*Early Redemption Amounts*).

10.8. 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.

10.9. Purchases

The Issuer or any of its Subsidiaries 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. The Issuer shall not have any voting rights on any Notes repurchased or otherwise held by it.

10.10. 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.

10.11. 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 10.5.3 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) calendar days after the date on which the full amount of the monies payable has been received by the CSD, and notice to that effect has been given to the Noteholder in accordance with Condition 18 (*Notices*).

#### 10.12. 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**

The payment of any Taxes by the Issuer as an agent or representative tax payer for a Noteholder shall not constitute a withholding or deduction for the purposes of this Condition 11.

11.1. 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 sub-division or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law (for a summary of the current law in relation to the withholding or deduction of taxes levied in South Africa, see the section headed "*South African Taxation*" below).

11.2. In such event, 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:

11.2.1. held by or on behalf of a Noteholder who is liable for such taxes or duties in respect of such Note by reason of the Noteholder's 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

11.2.2. held by or on behalf of a Noteholder who would not be liable or subject to the withholding or deduction by making a declaration of non-residence or other similar claim for exemption 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

11.2.3. 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

- 11.2.4. 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) calendar days after the Relevant Date, except to the extent that the Noteholder thereof would have been entitled to an additional amount on presenting or surrendering the Individual Certificate for payment on such thirtieth day; or
- 11.2.5. if such withholding or deduction arises through the exercise by revenue authorities of special powers in respect of tax defaulters; or
- 11.2.6. where the Noteholder is entitled to claim a tax reduction, credit or similar benefit in respect of such withholding or deduction in terms of the Noteholder's domestic tax laws or applicable double tax treaty, and such tax reduction, credit or similar benefit is actually granted to the Noteholder.

11.3. 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 read with section 35(2)(i) of the Financial Markets Act (or such other relevant section of any successive legislation), 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) calendar 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) calendar 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 Participant acting on behalf of the holder of the Beneficial Interest in respect of the conversion 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 CSD shall, prior to the Exchange Date, 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.
- 12.1.4. An Individual Certificate shall, in relation to a Beneficial Interest:
- 12.1.4.1. in a Tranche of Notes which is held in the CSD, represent that number of Notes as have, in the aggregate, the same aggregate Nominal Amount of Notes standing to the account of the holder of such Beneficial Interest; or
- 12.1.4.2. 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,
- as the case may be, 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.

12.1.5. Subject always to Applicable Laws and the Applicable Procedures, upon the replacement of a Beneficial Interest in Notes with Notes in definitive form represented by an Individual Certificate in accordance with this Condition 12 (*Exchange of Beneficial Interests and Replacement of Individual Certificates*), such Notes (now represented by an Individual Certificate) will cease to be listed on the Financial Exchange and will no longer be lodged in the CSD. Notes represented by Individual Certificates will be registered in the Register in the name of the individual Noteholders of such Notes.

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. 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 registered Notes in 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 (*Death and sequestration or liquidation of Noteholder*) or of the Noteholder's title as the Issuer and the Transfer Agent shall require, be registered as the holder of such Notes or, subject to the Applicable Procedures, this Condition 12.3 (*Death and sequestration or liquidation of Noteholder*) and Condition 14.1.2 (*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 shall duly transfer the Notes.

12.4. Costs

The costs and expenses of the printing, issue and delivery of each Individual Certificate and all taxes and governmental charges or insurance 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.

### 13. REGISTER

13.1. The Register of Noteholders shall:

- 13.1.1. be kept at the specified office of the Transfer Agent or such other person as may be appointed for the time being by the Issuer to maintain the Register;
- 13.1.2. contain the names, addresses and bank account numbers of the registered Noteholders;
- 13.1.3. show the total Nominal Amount of the Notes held by Noteholders;
- 13.1.4. show the dates upon which each of the Noteholders was registered as such;
- 13.1.5. show the serial numbers of the Individual Certificates and the dates of issue thereof;
- 13.1.6. 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. be closed during each 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 registered Notes

14.1.1. Transfer of Beneficial Interests in Notes held in the CSD

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

- 14.1.1.2. 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.
- 14.1.1.3. 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.
- 14.1.1.4. Transfers of Beneficial Interests in Notes will not be recorded in the Register and the party recorded in the Uncertificated Securities Register in accordance with Applicable Law and the Applicable Procedures and named in the Register will continue to be reflected in the Register as the Noteholder of such Notes notwithstanding such transfers.

14.1.2. Transfer of Notes represented by Individual Certificates

- 14.1.2.1. 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:
  - 14.1.2.1.1. the transfer of such Notes must be embodied in a Transfer Form;
  - 14.1.2.1.2. the Transfer Form must be signed by the registered Noteholder of such Notes and the transferee, or any authorised representatives of that registered Noteholder or transferee; and
  - 14.1.2.1.3. the Transfer Form must be delivered to the Transfer Agent at its specified office together with the Individual Certificate representing such Notes for cancellation.
- 14.1.2.2. 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).
- 14.1.2.3. Subject to this Condition 14.1.2 (*Transfer of Notes represented by Individual Certificates*), 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.

- 14.1.2.4. 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.
- 14.1.2.5. 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.
- 14.1.2.6. 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.
- 14.1.2.7. No transfer of any Notes represented by an Individual Certificate will be registered whilst the Register is closed as contemplated in Condition 13 (*Register*).
- 14.1.2.8. 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.
- 14.1.2.9. If a transfer is registered then the Transfer Form and cancelled Individual Certificate will be retained by the Transfer Agent.
- 14.1.2.10. In the event of a partial redemption of Notes under Condition 10.3 (*Redemption of the Option at the Issuer*), the Transfer Agent shall

not be required in terms of Condition 10.3 (*Redemption of the Option at 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).

14.1.2.11. The Notes shall, upon transfer, be fully paid up.

## 15. **PRESCRIPTION**

The Notes will become extinguished by prescription unless presented for payment of principal within a period of 3 (three) years after their redemption date, save that any Individual Certificate constituting a “*bill of exchange or other negotiable instrument*” in accordance with section 11 of the Prescription Act, 1969 will become extinguished by prescription unless presented for payment of principal and interest within a period of 6 (six) years from the Relevant 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 (“**Events of Default**”) shall have occurred and be continuing:

16.1.1.1. the Issuer fails to pay any Nominal Amount due under the Senior Notes on its due date for payment thereof and any such failure continues for a period of 5 (five) Business Days, after receiving written notice from any of the Senior Noteholders demanding such payment; or

16.1.1.2. the Issuer fails to pay any interest due under the Senior Notes on its due date for payment thereof and any such failure continues for a period of 3 (three) Business Days, after receiving written notice from any of the Senior Noteholders demanding such payment; or

16.1.1.3. the Issuer fails to perform or observe any of its other material obligations or undertakings (not specifically covered elsewhere in this clause 16.1 (*Senior Notes*)) under or in respect of any of the Senior Notes giving rise to a Material Adverse Effect and such Material Adverse Effect continues for a period of 30 (thirty) calendar 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. the Issuer fails to remedy a breach of Condition 7 (*Negative Pledge*) within 30 (thirty) Business Days of receiving written notice from the Senior Noteholders demanding such remedy; or
- 16.1.1.5. the Issuer or any Material Subsidiary, as the case may be, defaults in 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 Subsidiary, 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 Subsidiary, 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 if any such obligations constituting a Material Indebtedness of, or assumed or guaranteed by, the Issuer or any Material Subsidiary, 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
- 16.1.1.6. 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 respective obligations under the Notes is not in place or any such consent, licence, approval or authorisation shall be revoked, modified, withdrawn or withheld or shall cease to be in full force and effect, resulting in the Issuer being unable to perform any of its respective payment or other obligations in terms of the Notes and the Issuer fails to remedy such circumstances within 7 (seven) Business Days of receiving written notice from the Noteholders demanding such remedy; or
- 16.1.1.7. an order by any court of competent jurisdiction or authority for the liquidation, winding-up, dissolution, judicial management or analogous proceedings of the Issuer or any Material Subsidiary, as the case may be, is made whether provisionally (and not dismissed or withdrawn within 21 (twenty one) Court Days thereof) or finally, or the Issuer or any Material Subsidiary, as the case may be, is disestablished (as contemplated by section 28(d) of the Water Services Act), placed under voluntary liquidation or curatorship, provided that no liquidation, curatorship, winding-up, dissolution, disestablishment, judicial management or analogous proceedings

shall constitute an Event of Default if (i) the liquidation, winding-up, dissolution, disestablishment, judicial management or analogous proceedings is for the purposes of effecting an amalgamation, merger, demerger, consolidation, reorganisation or other similar arrangement within the Umgeni Group with any third party; or (ii) the liquidation, winding-up, dissolution, disestablishment, judicial management or analogous 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, disestablishment, judicial management or analogous proceedings; or

- 16.1.1.8. the Issuer or any Material Subsidiary, as the case may be, initiates or consents to judicial proceedings relating to itself under any applicable compromise with creditors, liquidation, winding-up 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 Subsidiary, 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 Subsidiaries and is for the purposes of an internal reconstruction or reorganisation within the Umgeni Group; or
- 16.1.1.9. if a person validly attaches in execution the whole or a material part of the undertaking or assets of the Issuer or any Material Subsidiary, 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 Subsidiary, as the case may be, by a court of competent jurisdiction and such is not discharged within 21 (twenty one) Court Days and as a result a Material Adverse Effect has occurred and is continuing; or
- 16.1.1.10. 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 Note held by that 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 10.5 (*Early Redemption Amount*)), together with accrued interest (if any) to the date of repayment, or as specified in the Applicable Pricing Supplement, provided that no such action may be taken by a holder of Senior Notes if the Issuer withholds or refuses to make any 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 16.1.1.5, 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

- 16.2.1. 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 16.1.1.7 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 or winding up proceedings (see Condition 16.2.2 below), to pay any sum or sums sooner than the same would otherwise have been payable by it.

- 16.2.2.** In the event of the winding-up or liquidation, whether finally or provisionally, 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.

- 16.2.3. For so long as no Tranche of Senior Notes remains Outstanding, the provisions of Condition 16.1 (*Senior Notes*) shall apply *mutatis mutandis* to the Subordinated Notes.

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*) and the JSE in writing.

17. **CALCULATION AGENT, TRANSFER AGENT, PAYING AGENT AND PARTICIPANT**

Any third party appointed by the Issuer as Calculation Agent, Paying Agent, Transfer Agent, Participant or otherwise shall act solely as the agent 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, provided that there will at all times be a Transfer Agent, Calculation Agent, Participant and Paying Agent with an office in such place as may be required by the Applicable Procedures.

18. **NOTICES**

18.1. Notices to Noteholders

Notices to holders of Notes shall be valid:

- 18.1.1. if mailed to their registered addresses appearing in the Register.
- 18.1.2. in the case of there being any Notes represented by an Individual Certificate in issue, such notice shall be published, not earlier than 4 (four) calendar days after the date of posting of such notice in terms of clause (i) in an English language daily newspaper of general circulation in South Africa and (ii) for so long as the Notes are listed on the Interest Rate Market of the JSE, a daily newspaper of general circulation in the city in which the JSE is situated, and any such notices shall be deemed to have been given on the date of first publication.
- 18.1.3. If any notice is given to holders of uncertificated Notes, a copy thereof shall be delivered to the JSE, the CSD and the Participants and shall discharge the Issuer of its obligations to give such notice to the holders of the Notes.
- 18.1.4. 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.

- 18.1.5. 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 Participant in accordance with the Applicable Procedures, in such manner as the Issuer and the relevant Participants may approve for this purpose.
- 18.1.6. Notwithstanding Conditions 18.1.1 to 18.1.5 above, any notice given to holders of uncertificated Notes shall be valid if a copy thereof has been delivered to the JSE (in the case of uncertificated Notes listed on the JSE only), the CSD and the Participants.
- 18.1.7. In respect of uncertificated Notes listed on the JSE, where required under the JSE Debt Listings Requirements, the Issuer will also publish notices on SENS, or any other similar service, established by the JSE

## 18.2. Notices to the Issuer

- 18.2.1. 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.
- 18.2.2. 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 Participant in accordance with the Applicable Procedures, in such manner as the Issuer and the relevant Participants may approve for this purpose.

## 19. **AMENDMENT OF THESE CONDITIONS**

- 19.1. These Conditions set out all the rights and obligations relating to the Notes and, subject to the further provisions of this Condition 19 (*Amendment of these Conditions*), no addition, variation or consensual cancellation of these Terms and Conditions shall be of any force or effect unless the JSE or such other Financial Exchange, as the case may be, has been notified and 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. The Issuer may, with the prior sanction of an Extraordinary Resolution of the relevant Class of Noteholders amend these Terms and Conditions (as applicable to that Class), provided that:

19.3.1. no such amendment shall be of any force or effect unless notice of the intention to make such amendment shall have been given to the relevant Class of Noteholders in terms of Condition 18 (*Notices*); and

19.3.2. prior to sending the notice of its intention to amend the Terms and Conditions as contemplated in Condition 19.3.1 above, the Issuer shall have obtained the JSE's approval to make such proposed amendments.

## 20. MEETINGS OF NOTEHOLDERS

20.1. The Issuer may at any time convene a meeting of all Noteholders or holders of any Series of Notes upon at least 14 (fourteen) calendar days prior written notice to such Noteholders. This notice is required to be given in terms of Condition 18 (*Notices*). Such notice shall specify the date, place and time of the meeting to be held, which place shall be in South Africa.

20.2. Every director or duly appointed representative of the Issuer may attend and speak at a meeting of Noteholders, but shall not be entitled to vote, other than as a proxy or representative of a Noteholder.

20.3. Holders holding not less than 25% (twenty-five percent) in Nominal Amount of the Outstanding Notes shall be able to request the Issuer to convene a meeting of Noteholders. Should the Issuer fail to requisition such a meeting within 10 (ten) calendar days of such a request being received by the Issuer, the Noteholders requesting such a meeting may convene such meeting.

20.4. A Noteholder may by an instrument in writing (a "**form of proxy**") signed by the Noteholder or, in the case of a corporation, executed under its common seal or signed on its behalf by an attorney or a duly authorised officer of the corporation, appoint any person (a "**proxy**") to act on his or its behalf in connection with any meeting or proposed meeting of the Noteholders.

- 20.5. Any Noteholder which is a corporation may by resolution of its directors or other governing body authorise any person to act as its representative (a “**representative**”) in connection with any meeting or proposed meeting of the Noteholders.
- 20.6. Any proxy or representative appointed shall, so long as the appointment remains in force, be deemed for all purposes in connection with any meeting or proposed meeting of the Noteholders specified in the appointment, to be the holder of the Notes to which the appointment relates and the holder of the Notes shall be deemed for such purposes not to be the holder.
- 20.7. The chairperson of the meeting shall be appointed by the Issuer. The procedures to be followed at the meeting shall be as determined by the chairperson subject to the remaining provisions of this Condition 20 (*Meetings of Noteholders*). Should the Noteholders requisition a meeting, and the Issuer fail to call such a meeting within 10 (ten) calendar days of the requisition, then the chairperson of the meeting held at the instance of the Noteholders shall be selected by a majority of Noteholders present in person, by representative or by proxy.
- 20.8. At any such meeting one or more Noteholders present in person, by representative or by proxy, holding in aggregate not less than one third of the Nominal Amount of the relevant Notes for the time being Outstanding shall form a quorum for the transaction of business. On a poll, each Noteholder present in person, by representative or by proxy at the meeting shall have the number of votes equal to the number of Notes, by Specified Denomination, held by the Noteholder.

## 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 relevant Outstanding Notes.

## 22. **GOVERNING LAW**

The Programme Memorandum, the Notes 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.

## USE OF PROCEEDS

Words 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 published in Government Notice 2172 in Government Gazette 16167 of 14 December 1994 under section 90 of the Banks Act, 1990 (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.

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, as permitted by the Commercial Paper Regulations.

SIGNED at PIETERMARITZBURG on this 29<sup>TH</sup> day of FEBRUARY 2016.

For: **UMGENI WATER**

Signature:   
 who warrants that he / she is duly authorised thereto

Name: C. U. GANGE

Capacity: CHIEF EXECUTIVE

Signature:   
 who warrants that he / she is duly authorised thereto

Name: T. B. ALONGWA

Capacity: GENERAL MANAGER : FINANCE

Place: PIETERMARITZBURG

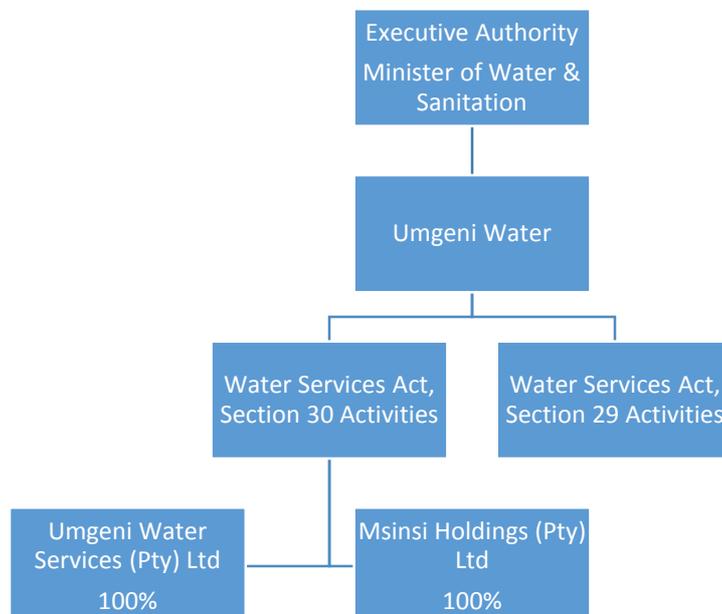
## DESCRIPTION OF UMGENI WATER

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### 1. BACKGROUND AND HISTORY

- 1.1. Umgeni Water is a state-owned enterprise, established under Proclamation No. 114 of 1974 (Government Gazette No. 4300 of 14 June 1974) and in terms of section 108(2) of the Water Act, 1956 and now deemed to be established in terms of the Water Services Act, 1997 (the “**Water Services Act**”) read together with the PFMA.
- 1.2. Umgeni Water’s primary business is to provide water services to municipalities in its designated operational area and over the years has grown into the largest bulk water supplier in KwaZulu-Natal with an operational area of 21,155 (twenty one thousand one hundred and fifty five) square kilometres.
- 1.3. Umgeni Water defines its activities in line with the Water Services Act. In terms of section 29 of the Water Services Act, the primary activities of Umgeni Water are:
- 1.3.1. to treat raw water and distribute the treated water via its infrastructure; and
- 1.3.2. the treatment and disposal of bulk waste water.
- 1.4. In terms of section 30 of the Water Services Act, Umgeni Water engages in other activities that complement bulk water service provision such as providing laboratory services, water quality monitoring and environmental management services and Umgeni Water acts as an implementing agent for government in respect of projects related to water service delivery.
- 1.5. The organisation derives revenue from the sale of bulk potable water to its customers. The customer base comprises 6 (six) municipalities in KwaZulu-Natal namely, eThekweni Metro, iLembe, Sisonke, uMgungundlovu, Ugu District Municipalities, and uMsunduzi Local Municipality, to which over 440,000,000 (four hundred and forty million) kilolitres of potable water were supplied in the past year.

### 2. OWNERSHIP AND CONTROL



### 3. REVIEW OF OPERATIONS/DESCRIPTION OF BUSINESS

To undertake its bulk water services business, the organisation requires sufficient and reliable infrastructure to provide the assurance of supply needed by its customers. The total property, plant and equipment value of the organisation is currently ZAR3,990,000,000 (three billion ninety hundred and ninety million Rand).

3.1. Umgeni Water's infrastructure assets in support of its potable water business comprise:

- 3.1.1. Approximately 746 (seven hundred and forty six) kilometres of pipelines and 66 (sixty six) kilometres of tunnels,
- 3.1.2. 14 (Fourteen) impoundments, of which 6 (six) are managed on behalf of the Department of Water and Sanitation and 2 (two) on behalf of the Ugu District Municipality,
- 3.1.3. 14 (Fourteen) water treatment works, of which 2 (two) are managed on behalf of the Ugu District Municipality, and
- 3.1.4. An additional 14 (fourteen) small water treatment works and 10 (ten) borehole schemes which are managed on behalf of the iLembe District Municipality.
- 3.1.5. The organisation also treats bulk wastewater totalling 28,000,000 (twenty eight million) cubic metres per annum (75 Ml/d) and in support of this operates 4 (four) major wastewater treatment works.

3.2. Umgeni Water employs a staff of 1,020 (one thousand and twenty), including engineers, scientists, accountants, other specialists and administrative personnel. The chief executive, as the accounting officer, guides the day-to-day activities of the organisation. There are 4 (four) general managers and 37 (thirty seven) senior managers who also contribute to the day-to-day management of the organisation. The non-executive board members are appointed by the Minister of Water and Sanitation (the "**Minister**"), and the board of directors (the "**Board**") is the accounting authority of Umgeni Water.

- 3.3. As a state-owned business enterprise, Umgeni Water reports directly to the executive authority, the Minister and it operates within the framework of the Water Services Act, the National Water Act of 1998, the PFMA and the Public Audit Act, 2004.

#### 4. FINANCIAL HIGHLIGHTS: 2014

- 4.1. Operating profits continue to be maintained despite increased operating costs. Revenue growth was 15% (fifteen percent), while cost of sales increased by 19% (nineteen percent). Other income increased by 47% (forty seven percent) due to insurance proceeds received in the current year. Overall profit for the year at ZAR682,000,000 (six hundred and eighty two million Rand) reflects an increase of 2% (two percent).

	Group		
	2014 R'm	% change	2013 Restated R'm
<b>Revenue</b>	<b>2 204</b>	<b>15</b>	<b>1 909</b>
Water	1 830	13	1 626
Waste water	60	9	55
Section 30	314	38	228
<b>Cost of sales</b>	<b>(1 035)</b>	<b>19</b>	<b>(870)</b>
Water	(708)	12	(634)
Waste water	(46)	15	(40)
Section 30	(281)	43	(196)
<b>Gross profit</b>	<b>1 169</b>	<b>13</b>	<b>1 039</b>
<b>GP%</b>	<b>53%</b>	<b>(1%)</b>	<b>54%</b>
Other income	28	47	19
Other operating and administration expenses	(596)	29	(462)
<b>Profit from operations</b>	<b>601</b>	<b>1</b>	<b>596</b>
Net finance income	77	13	68
Share of profit from associate	4	33	3
<b>Profit for the year</b>	<b>682</b>	<b>2</b>	<b>667</b>

- 4.2. The main cost drivers for direct operating costs are chemicals, energy, maintenance, raw water and staff costs which account for 63% (sixty three percent) (2013: 66% (sixty six percent)) of cost of sales. Cost of sales increased by 19% (nineteen percent) year on year driven primarily by the main cost drivers. Chemicals decreased by 6% (six percent) due to lower usage arising from a combination of optimisation in chemical dosages as well as improved raw water quality. Energy costs increased by 26% (twenty six percent) primarily due to increased pumping requirements on existing infrastructure as well as new schemes that came online in the current year. Maintenance costs increased by 4% (four percent) and staff costs by 11% (eleven percent). Raw water costs increased by 18% (eighteen percent) due to a combination of tariff and volume increases. Other operating and administration costs increased by 29% (twenty nine percent), primarily due to higher impairments on the development projects resulting from the increased spend. Further details on development projects are contained in section 6 of the review. Excluding impairments other operating and administrative costs have increased by 6.8% (six point eight percent) year on year which is

within PPI as at 30 June 2014 of 8.1% (eight point one percent), thus reflecting the positive impact of cost containment initiatives.

- 4.3. The trend of positive volume growth continued in the current year. The group's major customer, eThekweni Metropolitan Municipality, accounted for 3.6% (three point six percent) of the total 4% (four percent) growth, whilst sales volumes to other customers grew by 5% (five percent).
- 4.4. The average cost of bulk water per KI increased by 17% (seventeen percent) in the current year, from R2.35 (two Rand and thirty five cents) to R2.76 (two Rand and seventy six cents). The increase is driven primarily by the higher impairments on development projects.
- 4.5. The average tariff increase for 2013/2014 was 7.5% (seven point five percent) which includes the capital unit charge on the Spring Grove Dam. The average tariff increase for the next financial year, effective 1 July 2014, has been approved at 8.3% (eight point three percent) which includes a 4.4% (four point four percent) increase on the capital unit charge, whilst the Umgeni Water average bulk water tariff increased by 8.7% (eight point seven percent).
- 4.6. The group continues to maintain strong operating cash flows which has allowed for the repayment of debt and funding of capital expenditure. Cash generated from operations totalled ZAR862,000,000 (eight hundred and sixty two million Rand) (2013: ZAR854,000,000 (eight hundred and fifty four million Rand)). During the year ZAR245,000,000 (two hundred and forty five million Rand) (2013: ZAR167 (one hundred and sixty seven million Rand)) regional bulk infrastructure grants were obtained in support of the social component of the capital infrastructure programme. The net cash from operating activities was utilised as follows: ZAR1,024,000,000 (one million and twenty four thousand Rand) in investing activities before grant funding and ZAR58,000,000 (fifty eight million Rand) in financing activities. Cash used in financing activities consisted of ZAR270,000,000 (two hundred and seventy million Rand) debt repayment, ZAR385,000,000 (three hundred and eighty five million Rand) loans raised, ZAR159,000,000 (one hundred and fifty nine million Rand) placed in financial investments and ZAR13,000,000 (thirteen million Rand) net interest paid.

## 5. **MANAGEMENT STRATEGY (Five year Corporate/Business Plan)**

### 5.1. Strategic Highlights of the Business Plan

- 5.1.1. It is essential to note that Umgeni Water's strategy and plans are tethered to and aligned with DWA priorities, which are further anchored to the strategic priorities and outcomes of government. These are aimed at reducing the compounded challenge of poverty, unemployment and inequality that still face a large number of the country's citizens.

- 5.1.2. Key policy positions were developed and approved by the national cabinet in 2013, thereby enabling legislative amendments for developing an integrated National Water Act that would accelerate and enhance water equity and transformation for the country to be made. The key policy positions notably include the establishment of regional water utilities.
- 5.1.3. DWA has completed its realignment project and is moving rapidly forward with the formation of Regional Water Utilities. As an outcome of the realignment project the ministry has consolidated water boards in South Africa from 12 (twelve percent) to 9 (nine percent) Regional Water Utilities (RWU) to better address challenges of water supply in the country.
- 5.1.4. DWA's RWU implementation programme, as per its 2014/2015 Annual Performance Plan, specifically includes:
  - 5.1.4.1. Gazetting new boundaries in Q1 of 2014/2015 for two Water Boards;
  - 5.1.4.2. Establishing two 'proto' Regional Water Utilities by Q4 of 2014/2015; and
  - 5.1.4.3. Establishing two regional water utilities by 2015/2016 and a further three by 2016/2017.
- 5.1.5. Regarding boundaries, the water board consolidation strategy has translated into expansion of areas of operation, which for Umgeni Water includes:
  - 5.1.5.1. Expansion into the North of KwaZulu-Natal to include the uThukela District Municipality, Umzinyathi District Municipality, Amajuba District Municipality and Newcastle Local Municipality.
  - 5.1.5.2. Expansion into the Eastern Cape Province to include the Alfred Nzo District Municipality and the Ngquza Hill Local Municipality enclave, which is within the OR Tambo District Municipality.
- 5.1.6. The primary function of the Regional Water Utility (RWU) will be to plan, construct, operate and maintain Regional Bulk Infrastructure. The Regional Water Utility will take on more responsibility for regional water resources infrastructure to achieve greater integration with bulk systems. In addition, the RWU will provide support functions to municipalities as a secondary activity.

## 5.2. Development Plans

These include the following:

- 5.2.1. continue with strategic support programmes through serving as an implementing agent for the Department of Education, Department of Water and Sanitation and municipalities for household and school sanitation programmes; and
- 5.2.2. continue to work together with national, provincial and local government stakeholders toward coordinated and effective service delivery in the province.

## 6. **RISK MANAGEMENT**

### 6.1. Risk Profile and management

- 6.1.1. The Board, assisted by the audit committee, is ultimately accountable for risk management. The aim of integrated risk management is to ensure that in all Umgeni Water activities, opportunities are maximised and adversity minimised through adequate management of multidisciplinary risks. In recognition of the fact that uncertainty could affect, positively or negatively, the organisation's ability to achieve its strategic and business objectives, Umgeni Water has developed and maintains policies and procedures to provide a systematic view of the risks faced in the course of its operations, business and administration activities, and institutes effective control mechanisms to mitigate the impacts of risk, to ensure organisational sustainability. Through interactive risk assessment Umgeni Water has identified and rated nine strategic risks. A priority scale guides both the risk accountability and the risk appetite of Umgeni Water.
- 6.1.2. Divisional and operational risk assessments are undertaken, identifying risks which limit divisions in achieving strategic objectives, and subsequently mitigations are implemented to manage these risks. Results of risk assessments and mitigations implemented are monitored by the corporate risk management committee and reported to the Board via the audit committee.

### 6.2. Fraud Prevention

A fraud prevention plan has been developed by the fraud prevention committee in accordance with the PFMA. The principle focus of the fraud prevention committee is to proactively fight fraud and to implement the fraud prevention plan. This committee, which is chaired by an external professional, has access to the chairperson of the audit & risk committee and the chief executive. Umgeni Water continues to operate the fraud prevention

hotline, which is administered by Deloitte. The whistle-blowing facility has assisted in ensuring that the risk of fraud is minimised and monitored.

### 6.3. Audit and controls

6.3.1. The Board is responsible for the maintenance of effective and efficient systems of internal control. The internal control systems are designed to provide reasonable assurance that assets are safeguarded and that liabilities and working capital are efficiently managed. Principal features of the organisation's internal finance controls provides for:

6.3.1.1. a system of financial planning, budgeting and reporting which allows continuous monitoring of performance;

6.3.1.2. a materiality and significance framework;

6.3.1.3. clearly-defined delegations of authority;

6.3.1.4. the establishment of a short, medium and long-term funding strategy;

6.3.1.5. the tariff model which determines the financial impact of CAPEX and the bulk water tariff on Umgeni Water's debt profile; and

6.3.1.6. established policies and procedures.

6.3.2. To assist the Board in the discharge of its responsibilities, internal audit undertakes an independent assessment of the internal control systems and business risks and reports to the Board through the audit committee.

6.3.3. Internal audit is an independent co-sourced assurance function, the purpose, authority and responsibility of which is formally defined in a charter approved by the Board in line with stipulations of the Institute of Internal Auditors. In line with the requirements of the PFMA and Good Governance, the internal auditors give the audit committee and management assurance on the appropriateness and effectiveness of internal controls.

6.3.4. The internal auditors report regularly to the audit committee and have unrestricted access to the committee chairman. An internal audit charter has been approved by the audit committee.

## 7. UMGENI WATER MANAGEMENT STRUCTURE

### 7.1. Umgeni Water has a three-tiered management structure:

- 7.1.1. the Board;
- 7.1.2. the executive management; and
- 7.1.3. the senior managers.

### 7.2. The Board

7.2.1. The Board is the official accounting authority as per the PFMA. In terms of the Water Services Act, the Minister appoints the Board which consists of 12 (twelve) non-executive members and the chief executive. The term of office of a non-executive director is determined by the Minister and is for a period not exceeding four years. Non-executive directors may be re-appointed for a period not exceeding three consecutive terms of office. The independence of the Board is maintained by adhering to certain key principles:

- 7.2.1.1. limiting the number of hours per month that a Board member and chairperson work on Umgeni Water business to 40 (forty) and 50 (fifty) hours respectively;
- 7.2.1.2. keeping separate the positions of chairperson and chief executive;
- 7.2.1.3. having an independent non-executive member of the Board as Chairperson; and
- 7.2.1.4. having all Board committees chaired by independent non-executive members.

7.2.2. The Chairperson is responsible for the overall leadership of the Board and is also the primary linkage between the Board, the executive authority and the chief executive.

7.2.3. The 13 (thirteen) member, non-executive Board guides the executive management team on strategic policy issues, and the sub-committees of the Board meet regularly and provide guidance to the Board.

7.2.4. The current Board consists of the following members:

- 7.2.4.1. **Mr ANDILE MAHLALUTYE** is chairperson of the Board. Mr Mahlalutye holds a MA Financial Management (London), MBL (UNISA), Graduate Diploma in Company Direction (GIMT), BSc

Quantity Surveying (UCT), Certificate in NGO Development and Management (Israel) and a Programme Certificate on Economic Regulation (London School of Economics and Political Science). Mr Mahlalutye is a Project Management Professional (PMP) and a Professional Quantity Surveyor (PrQS).

Mr Mahlalutye has served as non-executive chairman of the Board since 2009; non-executive board member of the Ports Regulator of South Africa since 2012; non-executive director of the Richards Bay Industrial Development Zone Company since 2012; member of the Free State Cluster Audit Committee since 2011; managing director of Ubudlelwane Capital Investments since 2010; chief executive officer of Mvula Trust from 2007 to 2010; executive of the Coega Development Corporation from 2003 to 2007; general manager/project leader with Blue IQ from 2000 to 2003; non-executive board member of the Gauteng Gambling Board from 2011 to 2013; member of North West Provincial Audit Committee from 2009 to 2012.

7.2.4.2. **Mr TEBOHO NKHAHLE** holds a Master of Philosophy in Environmental Management from the University of Stellenbosch, degree in Integrated Environmental Management from University of Cape Town, and Bachelor of Science degree from the University of Lesotho. He is the owner and managing director of Environmental Impact Management Services (EIMS); non-executive chairman of Lesotho Highlands Development Authority (LHDA) from 2007 to 2011; board member of US-based Global Decisions Inc. (Development of global environment, health and safety regulations and standards database) since 2008; member of the Institute of Directors-SA since 2007; vice chair IoD Sustainable Development Forum from 2008 to 2009; environmental auditor with Eskom from 1998 to 2004.

7.2.4.3. **Ms NOMPUMELELO CHAMANE** is a councillor with the eThekweni Metropolitan Municipality. She has vast experience as a liaison officer with the provincial structures of the Congress of South Africa Trade Unions. She also serves as a member of the Albert Luthuli Hospital committee; board member of the EU funded CMDA, and is chairperson of the finance committee of St Benedict Catholic Church.

- 7.2.4.4. **Prof IMTIAZ VALLY CA (SA)** is chairman of the Board's audit committee since 2009. Prof. Vally is a Professor of Management Accounting and Finance at the University of KwaZulu-Natal. His qualifications include a Master of Accountancy degree. Prof Vally is also a Chartered Management Accountant (ACMA).
- 7.2.4.5. **Ms NOMBUSO AFOLAYAN** is chairperson of the Umgeni Water capital projects committee since 2009. She was first appointed to the Board in July 2005 and was been re-appointed for a second term in 2009. She holds an MBA (Finance) from Luton University, Executive Leadership Development (UCT) and is an Organisational Development Practitioner. She is founder and executive chairperson of FS Capital Investments; chairperson of the KwaZulu-Natal Sharks Board; non-executive director at Ithala Development Finance Corporation and an executive of multinational shipping, maritime and petroleum companies in African markets.
- 7.2.4.6. **Mr VASU GOUNDEN** He holds a Master of Law Degree (LLM) from Georgetown University and is a graduate of the Harvard/Wits Business School Senior Executive Programme. He is founder and executive director of the African Centre for the Constructive Resolution of Disputes (ACCORD) since 1992; member of the Editorial Board of the Peace and Conflict Studies Journal since 1996; elected by the World Economic Forum as a Global Leader for Tomorrow (GLT) in 2000; board member of the Gandhi Development Trust since 2003; board member of Finland-based Crisis Management Initiative since 2007; board member of the Old Mutual Science Education Foundation since 2007 (served as chairman of the board from 2009 – 2011); board member of the Dutch based Inter-Church Organisation for Development Cooperation since 2009; member of the Advisory Board of the Insight on Africa Journal since 2010.
- 7.2.4.7. **Mr THABANI ZULU CA (SA)** is director of Ngubane and Company (auditing firm); General Manager / Head of Internal Audit for Provincial Treasury; member of SAFCOL audit committee; member of UDW Audit Committee; member of Ndwedwe Audit Committee; CEO of the KZN Gambling Board; management accountant of Unilever SA; financial accountant at Mercedes Benz of SA (now Daimler Chrysler SA).

- 7.2.4.8. **Dr TAKALANI DUBE** is a medical doctor by profession and holds a medical degree and Diploma in Health Services Management from the then University of Natal Medical School, a diploma in anaesthesia from the University of South Africa, a certificate in Business Development and Management from eThekweni Business Development, and a post-graduate Diploma in HIV Management in the Place of Work from Stellenbosch University. Dr Dube is a director of the eThekweni Community Church since 2005; founder and President of Centre of HOPE (HIV and Community Development Organisation) since 2000 and is president of Women of Virtue (Women Empowerment and Investment Organisation) since 2002.
- 7.2.4.9. **Mr GRAHAM ATKINSON** holds a Bachelor of Science degree in Civil Engineering and a post-graduate Diploma in Town and Regional Planning, both from the former University of Natal. He was a member of the KZN Planning and Development Commission from 1998 to 2004; city engineer of Pietermaritzburg from 1977 to 1986; chief executive of Umgeni Water from 1987 to 1994; board member of Umgeni Water from 1978 to 1986; honorary member of the Water Institute of Southern Africa (WISA) since 2002 and honorary member of the former Union of African Water Suppliers (UADE).
- 7.2.4.10. **Ms THOKOZILE SHEZI** was appointed for the first time to the Board in July 2005 and has been re-appointed for a second term. She holds a Bachelor of Science degree in Social Psychology and Education and a Masters degree in Measurement and Evaluation and Project Management Diploma (UP). Senior Manager and Head of Secretariat; KwaZulu Natal Climate Change and Sustainable Development Council in the office of the Premier. Non-executive Director of KZN Playhouse Company.
- 7.2.4.11. **Mr VISVIN REDDY** is an educator (Mathematics and Computer Science) by profession and holds various Diplomas and Certificates in Management and Communications. He has 17 (seventeen) years of local government experience, has served on the executive committee of the eThekweni Metropolitan Municipality as well as chairman of the Infrastructure Committee. Mr Reddy is a member of various community bodies.

7.2.4.12. **Ms ZIPHOZETHU MATHENJWA** holds a MSc in International Business Management (University of London), MBA (UKZN), BSc (UZ), Post-Graduate Diploma in Business Management (UKZN), Post-Graduate Diploma in Strategic Management and Corporate Governance (UNISA/ICSA) and a Certificate in Financial Management and Investment (UNISA). Ms Mathenjwa is chairperson of Insika Foundation and the Sinafuthi Group; board member of Denel SOC (Ltd); board member Safran Turbomeca Africa; board member of Mitsui African Rail Solutions; chairperson of the audit committee of the Mpumalanga Provincial Department of Economic Development, Environment and Tourism.

7.2.5. The business address of the members of the Board is the Issuer's registered office.

### 7.3. The Executive Management

7.3.1. The executive management team implements the decisions of the Board and manages the organisation on a day-to-day basis. This executive structure is supported by a number of senior managers, who provide technical information and assist the executive management team. On areas of strategic importance to the organisation, Umgeni Water consults through staff information sessions, the staff advisory council and through bilateral meetings with NEHAWU, the recognised union at the organisation. Normal management meetings with staff are ongoing.

7.3.2. Regular consultation and information meetings are held with customers, the Department of Water Affairs and Sanitation and the Parliamentary Portfolio Committee on Water Affairs and Sanitation (the "**Portfolio Committee**"), as well as with the investor community, to inform them of organisational matters.

## 8. **CORPORATE GOVERNANCE AND REGULATORY FRAMEWORK**

### 8.1. Corporate Governance

8.1.1. The Umgeni Group has adopted the recommendations of the King Report on Corporate Governance ("**King III**") which was introduced in March 2010 and implemented the changes required by the Companies Act.

#### 8.1.2. Application of King III principles

8.1.2.1. In line with the 'apply or explain' philosophy of King III, the Issuer has elected not to apply certain principles and is satisfied that

alternate governance controls have been implemented. Accordingly, the Issuer complies with the King III principles, save for the following:

8.1.2.1.1. Principle 6.4 recommends that an independent compliance officer be appointed. The board has delegated responsibility for the implementation of an effective compliance framework to management. Responsibility for compliance has been assigned to the Company Secretary to identify legislative impacts on the Umgeni Group; business unit heads are responsible for compliance with the legislation; legal specialists support the Umgeni Group in ensuring legislative compliance. The board has approved the revised legal and compliance framework and periodically reviews that it is satisfied that it operates effectively.

8.1.2.1.2. Principle 9.3 requires sustainability reporting and disclosure to be independently assured. Specific sustainability elements, including the broad-based black economic empowerment scorecard and carbon emissions, have been verified by accredited agencies. Management plans to expand the external verification of sustainability indicators in the forthcoming years.

## 8.2. Compliance to Water Services Act & PFMA

8.2.1. Umgeni Water's policies are reviewed continually to ensure it responds to relevant legislation.

8.2.2. The Water Services Act and the PFMA set out the operational and fiduciary duties of the Board. In order to increase the Board's understanding of the legislation, Board members are kept abreast of developments in legislation through presentations and memoranda.

8.2.3. The chief executive is assisted by four general managers in implementing the policies, decisions and strategies adopted by the Board. In addition, the chief executive is responsible for fostering a culture of compliance and ensuring that all employees support and abide by the Umgeni Water Code of Ethics. The

general managers attend all meetings of the Board to report on the activities of their divisions. Executive management meetings are held fortnightly.

- 8.2.4. Board committee meetings are convened regularly in order to address specific areas so as to enable the Board to make informed decisions. This has improved the corporate governance systems in the organisation.
- 8.2.5. The Board is governed by a code of ethics and the work of the committees is guided by specific terms of reference. Board meetings have been well attended and the details of activities are disclosed below. Members of the Board consider and authorise strategic issues in accordance with laid-down Umgeni Water policy and procedures.
- 8.2.6. Responsibility for the efficiency and effectiveness of operations, the optimum utilisation of Umgeni Water resources, legal compliance, the safeguarding of assets and the existence of sound and effective internal controls rests ultimately with the Board. Accordingly, the Board approves all corresponding policy, and monitors and guides the organisation's overall performance.

### 8.3. Shareholder compact

In accordance with the Treasury Regulations issued in terms of the PFMA, the Board of Umgeni Water, as the accounting authority must, in consultation with its executive authority, the Minister, annually conclude a shareholder compact. The shareholder compact reflects the key performance measures and indicators to which Umgeni Water is committed. The Board continues to inform its executive authority on all major developments affecting the organisation through:

- 8.3.1. quarterly reporting against key indicators;
- 8.3.2. sustainability reports;
- 8.3.3. detailed five-year business plans;
- 8.3.4. direct contact between the chairman, the Minister and the Portfolio Committee;  
and
- 8.3.5. frequent communication at executive level on industry performance and policy issues.

### 8.4. Governing bodies

- 8.4.1. Umgeni Water has a unitary Board comprised of 12 (twelve) non-executive Board members and 1 (one) executive Board member, the chief executive.

8.4.2. The roles of the chairman and that of the chief executive are separate as recommended in King III to ensure the independence of the two positions and the clear definition of roles and responsibilities. The Chairperson of the Board and all other Board members (with the exclusion of the chief executive and one non-executive director), are independent non-executive directors in the manner described in King III. All Board members execute their legal duties in a professional manner, with integrity and enterprise. In terms of the Water Services Act, Board members (except for the chief executive who is appointed by the Board) are appointed by the Minister. Current Board and board committee memberships are shown in the annual report.

8.4.3. The Board is accountable for the leadership and control of Umgeni Water. Its responsibilities include the development, review and monitoring of strategic objectives, the approval of major capital expenditure, risk management and monitoring of operational and financial performance. The government of the Republic of South Africa, represented by the Minister, and the Department of Water and Sanitation, is the sole shareholder of Umgeni Water.

8.4.4. A Board Charter (reviewed in 2012) provides a framework for fiduciary duties, responsibilities and overall functioning of the Board. The Board Charter, is read in conjunction with:

8.4.4.1. the PFMA;

8.4.4.2. Treasury Regulations (GG 27338) as amended from time to time;

8.4.4.3. The Water Services Act, and

8.4.4.4. The King Code of Governance Principles, 2009 (King III).

8.4.5. Non-executive Board members receive remunerative benefits and fees as determined by the Minister on an annual basis and in line with their terms of appointment. Therefore no Board member is involved in determining his/her remuneration. Board members' remuneration is fully disclosed in the annual report.

## 8.5. Performance Management

8.5.1. The critical issues that were dealt with were the formulation of organisational strategy, oversight of organisational performance and the expectations of the Executive Authority, among others. As recommended by King III the Board evaluates the performance of all divisions including the finance division. This was done twice in the reporting year.

8.5.2. The Members of the Board have skills that were put to good use in providing leadership, guidance and directing strategy during the period. Overall the Board functioned at a strategic level and delivered outputs in line with its mandate.

8.6. Disclosure of interest

On an annual basis and at every Board and Board committees' meetings members declare any interests and commit to non-disclosure of information that may unfairly advantage or disadvantage a party.

8.7. Code of conduct

The Issuer's Board Code of Conduct and Committees' Terms of Reference set out the operational and other responsibilities of the Board. In effect, the Board Code of Conduct and Committees' Terms of Reference serve to guide the Board and committees in discharging their duties in order to ensure that the Board's independence is upheld.

8.8. Role and functions of the Board

The key functions of the Board are to provide strategic direction and leadership, ensure good corporate governance and be accountable for performance. Directors of the Board fulfil their role through attendance of and participation at Board meetings. The Board meets to hold discussions and take decisions on matters relating to the organisation's business plan, budget, major CAPEX, strategy and policies.

8.9. Board committees

The Board committees assist the Board in the performance of its duties and also in enabling effective decision-making. In terms of the Water Services Act, the Board is authorised to delegate powers to the Board committees established by the Board. The functions and powers delegated to committees are set out in the Board committees' Terms of reference. Terms of reference for all committees have been reviewed and approved by the Board. The Board had three formally constituted committees and with effect from 1 July 2009 were constituted as follows:

8.9.1. Audit committee

8.9.1.1. The audit committee consists of 6 (six) non-executive Board members and its chairman is Professor Imtiaz Vally.

8.9.1.2. The audit committee is mandated to achieve the highest level of financial management, accounting and reporting to the shareholder and to meet the requirements prescribed in section 51(1)(a)(ii) and 76(4)(d) of the PFMA, as well as Treasury regulations, 2005

(Chapter 27.1). The audit committee further performs a critical function of risk management by ensuring the effectiveness, quality, integrity and reliability of Umgeni Water's risk management processes.

8.9.1.3. The terms of reference of the audit committee takes into account the recommendations in King III, the Companies Act, the PFMA and Treasury Regulations, 2005, to ensure alignment to best practice and legislation.

8.9.1.4. The ethics committee and corporate risk committee also report through the audit committee

#### 8.9.2. Ethics committee

King III and the Companies Act, read in conjunction with regulation 43, oblige all state-owned enterprises to establish a social and ethics committee. Umgeni Water established an ethics committee in 2012 with a mandate to promote ethical behaviour, which includes preventing incidences of fraud, bribery and other corrupt activities and to monitor the organisation's compliance with relevant social, ethical and legal requirements and best practice codes. The establishment of the committee shows a deepened commitment by Umgeni Water as a responsible corporate citizen to all its stakeholders.

The ethics committee has an independent chairman - who is neither a member of management nor a member of the Board.

#### 8.9.3. Corporate risk committee

The corporate risk committee, which comprises a member of the audit committee, the chief executive, the executive management, the Company Secretary and the risk manager, assists the audit committee in discharging its duties relating to implementation of the integrated risk management framework.

#### 8.9.4. Remuneration and human resources committee

This committee comprises of 6 (six) nonexecutive directors and the chief executive and its chairperson is Ms Nompumelelo Chamane. The committee reviews and recommends to the Board all matters relating to:

8.9.4.1. Human Resources policies, organisational structure and compliance with the Employment Equity Act, (Act 55 of 1998) and other labour legislation,

- 8.9.4.2. Conditions of employment of executive management,
- 8.9.4.3. Appointment of the chief executive and members of executive management,
- 8.9.4.4. Remuneration packages for the chief executive, members of executive management and staff,
- 8.9.4.5. Succession planning for executive management,
- 8.9.4.6. Policies and practices for performance management,
- 8.9.4.7. Strategic human resource related matters, and
- 8.9.4.8. Special rewards recommended by the chief executive.

8.9.5. Procurement, fixed assets and capital projects committee

This committee comprises 8 (eight) non-executive Board members and the chief executive and its chairperson is Ms Nombuso Afolayan.

The procurement, fixed assets and capital projects Committee assists the Board with capital expenditure programme related decisions, recommends procurement policies to the Board for approval and approves the release of capital expenditure above executive management's delegated authority but within the committee's delegated authority. Through its oversight role, it ensures that the organisation's supply chain policy and procedures are fair, equitable, transparent, competitive and cost effective. Contracts which exceed the committee's delegation of authority are referred to the Board for approval. The committee reviews and recommends amendments to the limits in the delegation of authority, relating to budget approvals for capital projects and procurement, to enable management to expedite the implementation of projects.

8.9.6. Delegation of authority

A comprehensive delegation of authority framework governs the authority levels for the Board and management. These are exercised through various board and management committees. The Board reviews the framework regularly.

## **SETTLEMENT, CLEARING AND TRANSFER OF NOTES**

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*Words 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 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 and/or unlisted Notes that are held in the CSD will be issued, cleared and settled in accordance with the rules and operating 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 and/or unlisted Notes that are held in the CSD 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 date of the Programme Memorandum, the Participants which are approved by the CSD, in terms of the rules of the CSD, and who act as settlement agents to perform electronic settlement of funds and scrip include, but are not limited to, FirstRand Bank Limited, Nedbank, Citibank N.A., South Africa branch, Standard Chartered Bank, Johannesburg branch, Société Générale, Johannesburg branch, The Standard Bank of South Africa Limited 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 its entirety in the CSD, the Register will indicate that the entire Tranche of Notes is held in uncertificated form in the CSD. The party recorded in the Uncertificated Securities Register in accordance with Applicable Law and the Applicable Procedures will be named in the Register as the registered Noteholder of that Tranche of Notes. 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 CSD (as the registered holder 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 issued in uncertificated form and held in the CSD will be made to the CSD, as the registered holder 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 CSD, as the registered holder of such Notes.

Payments of all amounts in respect of a Tranche of Notes issued in uncertificated form and held in the CSD will be recorded by the CSD, as the registered holder of such Notes, distinguishing between interest and principal, and such record of payments by the CSD, as the registered holder of such Notes, shall be *prima facie* proof of such payments.

#### Transfers and exchanges

Title to Beneficial Interests held by clients of Participants indirectly through such Participants will pass on transfer thereof by electronic book entry in the securities accounts maintained by such Participants for such clients. Title to Beneficial Interests held by Participants directly through the CSD 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 12.1 (*Exchange of Beneficial Interests*).

#### 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. None of the Issuer, the Paying Agent or 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 Security 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 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 . Unlisted Notes are not regulated by the JSE.

#### 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

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*Words 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 this is clearly inappropriate from the context.*

The Dealers have in terms of the programme agreement dated on or about 9 December 2015, as amended, supplemented or restated from time to time (the “**Programme Agreement**”), agreed with the Issuer a basis upon which they may from time to time agree to subscribe for Notes or procure the subscription of the Notes.

### **Selling restrictions**

#### South Africa

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 it will not solicit any offers for subscription for or sale of the Notes in that Tranche, and will itself not sell the Notes in that Tranche of Notes, in South Africa, in contravention of the Companies Act, the Banks Act, the Exchange Control Regulations and/or any other Applicable Laws and regulations of South Africa in force from time to time. Notes will not be offered for subscription to any single addressee for an amount of less than ZAR1,000,000.

#### United States of America

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”). Notes may not be offered, sold or delivered within the United States of America or to U.S. persons except in accordance with Regulation S 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 legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (c) at any time to any legal entity which has 2 (two) or more of (i) an average of at least 250 (two hundred and fifty) employees during the last financial year; (ii) a total balance sheet of more than €43,000,000 (forty three million Euros) and (iii) an annual turnover of more than €50,000,000 (fifty million Euros) as shown in its last annual or consolidated accounts; 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 includes any relevant implementing measure in each Relevant Member State.

#### 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 in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer;

- (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(s) 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 or assume(s) any responsibility for facilitating such subscription or sale.

## SOUTH AFRICAN TAXATION

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*Words 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 date of the Programme Memorandum. South African tax legislation is subject to frequent change and accordingly the comments as set out below may be subject to change, possibly with retrospective effect.***

***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 advisors in this regard.***

### **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 worldwide 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 domestic exemptions or relief in terms of an applicable double taxation treaty). Interest income is from a South African source if it is attributable to an amount incurred by a person that is a resident, unless the interest is attributable to a permanent establishment which is situated outside South Africa; or 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".

Accordingly, if the interest payments in respect of the Notes are from a South African source as set out above, the interest earned by a Noteholder will be 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. 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. The interest may qualify for the exemption under section 10(1)(h) of the Income Tax Act.

In terms of section 24JB of the Income Tax Act, specific provisions dealing with the taxation of financial assets and liabilities of “covered persons” apply in respect of years of assessment ending on or after 1 January 2014. Noteholders should seek advice as to whether these provisions may apply to them.

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:

- (a) that 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 twelve-month period preceding the date on which the interest is received or accrues by or to that person; or
- (b) the debt from which the interest arises is effectively connected to a permanent establishment of that person in South Africa.

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

Section 8F of the Income Tax Act applies to "hybrid debt instruments", and section 8FA of the Income Tax Act applies to “hybrid interest”. Section 8F and 8FA provides that interest incurred on a hybrid debt instrument and hybrid interest are, for purposes of the Income Tax Act, deemed to be a dividend in specie. If either of these provisions apply the tax treatment of the interest will differ from what is set out above and such payments may be subject to dividends tax as a result of the deemed classification as dividends in specie. These provisions apply from 1 April 2014 in respect of amounts incurred on or after this date.

Noteholders should seek advice as to whether these provisions may apply to them.

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 from South African income tax.

### **Capital Gains Tax**

The disposal of Notes by residents of South Africa may be subject to capital gains tax, the provisions of which are contained in the Eighth Schedule to the Income Tax Act. 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 income (as interest), be allowed as a deduction from the income of the holder when it is incurred and accordingly will not give rise to a capital loss.

The capital gains tax provisions contained in the Eighth Schedule to the Income Tax Act will not be applied 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 in South Africa.

The capital gains tax provisions would not apply to the extent that the Noteholder were to constitute a “covered person” and section 24JB of the Income Tax Act (refer above) applied to the Note.

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.

### **Securities Transfer Tax ("STT")**

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.

### **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.

Commission, 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(2)(iii) of the VAT Act will be subject to VAT at the standard rate (currently 14% (fourteen percent)), except where the recipient is a non-resident.

### **Withholding tax**

Under current taxation law in South Africa, all payments made under the Notes to resident and non-resident Noteholders will be made free of withholding or deduction for or on account of any taxes, duties, assessments or governmental charges in South Africa. However, a withholding tax on interest, imposed at the rate of 15% (fifteen percent) will come into effect on 1 March 2015. The interest withholding tax will apply to any amount of any interest that is paid by any person to or for the benefit of any foreign person to the extent that such amount of interest is from a South African source in terms of the Income Tax Act, and will apply to interest that is paid or that becomes due and payable on or after 1 March 2015. For the purposes of the withholding tax, a “foreign person” is defined as any person that is not a South African tax resident. Accordingly, to the extent that any interest is paid to Noteholders who are South African tax residents, the withholding tax will not apply.

An exemption from the withholding tax on interest applies in respect of any debt listed on a recognised exchange, including any debt listed on the JSE Limited.

**Definition of Interest**

The references to "interest" above mean "interest" as understood in South African tax law. The statements above do not take any 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 of the Notes or any related documentation.

## **SOUTH AFRICAN EXCHANGE CONTROL**

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*Words 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 current position under the Exchange Control Regulations as at the date of the Programme Memorandum. 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 advisors in this regard.*

### **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 Rand**

Blocked Rand 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 Rand 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 Noteholder who is an emigrant from the Common Monetary Area will be deposited into such emigrant Noteholder’s Blocked Rand account, as maintained by an authorised foreign exchange dealer. The amounts are not freely transferable from the Common Monetary Area and may only be dealt with in terms of the Exchange Control Regulations.

#### **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 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 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.

#### **Exchange Control – Issuer**

As at the date of this Programme Memorandum, the Issuer does not require exchange control approval for this Programme.

## GENERAL INFORMATION

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*Words 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 as at the date of this Programme Memorandum 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. As required by section 66(7) of the PFMA, the establishment of the Programme and each issue of the Notes is authorised in terms of the relevant borrowing programme of the Issuer submitted to the Minister of Finance as at the time of each issue of Notes.

### Listing

The Programme Memorandum has been approved by the JSE. Notes to be issued under the Programme may be listed on the Interest Rate Market of the JSE or any other Financial Exchange.

### Documents Available

So long as Notes are capable of being issued under the Programme, copies of the following documents will, when published, be available from the registered office of the Issuer as set out at the end of this Programme Memorandum:

- (a) all amendments and supplements to this Programme Memorandum prepared by the Issuer from time to time;
- (b) in respect of any issue of Notes under the Programme, the audited annual financial statements (including, where applicable, the audited interim financial statements), together with such statements, reports and the notes attached to or intended to be read with such financial statements thereto, of the Issuer for its three financial years prior to the date of such issue;
- (c) each Applicable Pricing Supplement relating to any Tranche of Notes issued under the Programme;
- (d) all information pertaining to the Issuer which is relevant to the Programme and/or this Programme Memorandum which is electronically submitted by SENS, or any other similar service, established by the JSE. This Programme Memorandum will be available on the JSE website, [www.jse.co.za](http://www.jse.co.za), and the audited annual financial statements of the Issuer and this Programme Memorandum are also available on the Issuer's website, [www.umgeni.co.za](http://www.umgeni.co.za).

**Material Change**

As at the date of this Programme Memorandum, and after due and careful enquiry, there has been no material change in the financial or trading position of the Issuer since the date of the Issuer's latest audited financial statements. As at the date of this Programme Memorandum, there has been no involvement by the auditors in making the aforementioned statement.

**Litigation**

Save as disclosed in this Programme Memorandum, neither the Issuer nor any of its respective consolidated Subsidiaries 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 (SA) have acted as the auditors of the financial statements of the Issuer for the financial year ended June 2014, 2013 and 2012 and, in respect of those years, have issued unqualified audit reports.

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Contact: Head, SA Debt Capital Markets

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