

SANRAL



Creating wealth through infrastructure



#2992415

The SANRAL mandate

- Established in April 1998 by an Act of Parliament as an independent operating company to operate South Africa's declared national road network
- Established in terms of the National Roads Act of 1998 as a public company with a share capital within the requirements of the South African Companies Act
- Governed by a board of directors (8 members) of whom 6 must be appointed by the Minister of Transport and 1 by the Minister of Finance
Eighth member of the board is the CEO by virtue of office
- Responsible for strategic planning with regard to South African national road system
- Finance, plan, construct, provide, operate and maintain roads in neighbouring countries upon request from the Minister of Transport and in agreement with the respective countries
- Not profit driven but create public value

What do we do ?

- Responsible for proclaimed national roads: Toll and Non-Toll network
- Maintain, fund, operate and rehabilitate national roads
- Levy tolls to service toll roads
- Manage concessionaires
- Advise Minister on road related matters
- Create public value

- Roads under SANRAL Management
 - Non-toll 18 854km (86%),
 - Agency toll 1 820km (8%),
 - Concessions 1 272km (6%)

Funding

- Government Grant for the non-toll network
 - Cannot budget for a deficit
- Toll Revenue – to be used only on toll roads
 - Borrowings from capital markets and financial institutions
- *Alternate Funding Sources for toll network only*
 - *Domestic investors – Loans*
 - *Foreign investors – DFI (eg. EIB)*
- Other income (minimal) – rental income etc
- Total Debt R50 billion (R40.3 billion nominal)
 - Guaranteed borrowing R26.3 billion nominal, unutilised R5 billion (NT actual exposure larger due to ILB's)
 - Non-guaranteed borrowing R9.8 billion

Open Road Tolling

- Gauteng Freeway Improvement Project (GFIP)
 - Biggest SANRAL project to date
 - All necessary legal and consultative processes followed
 - Successfully borrowed without guarantee, Moody's rating of A3
 - 2009, Bulk of construction done, money spent
 - New minister, opposed to toll, resulting in growing public opposition
 - Delays in implementation, compromises on tariffs
 - Several legal challenges which SANRAL successfully defends
- GFIP Go live December 2013
 - Cash collection on track and growing until Premier of Gauteng announces a new investigation into e-tolls
 - Strengthening public resistance, cash collection drops
 - SANRAL business model under threat
 - Growing concern at NT
 - SANRAL starts legal process to collect outstanding toll
 - Growing debt as interest costs are capitalised

Why Guarantees?

- Policy uncertainty
 - Investment public questions why some government officials are against their own policy
- Public resistance to e-tolls
 - Growing resistance results in falling cash collections
- Investor reluctance pushes up funding spreads
- Cost of funding deemed excessive by government
- Toll tariffs would be higher without guarantee
 - Lower funding costs through guaranteed funding should enable SANRAL to remain solvent at lower tariffs

Management of Guarantees

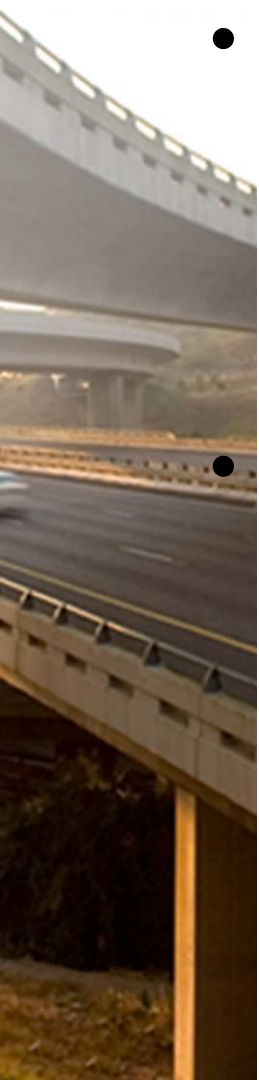
- Close relationship between SANRAL and NT ALM Team
- Regular communication between entities
- Regular reporting to National Treasury
 - on total SANRAL borrowing as well as NT guarantee exposure (real and nominal terms)
 - Mix of funding – fixed, floating, inflation
 - Expected future borrowing (J-curve analysis)
- Bi-monthly ALCo meetings, NT board member is chairperson of ALCo
- Applied for an increased guarantee due to current challenges
 - Application to Minister of Transport which will then apply to Minister of Finance
 - National Treasury Guarantee Committee will advise Minister of Finance on whether to grant an increase or not

Challenges

- Lack of political support
 - Ideological differences within ruling party
 - Politicians are afraid of losing votes, not willing to support tolls
- Public resistance to open road tolling
 - Public feels over taxed, financially burdened
 - Senses the weakness in government caused by differences in their ranks on open road tolling
- Roll-out of urgent new projects delayed
 - Future of road building threatened

Positives

- SANRAL a center of excellence
 - Well run, efficient
 - World-class pool of knowledge and expertise
- Support from National Treasury
 - Clear understanding of SANRAL's important role as well as its challenges
 - Concern over their contingent liabilities



Conclusion

- Ensure political support for projects
- Full transparency with all parties involved
- Maintain good and open relationship with political masters, Finance Department / Guarantor of debt

