
USE OF PROCEEDS

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

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

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

DESCRIPTION OF CITY OF TSHWANE METROPOLITAN MUNICIPALITY (the Issuer)

1. INTRODUCTION

The City of Tshwane Metropolitan Municipality (the **City of Tshwane** or **Municipality**) was pursuant to Notice No. 6770, promulgated in the Provincial Gazette Extraordinary of 1 October 2000, established as a result of the amalgamation of 13 former local authorities in the greater Pretoria metropolitan area into one unicity.

The borders of this expansive municipal area extend for over 60 kilometres from its eastern to western boundaries and 70 kilometres from its northern southern and include the following areas: Centurion, Crocodile River, Pretoria, Akasia, Soshanguve, Ga-Rankuwa, Mabopane, Winterveldt, Temba, Hammanskraal, Mamelodi, Refiloe, Masakhane, Ekangala, Rethabiseng, Zithobeni and Atteridgeville. The municipal area has 105 municipal wards.

The City of Tshwane is the largest City in South Africa and is one of 3 metropolitan municipalities in South Africa. The towns and townships of Pretoria, Centurion, Akasia, Soshanguve, Mabopane, Atteridgeville, Ga-Rankuwa, Winterveld, Hammanskraal, Temba, Pienaarsrivier, Crocodile River, Mamelodi, Cullinan and Bronkhorstspuit form part of the Municipality.

Pretoria, as one components of Tshwane, is the executive capital of South Africa and is home to the Union Buildings. The city is the centre of government and the headquarters of all national government departments are located there;

Pretoria houses approximately 135 diplomatic missions, has a population of approximately two and a half million residents and provides services to approximately 800,000 households. It is a national centre of research and learning with four universities and seven of the eight national science councils, (Council for Scientific and Industrial Research, the Human Sciences Research Council, the Agricultural Research Council, the National Research Foundation, the Medical Research Institute, the Veterinary Research Institute and the South African Bureau of Standards.

The main economic sectors in the Municipality's area are community service followed by finance and manufacturing. The largest sub-sector within manufacturing is metal products, machinery and household appliances, followed by the manufacturing of transport equipment. All the major banks and financial services institutions have offices in Tshwane.

2. OWNERSHIP AND CONTROL

Executive Control

The Council consists of 210 Councillors, of which 105 are Ward Councillors and 105 Proportional Representative (PR) Councillors. The Members of the Mayoral Committee (**MMCs**) also form part of the Council.

In terms of the Local Government: Municipal Structures Act, 2000 (the **MSA**), the City must have an Executive Mayor and the Executive Mayor must appoint a Mayoral Committee from the elected councillors for assistance. An Executive Mayor may delegate specific responsibilities and powers to MMCs.

The Executive Mayor of Tshwane is supported by a team of ten MMCs, each with a different portfolio focusing on particular departments in the Municipality. Each MMC chairs a portfolio committee made up of a number of Councillors. The Mayoral Committee considers reports of the portfolio committees and submits them to the Council for approval.

Members of the Mayoral committee (MMC)

- Executive Mayor Ramokgopa, Kgosientso
- Mashego, Terence (MMC: Safety and Security)
- Councillors Pillay, Subesh (MMC: Economic Development & Planning)
- Ngonyama, Joshua (MMC: Housing and Sustainable Human Settlement)
- Mashaba, Petunia (Ms) (MMC: Agriculture and Environment)

- Mabiletsa, Dorothy (Ms) (MMC: Finance)
- Makeke, Nozipho Tyobeka (Ms) (MMC: Sport, Recreation, Arts and Culture)
- Matjila, George (MMC: Roads & Transport)
- Masango, Jacob (MMC: Public Works and Infrastructure)
- Mabusela, Eulanda(Ms) (MMC: Health and Social Development)
- Mmoko, Thembi (Ms) (MMC: Corporate and Shared Services)

Administrative Control

The City Manager is the accounting officer of the City of Tshwane in terms of the MFMA and is, amongst other things, responsible for the content and integrity of the annual consolidated financial statements and related financial information.

The City Manager is ultimately responsible for the internal financial controls established of the City and places considerable importance on maintaining a strong control environment. To enable the City Manager to meet these responsibilities, the City Manager sets standards for internal controls aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Municipality and all employees are required to maintain the highest ethical standards in ensuring the Municipality's business is conducted in a manner that, in all reasonable circumstances, is above reproach. The focus of risk management in the Municipality is on identifying, assessing, managing and monitoring all known forms of risk across the group. While operating risk cannot be fully eliminated, the Municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

3. CORPORATE GOVERNANCE AND REGULATORY FRAMEWORK

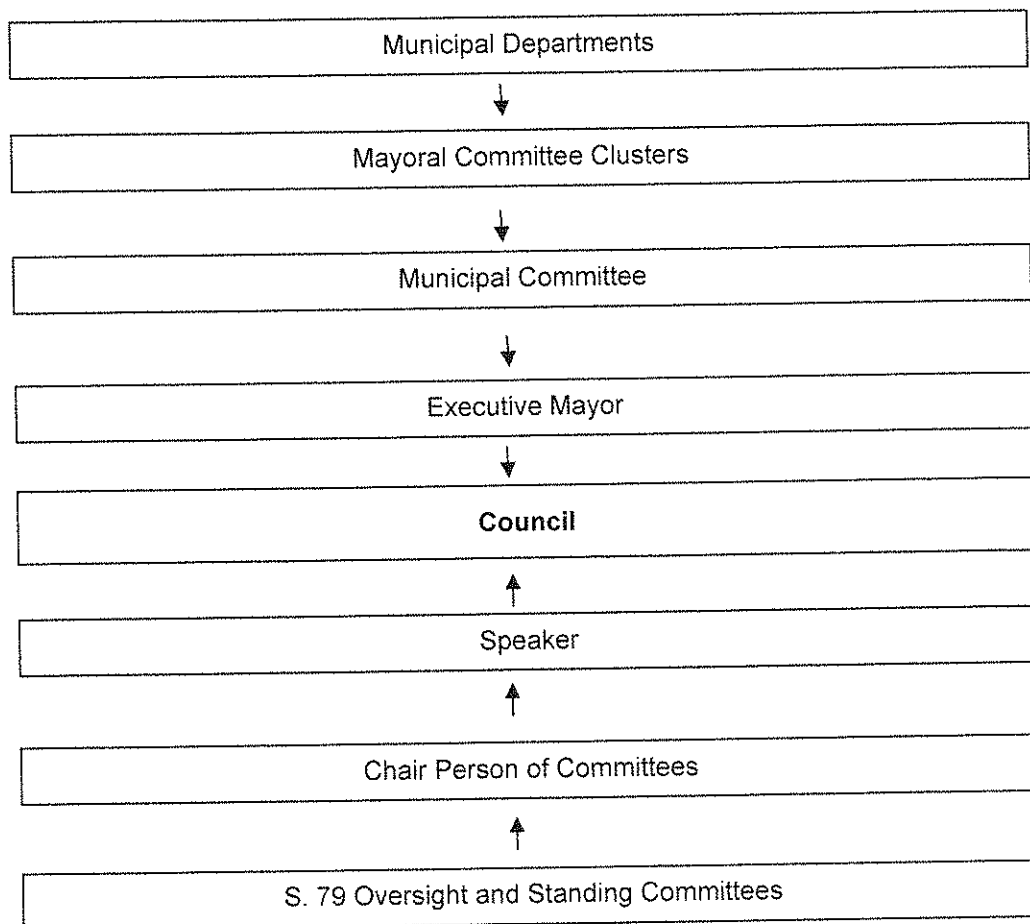
The City of Tshwane is a Category "A" Metropolitan Municipality with a council and a mayoral executive system combined with a ward participatory system.

The municipal council is the highest decision making organ in the City of Tshwane. In terms of the Constitution of the Republic of South Africa, 1996 certain powers may only be exercised by Council. Council is responsible for oversight and monitoring of the executive functions as well as all matters that are not delegated.

The executive powers of the City of Tshwane rest with the Executive Mayor who exercises these powers as delegated by Council through the corporate system of delegations as well as local government legislation such as the MSA, the Local Government: Municipal Structures Act, 1998 and the MFMA.

The Executive Mayor is assisted by the Mayoral Committee consisting of councillors appointed by the Executive Mayor to serve on the Mayoral Committee.

In the executive system, the Executive Mayor delegates some responsibilities to the members of the Mayoral Committee although the Executive Mayor remains accountable to the Municipal Council for the powers and duties delegated to him by council and legislation.



The Section 79 Oversight and Standing Committees strengthen Council's oversight role on the executive by enabling Council to:

- determine priority areas for oversight in respect of each committee (in conjunction with the Chairperson of Committees). Decisions on priority areas will be informed by research and analysis;
- provide the respective committees with guidelines on how to deal with and implement their oversight role;

- ensure oversight reports are written within the required format and according to approved guidelines;
- ensure that departments, through the executive, receive oversight reports and provide feedback within the stipulated timeframes provided;
- evaluate the oversight process at regular and appropriate intervals;
- monitor and evaluate each department's performance against departmental and the allocated budget;
- evaluate critical success factors; and
- ensure that proactive and reactive investigations/inspections in loco are conducted as and when required.

The City of Tshwane adheres to the King III Code of governance.

The contact details of the corporate legal compliance officer of the City of Tshwane are:

Morutse Mphahlele

City of Tshwane Metropolitan Municipality
 Room 2205 Saambou Building
 Cnr Andries and Pretorius Streets
 Pretoria
 0004
 South Africa

4. STRATEGY

The City's 5 year Integrated Development Plan (**IDP**) is the principal strategic document and provides a collective plan for all stakeholders (residents, commerce and industry) for the future growth and development of the City.

The IDP links, integrates and co-ordinate development plans for the City and is compatible with national development plans and planning requirements binding on the Municipality in terms of legislation.

The City's 2011 - 2016 IDP:

- has been designed to address the City's challenges while ensuring continued growth and development. It is the City's development blueprint and is aligned with National and Provincial government strategies;
- takes strategic direction from the National Government's Medium Term Strategic Framework;
- outlines how funding will be raised and spent to achieve the City's long term vision; and
- Is framed within a long term vision for the City as the benefits of decisions are often realised beyond the 5 years period to which the plan applies.

The City of Tshwane's strategy is based on 3 key fundamental principles:

- **Sustainability**

Optimal use of land through densification, infill and consolidation, spatial integration giving equal opportunity correct spatial imbalances, creation of sustainable settlements and social equity.

- **Competition**

Investor confidence by ensuring a well-managed built environment through enforcement of relevant legislation, quality built environment, maintenance and management of infrastructure, strategic investment in infrastructure focus areas targeting broad-based economic growth

- **Resilience**

Through innovation, diversification and adaptability, maximizing all spatial opportunities, in turn maximizing economic growth opportunities through strategic investment decisions.

INVESTOR CONSIDERATIONS

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

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

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

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

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

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

Risks Relating to the Notes

The Notes may not be a suitable investment for all investors

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

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

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

There is no active trading market for the Notes

Notes issued under the Programme will be new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Tranche, such Tranche is to be consolidated with and form a single series with a Tranche of Notes which is already issued). If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. There is no assurance as to the development or liquidity of any trading market for any particular Tranche of Notes.

The Notes may be redeemed prior to maturity

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

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

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

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

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

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

Recourse to the BESA Guarantee Fund Trust

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

Credit Rating

Tranches of Notes issued under the Programme, the Issuer and/or the Programme, as the case may be, may be rated or unrated. A Rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning Rating Agency. Any adverse change in an applicable credit rating could adversely affect the trading price for the Notes issued under the Programme.

Risks related to the structure of the particular issue of Notes

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

Notes subject to optional redemption by the Issuer

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

Index-Linked and Dual Currency Notes

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

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

Partly-paid Notes

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

Notes issued at a substantial discount or premium

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

Variable Rate Notes with a multiplier or other leverage factor

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

Fixed/Floating Rate Notes

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

Notes where denominations involve integral multiples: Individual Certificates

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

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

Modification and waivers and substitution

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

Change of law

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

Legal investment considerations may restrict certain investments

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

Risks Relating to the Issuer

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

Interest Rate Risk

The Issuer manages its interest rate risk by maintaining an appropriate mix between fixed and floating interest rate borrowings and investments, as well as by entering into interest rate swap contracts on outstanding borrowings.

Interest Rate Swaps

The Issuer has entered into interest rate swap contracts that entitle it to receive interest at fixed rates/floating rates on notional principal amounts and that oblige it to pay interest at variable rates/fixed rates on the same amounts. The interest rate swaps allow the Issuer to raise long-term borrowings at fixed rates/floating rates and effectively swap them into variable rates/fixed rates in terms of the structured finance contractual requirements.

Currency Risk

The Issuer undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations might arise. The Issuer, however, manages this risk by entering into contracts where the risk is carried by the service provider rather than the Issuer.

Credit Risk

Financial assets, which potentially subject the Issuer to the risk of non-performance by counter-parties and results in concentrations of credit risk, consist mainly of trade receivables. Credit risk is controlled through the application of a credit control policy and monitoring procedures. Where necessary, the Issuer obtains appropriate deposits and guarantees from debtors to mitigate risk. The Issuer's cash and cash equivalents and short-term deposits are placed with high credit quality financial institutions.

The Issuer limits its treasury counter-party exposure arising from money market by only dealing with well established financial institutions confirmed by the rating agency appointed by the Chief Financial Officer. The Issuer only deals with financial institutions with a short term national scale credit rating of A+ and long-term credit rating of AA- and higher from an internationally accredited credit-rating agency. The Issuer's exposure is continuously monitored and the aggregate value of transactions concluded is spread amongst different types of approved investments and institutions. Credit risk with respect to trade receivables is limited due to the large number of customers comprising the Issuer's customer base and their dispersion across different industries and geographical areas. The Issuer does not have any significant exposure to any individual customer or counter-party, accordingly, the Issuer does not consider there to be any significant concentration of credit risk, which had not been adequately provided for. Trade receivables are presented net of the allowance for impairment. Maximum exposure to credit risk: The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Issuer's maximum exposure to credit risk without taking into account the value of any collateral obtained.

Liquidity Risk

The Issuer manages liquidity risk through proper management of working capital, capital expenditure and actual versus forecasted cash flows. Adequate reserves, liquid resources and unutilised borrowing facilities are also maintained. In terms of its borrowing requirements, the Issuer ensures that adequate funds are available to meet its expected and unexpected financial commitments. In terms of its long-term liquidity risk, a reasonable balance is maintained between the period over which assets generate funds and the period over which the respective assets are funded. Capital expenditure budgeted and forecast cash flow calculations are funded from the capital market.

Market Risk

The Issuer is exposed to fluctuating market prices inherent in the purchasing of electricity, water and coal used in the delivery of electricity and water services. The Issuer manages this risk by giving any price increases through to the consumers on an annual basis. An agreement has been entered into with both Eskom and Rand Water that tariff increases occur only once a year. Interest rate risk management: The Issuer's interest rate profile consists of fixed and floating rate loans and bank balances which exposes the Issuer to fair value interest rate risk and cash flow interest rate risk and can be summarised as follows:

Financial Assets/Liabilities

Trade and other receivables/payables: At a fixed rate of interest. Management manages interest rate risk by negotiating beneficial rates on floating rate loans and where possible using fixed rate loans. Management also has a policy of balancing the interest on asset loans with the interest payable on liabilities.

Fair values

The Issuer's financial instruments consist mainly of cash and cash equivalents, trade receivables, investments, trade payables, long-term debt and derivative instruments (interest rate swaps). No financial asset are carried at an amount in excess of its fair value and fair values can be reliably measured for all financial assets that are available-for-sale or held-for-trading. The following methods and assumptions are used to determine the fair value of each class of financial instrument:

Cash and cash equivalents

The carrying amount of cash and cash equivalents approximates fair value due to the relatively short-term maturity of these financial assets and financial liabilities.

Trade receivables (debtors)

The carrying amount of trade receivables, net of provision for impairment (provision for bad debt) approximates fair value due to the relatively short-term maturity of these financial assets.

Investments

Investments are carried at their original cost in the statement of financial position, except for those where the interest received semi annually are capitalised. The fair value of publicly traded instruments is based on quoted market prices for those investments.

Trade payables

The carrying amount of trade payables approximates fair value due to the relatively short-term maturity of this financial liability.

Interest bearing borrowings

Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the Statement of Financial Performance over the period of the borrowings on an effective interest basis. The fair value of interest bearing borrowings with variable interest rates approximates their carrying amounts.

The Issuer does not have foreign creditors that foreign exchange movement needs to be hedged.

The Issuer adopted and approved risk management policy, framework and strategy that enables us to identify, mitigate and monitor financial risks at strategic and operation level on a regular basis. Risk Management facilitates risk assessment workshops with Finance Department's top management to identify high level risks/strategic risk.

Risk Management will then facilitate operational risk assessment with all divisions within Finance Department to identify day-to-day risk, mitigate and monitor them.

Ratios Monitored

The Issuer currently monitors the following ratios to ensure that:

- interest cost to total expenditure does not exceed 8% (eight percent);
 - long term debt to internal funds and reserves does not exceed 50% (fifty percent); and
 - long term debt to total assets does not exceed 50% (fifty percent).
- In all its funding initiatives the Issuer endeavours to maintain or reduce its average costs of borrowing.

SETTLEMENT, CLEARING AND TRANSFER OF NOTES

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

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

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

Clearing systems

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

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

Participants

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

Settlement and clearing

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

While a Tranche of Notes is held in the CSD, the CSD's Nominee, will be named in the Register as the sole Noteholder of the Notes in that Tranche. All amounts to be paid and all rights to be exercised in respect of Notes held in the CSD will be paid to and may be exercised only by the CSD's Nominee 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's Nominee (as the registered Noteholder of such Notes named in the Register) will be treated by the Issuer, the Paying Agent, the Transfer Agent and the relevant Participant as the holder of that aggregate Nominal Amount of such Notes for all purposes.

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

Payments of all amounts in respect of a Tranche of Notes which is listed on the Interest Rate Market of the JSE and/or held in uncertificated form will be recorded by the CSD's Nominee, as the registered Noteholder of such Notes, distinguishing between interest and principal, and such record of payments

by the CSD's Nominee, as the registered Noteholder of such Notes, shall be *prima facie* proof of such payments.

Transfers and exchanges

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

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

Records of payments, trust and voting

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

BESA Guarantee Fund Trust

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

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

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

SUBSCRIPTION AND SALE

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

The Dealer has in terms of the programme agreement dated 12 December 2012, as may be amended, supplemented or restated from time to time (the **Programme Agreement**), agreed with the Issuer a basis upon which it may from time to time agree to subscribe for Notes or procure the subscription of the Notes.

Selling restrictions

South Africa

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

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

Offers not deemed to be offers to the public

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

- (a) the total contemplated acquisition cost of Notes, for any single addressee acting as principal, shall be equal to or greater than ZAR1,000,000, or such higher amount as may be promulgated by notice in the Government Gazette of South Africa pursuant to section 96(2)(a) of the Companies Act; or
- (b) to certain investors contemplated in section 96(1)(a) of the Companies Act.

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

United States

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the **Securities Act**) and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

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

- (a) the Notes in that Tranche have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons except in certain transactions exempt from the registration requirements of the Securities Act;
- (b) it has not offered, sold or delivered any Notes in that Tranche and will not offer, sell or deliver any Notes in that Tranche (i) as part of their distribution at any time or (ii) otherwise until 40 (forty) Days after completion of the distribution, as determined and certified by the Dealer or, in the case of an issue of such Notes on a syndicated basis, the relevant Lead Manager, of all Notes of the Series of which that Tranche of Notes is a part, within the United States or to, or for the account or benefit of, U.S. Persons;
- (c) it will send to each dealer to which it sells any Notes in that Tranche during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and

sales of such Notes within the United States or to, or for the account or benefit of, U.S. Persons; and

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

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

European Economic Area

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

- (a) in the period beginning on the date of publication of a prospectus in relation to those Notes which has been approved by the competent authority in that Relevant Member State in accordance with the Prospectus Directive and/or, where appropriate, published in another Relevant Member State and notified to the competent authority in that Relevant Member State in accordance with Article 18 of the Prospectus Directive and ending on the date which is 12 (twelve) months after the date of such publication;
- (b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (c) at any time to fewer than 100 or, if the relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (d) at any time in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "*offer of Notes to the public*" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "*Prospectus Directive*" means Directive 2003/71/EC (and amendments thereto including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in each Relevant Member State and the expression "*2010 PD Amending Directive*" means Directive 2010/73/EU.

United Kingdom

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

- (a) in relation to any of the Notes in that Tranche which have a maturity of less than one year, (i) it is a Person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any of such Notes other than to Persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses

where the issue of such Notes would otherwise constitute a contravention of section 19 of the Financial Services and Markets Act, 2000 (the **FSMA**) by the Issuer;

- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any of the Notes in that Tranche under circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any of the Notes in that Tranche in, from or otherwise involving the United Kingdom.

General

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

- (a) it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in each jurisdiction in which it purchases, subscribes or procures the subscription for, offers or sells Notes in that Tranche or has in its possession or distributes the Programme Memorandum and will obtain any consent, approval or permission required by it for the purchase, subscription, offer or sale by it of Notes in that Tranche under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, subscription, offers or sales; and
- (b) it will comply with such other or additional restrictions as the Issuer and such Dealer agree and as are set out in the Applicable Pricing Supplement.

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

REGULATORY AND LEGAL

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

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

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

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

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

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

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

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

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

- (a) existing long-term debt was lawfully incurred;
- (b) the re-financing does not extend the term of the debt beyond the useful life of the property, plant or equipment for which the money was originally borrowed;
- (c) the net present value of projected future payments (including principal and interest payments) after re-financing is less than the net present value of projected future payments before re-financing; and
- (d) the discount rate used in projecting net present value is reasonable.

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

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

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

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

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

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

- (a) stay all legal proceedings by persons claiming money from the municipality; or
- (b) suspend the municipality's financial obligations to creditors until the municipality can meet those obligations; or
- (c) terminate the municipality's financial obligations to creditors and to settle claims in accordance with a distribution scheme.

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

SOUTH AFRICAN TAXATION

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

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

Securities Transfer Tax

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

Value-Added Tax

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

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

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

Income Tax

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

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

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

to the capital involved for the relevant tax period. In practice, the premium or discount is treated as interest for the purposes of the exemption under section 10(1)(h) of the Income Tax Act.

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

- (a) is a natural person who was physically present in South Africa for a period exceeding 183 (one hundred and eighty three) Days in aggregate during that year of assessment; or
- (b) at any time during that year of assessment carried on business through a permanent establishment in South Africa.

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

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

Capital Gains Tax

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

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

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

Withholding Tax

Under current taxation law in South Africa, all payments made under the Notes to resident and non-resident Noteholders will generally be made free of withholding or deduction for or on account of any taxes, duties, assessments or governmental charges in South Africa.

However, the Taxation Laws Amendment Act, 2010 introduced a withholding tax on interest as defined in S24J of the South African Income Tax Act. The withholding tax legislation will apply in respect of interest received or accrued on or after 1 January 2013 and imposes a withholding tax of 10% (ten percent) of the amount of any interest received by or accruing to any foreign Person that is not a controlled foreign company. For the purposes of the withholding tax, a "foreign person" is defined as any Person that is not a resident. Accordingly, to the extent that any interest is paid to Noteholders who are South African tax residents, the withholding tax will not apply. The rate of the withholding tax on interest paid to non-residents may be reduced in terms of any double tax agreement concluded between South Africa and the Noteholder's country of residence.

In terms of the South African Income Tax Act, interest received by or accrued to a foreign Person during any year of assessment in respect of any listed debt instrument will be exempt from the withholding tax on interest. In terms of the legislation, a "listed debt instrument" is a debt instrument that is listed on a recognised exchange as defined in the Income Tax Act. A "debt instrument" is defined as any loan, advance, debt, bond, debenture, bill, promissory note, banker's acceptance, negotiable certificate of deposit or similar instrument. Also exempt from the withholding tax on interest is any interest in respect of a debt owed by a foreign Person unless the foreign Person is a natural Person who was physically present in South Africa for a period exceeding 183 days in aggregate during a year of assessment or who at any time during a year of assessment carried on business in South Africa through a permanent establishment. Accordingly, to the extent that a Noteholder and the Issuer of Notes in respect of which interest is paid, are not South African tax residents, the withholding

tax will not apply in respect of the Notes.

Definition of Interest

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

SOUTH AFRICAN EXCHANGE CONTROL

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

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

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

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

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

Blocked Rands

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

Emigrants from the Common Monetary Area

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

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

Any payments of interest and/or principal due to a 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 maintained for such Noteholder by the relevant Participant will be designated as a "*non-resident*" account.

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

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

GENERAL INFORMATION

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

Authorisation

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

Listing

The Programme Memorandum was approved by the JSE on 12 December 2012. Notes to be issued under the Programme will be listed on the Interest Rate Market of the JSE or any other Financial Exchange. Unlisted Notes may also be issued under the Programme Memorandum.

Documents Available

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

Material Change

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

Litigation

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

Auditors

The Auditor-General of South Africa, has acted as the auditor of the financial statements of the Issuer for the financial years ended 30 June, 2010, 2011 and 2012 and, in respect of those years, have issued unmodified audit reports.

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TRANSFER AGENT, CALCULATION AGENT AND PAYING AGENT

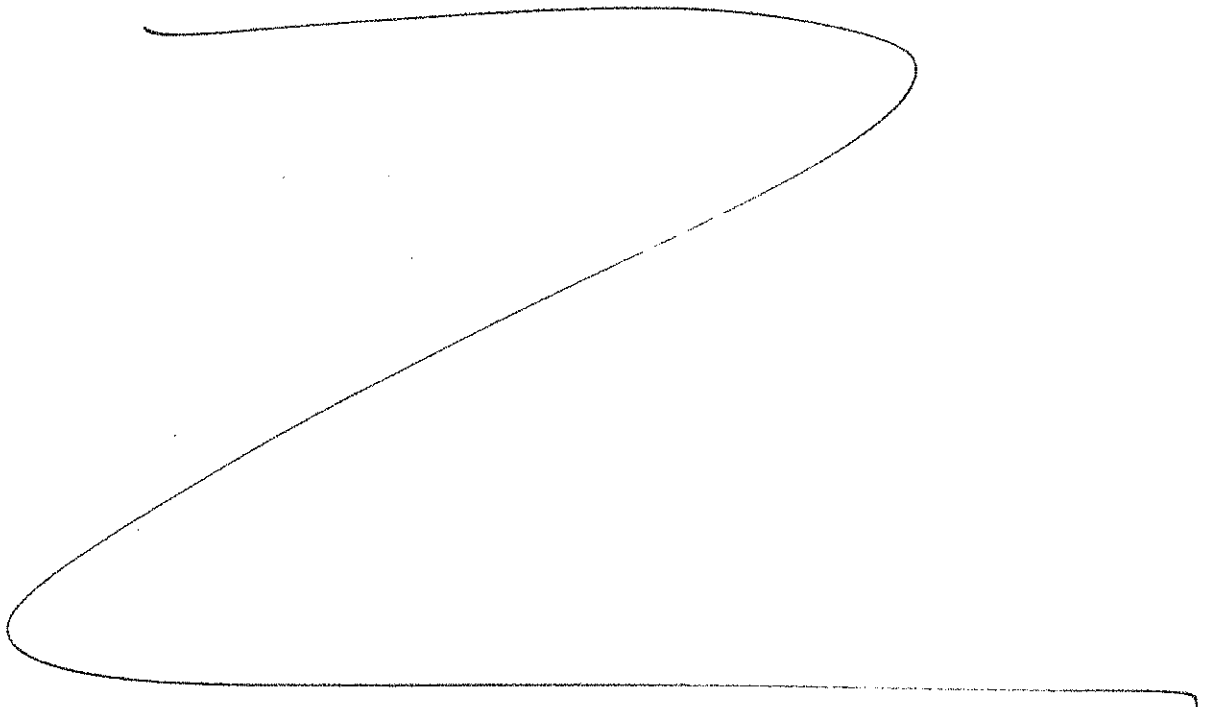
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