ANNEXURE G – AIRPORTS COMPANY SOUTH AFRICA LIMITED BORROWING PLAN 2023/24 TO 2025/26

1. INTRODUCTION

Pursuant to Section 29.1.3 of the Treasury Regulation, Airports Company South Africa as a Schedule 2 public entity is required to develop a three-year borrowing programme to be submitted together with the corporate plan to the National Treasury on annual basis. This borrowing programme is developed considering the operational requirements, capital expenditure and debit service costs over the three-year period. In a nutshell, this three-year borrowing programme is predicated on the corporate plan assumptions such as traffic growth, tariff increase and capex programme.

The company continues to recover from the devastating impact of the Covid-9 pandemic amid to the relaxation of travel restrictions in the country and across the globe. This recovery was accompanied by significant improvement in revenue collection which reached 90 per cent of pre-covid levels in December 2022. The improvement in revenue collection has enable the company to maintain a positive cash position sufficient to cover its financial obligations during the 2022/23 financial year. Nonetheless, the company remains proactive in managing its debt as evidenced by the timely execution of the refinancing strategy for the AIR02 fixed rate bond maturing in April 2023.

It should be noted that company's ability to meet its funding requirement is largely affected by the following factors:

- Credit rating of the company;
- Investor perception of the company as it relates to largely to governance;
- Liquidity (marketability) of ACSA's listed bonds;
- Economic conditions in the country and across the globe;
- Developments in other State-Owned Companies.

The Borrowing Plan is required in terms of the Public Finance Management Act and the Treasury regulations (29.1.3). It is important to note that Section 66(3a) of the PFMA requires the Board of the company to approve the Borrowing Plan. In line with Section 29.1.6 of the Treasury Regulation the Borrowing Plan should include the following:

- Terms and conditions on which money is borrowed;
- Proposed domestic borrowing;
- Short, medium, and long-term borrowing;
- Borrowing in relation to a pre-approved corporate plan;
- Maturity profile of debt;
- Confirmation of compliance with existing and proposed loan covenants;
- Debts guaranteed by government if any;
- Motivations for government guarantees, if required and
- Executive Authority's approval of borrowing programme.

2. TERMS AND CONDITIONS ON WHICH MONEY IS BORROWED

The company's Borrowing Plan has been prepared in line with principles outlined in the Board Approved Treasury Risk Management Policy Framework. The company's borrowing activities are executed using a combination of authorised funding instruments listed in the Borrowing Policy.

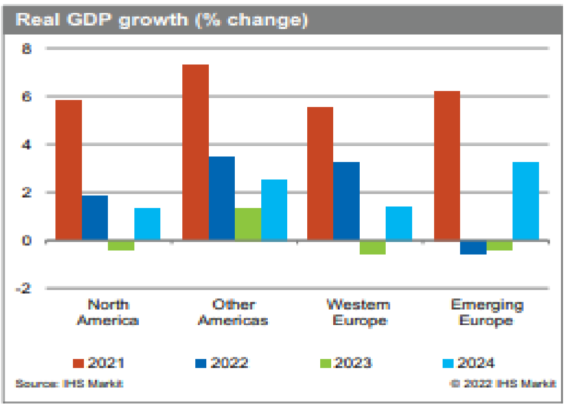
The Board approved Treasury Policies enable the company to manage its financial risks, investment activities and surplus cash in a prudent manner. This ensures that the company achieves an optimal capital structure by maintaining an appropriate gearing levels in line with Board approved Borrowing Policy. The main objective of the Borrowing Plan is to ensure the company's strategic imperatives are funded at lowest funding cost possible which includes favourable terms and conditions.

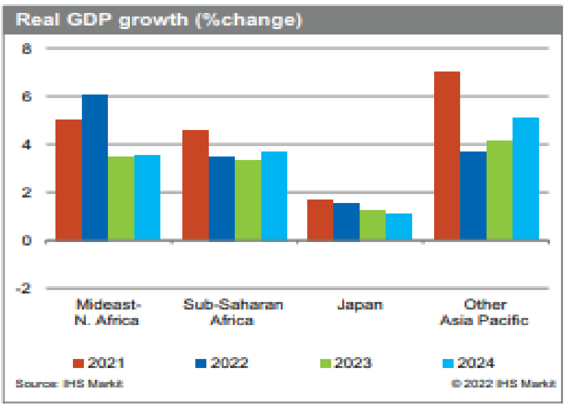
3. GLOBAL ECONOMIC OUTLOOK

The global economy began the 2022 year with a major slowdown. Throughout the year, the economy was crippled with raging inflation and central banks all over the world tightened their monetary policy with the aim to slow the growth of aggregate demand and to calm price pressures. We witnessed two main shocks – Russia's invasion of Ukraine in February 2022 and the lockdowns in mainland China in response to the March-April surge in Covid-19 cases. Further to the Covid-19 pandemic, these two shocks further disrupted supply chains, this adding to increased cost pressures. We also witnessed energy and food prices that continued to soar as the year progressed, eroding consumer purchasing power and sentiment.

As we are heading in to 2023, the global economy is now wavering on the edge of a recession. Inflation, which is now at multi-decades high and persistently high and more aggressive monetary tightening by central banks are driving up yields on government bonds, corporate debt, and mortgage loans, contributing to worldwide declines in equity prices amid increasing volatility. Looking at major economies who produce half of global output, we have Europe and North America with a dim economic outlook. European consumers and businesses are most affected by Russia's ongoing war in Ukraine and the related surge in energy costs. Exceptionally high inflation is draining purchasing power and will lead to declines in consumer spending. Both Europe and North America will face the impacts of softening demand and tightening financial conditions on housing markets and capital investment. Contractions in these regions will have spill over effects throughout the world through trade and capital flows.

Global real GDP growth is projected to slow from to 2.8 per cent in 2022 and 1.4 per cent in 2023. With the world's population forecast expected to increase 0.9 per cent in 2023, the 1.4 per cent growth rate represents a slim 0.5 per cent increase in real GDP per capita. With inflation moderating and monetary policy easing, real GDP is expected to pick up 2.8 per cent in 2024 and 3.0 per cent in 2025.





Asia Pacific, the Middle East, and Africa are expected to keep the global economy moving forward through 2023 with projections indicating that the regions will achieve real GDP gains of roughly 3.5 per cent in the coming year. Asia Pacific, which produces 35 per cent of world GDP, is expected to dominate global growth in 2023, supported by regional free-trade agreements, efficient supply chains, and competitive costs. Southeast Asia and India will benefit from trade diversification away from mainland China. Meanwhile, it is expected that the energy- and mineral-producing regions of the Middle East and Africa will achieve moderate growth.

While achieving central bank inflation targets will be a multiyear process, we expect significant progress in 2023. Tightening financial conditions are however expected to tip the US economy into a recession. The US real GDP forecast in 2023 has been revised from 0.9 to -0.5 per cent. The forecast now includes a mild recession starting in the fourth quarter of 2022 and extending through the second quarter of 2023. The initial recovery is sluggish, leading to real GDP growth of just 1.3 per cent in 2024.

The recession will bring reversals in employment and industrial production, which posted solid gains through the third quarter of 2022. Eurozone real GDP will likely fall 1.3 per cent from its peak in the third quarter of 2022 to its trough in the first quarter of 2023. The result is an annual contraction of 0.6 per cent in 2023, followed by just 1.4 per cent economic growth in 2024. The dynamic zero-Covid policy and a deep property market slump remain near-term headwinds to mainland China's economic growth. While Omicron infections have remained relatively low since Shanghai reopened in June, the number of provincial regions with infections has steadily increased. Combatting the highly transmissible Omicron variants with the current COVID-19 containment policy is grinding down consumer sentiment.

Business outcomes will vary widely across sectors in 2023. Housing markets are expected to be hard hit by rising mortgages rates and deflation of price bubbles in Europe, the Americas, and parts of Asia Pacific—including Australia and New Zealand. A deep property market downturn is making mainland China's economy a weakened engine of global growth. With high inflation and declining asset values eroding purchasing power, households will reduce discretionary purchases. Spending will shift from goods to services, with travel and tourism benefiting from post-pandemic demand. The easing of semiconductor shortages will enable an unusual counter-cyclical rise in automotive production to restock dealer inventories and rental car fleets.

Business conditions will continue being increasingly difficult in the years ahead as financial markets tighten due to, among others, the conflict in Ukraine leading to the sudden stop of European gas imports from Russia, geopolitical fragmentation which stands to impede global trade and cooperation, renewed Covid-19 outbreaks, and lockdowns as well as further escalations of the property sector crisis (which might further supress China's growth), and tighter global financial conditions that could induce debt distress in emerging markets and developing economies.

To put it briefly, global economic conditions continue to deteriorate as inflation remains uncomfortably high and financial market conditions tighten. The months ahead are expected to bring recessions in Europe, the United States, Canada, and parts of Latin America. With moderate growth in Asia Pacific, the Middle East, and Africa, the world economy can avoid a downturn, but growth will be minimal.

4. SOUTH AFRICAN ECONOMIC OUTLOOK

The South African economy is expecting a shallow recovery in the last quarters of 2022, reflecting weaker household spending and slower inventory accumulation. Real GDP grew by 1.6% in the first half of 2022, weaker than the 2 per cent initially forecasted. The softer outcome reflects the impact of a downwardly revised expansion of 1.7 per cent q-o-q (from 1.9%) in the first quarter of 2022, as well as a somewhat larger-than-expected quarterly GDP contraction of 0.7 per cent during the second quarter of 2022. The second quarter decline meant that the level of real GDP fell back below where it was before the onset of the Covid-19 pandemic in the fourth quarter of 2019.

Strong opposing forces complicate the real GDP growth forecast for 2023. On the upside, further domestic energy market reforms provide more certainty that growth could be boosted by a spurt of green energy investments from next year. However, the boost this provides to overall GDP growth is set to be diluted by the high likelihood of sustained load-shedding. A weakening growth outlook in some of South Africa's major export markets is another big negative. Although the forecast provides for robust green energy driven private fixed investment, the downward revision to trading partner GDP has led to a decrease in the 2023 real GDP growth forecast substantially to 1.1 per cent, from 1.8 per cent before. The expected fading of global weakness in 2024, along with the ramp-up of local investment, should see domestic real GDP growth return towards the 2 per cent mark.

The improvement in fixed investment should continue, which is a result of ongoing pent-up post-Covid-19 demand. Against a backdrop of rising global inflation and interest rates, as well as a further worsening of the domestic inflation outlook, the SARB's Monetary Policy Committee (MPC) raised its policy interest rate by 75bps, pushing the repo rate to 5.5 per cent and the prime lending rate to 9 per cent in the first quarter of FY2022/23. This was the biggest hike seen since September 2002. It is expected that the SARB will uphold its monetary tightening stance, with a further 50-basis-point hike in the key policy rate assumed over November–December. Headline inflation is expected to have reached a peak in July but will remain above the central bank's 3–6 per cent inflation target range until the end of 2022.

South Africa's real GDP is likely to expand by 1.9 per cent in 2022. A bounce-back in real GDP is expected for third quarter 2022 after a slowdown in economic activity by 0.7 pr cent during the second quarter, caused by severe floods in the KwaZulu-Natal (KZN) province and more frequent and longer electricity disruptions. Real GDP will likely grow at a slower 1.4 per cent pace in 2023. The disposable income of households continues to suffer from high food and fuel inflation and further increases in interest rates.

The slowdown in export volumes from South African to the rest of the world could become more entrenched during the latter part of 2022–23 as global demand starts to taper amid a tighter monetary policy stance adopted in developed economies and other key exporting partners. Export earnings will continue to benefit from resilient global commodity prices for key exporting commodities such as coal, platinum, gold. Investment-related imported goods, combined with high global food and oil prices, will elevate South Africa's import bill. As a result, the current-account surplus will likely shrink to an estimated 2.1 per cent of GDP in 2022, from 3.7 per cent of GDP in 2021.

The electricity disruptions are adding to South Africa's growth vulnerabilities and adverse developments relating to electricity supply represent a further damper for growth. As a result, for 2023, GDP growth will now likely slow to 1.4 per cent, before improving to 1.8 per cent annually by 2025, with little prospect of reducing high unemployment or the widening inequality gap. The risk of social unrest will probably remain elevated and could result in further sporadic reductions in economic activity.

For Africa, rising food and energy prices continue to impact the region's most vulnerable, with public debt and interest rates at levels not seen in decades. Many of these vulnerable countries find themselves pushed to the edge with an extremely uncertain near-term outlook, as the region's prospects are tied to developments in the global economy.

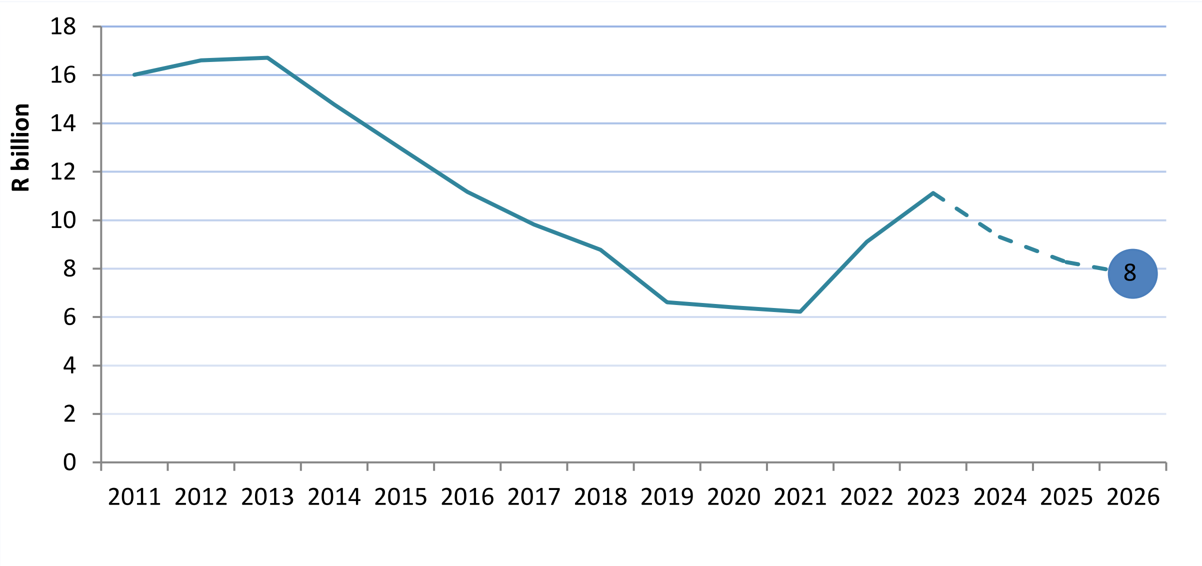
Disclaimer: *it should be noted that the economic report is based on the information available at the time of writing the report and that information could have changed by the time of the meeting or reading of this report.*

5. DEBT MANAGEMENT REVIEW

Airport Company South Africa's debt level peaked at R17 billion in 2012 due to rollout of infrastructure build programme the company embarked on leading up to the 2010 Soccer World Cup. In 2012/13 financial year, the company adopted a deleveraging strategy with the objective of accelerating debt redemptions. As a result, the company repaid over R10 billion worth of debt between 2012/13 and 2019/20 financial years.

This massive reduction in debt level demonstrates to investors, credit rating agencies and other stakeholders that ACSA is committed to prudent debt management. In addition, the reduction in the debt level also contributed immensely towards the decrease in debt service costs and allowed the company's balance sheet adequate room to absorb new debt funding to respond to liquidity challenges induced by the Covid-19 pandemic. The debt level increased notable between 2019 and 2021 as a result of R2.3 billion worth of preference shares issued to government and R810 million loan from the DBSA. The debt level saw a further increase in the 2022/23 financial year following the issuance of R1.7 billion worth of bonds.

Figure 1: Airports Company South Africa Debt Evolution



Nonetheless, ACSA's debt level is projected to follow a downward trajectory over the three-year plan decreasing to R8 billion by end of March 2026. The decline in debt level over the forecast period will be underpinned by the repayment of R3.4 billion worth of debt, comprising of the following instruments:

- AIR02 fixed-rate bond - R1.7 billion;
- AIR04 fixed rate bond - R544 million;
- AFD1 loan (amortizing loan) - R82 million;
- AFD2 loan (amortizing loan) - R585 million;
- INCA loan (amortizing loan) - R14 million;
- DBSA loan (amortizing loan) - R444 million.

6. CREDIT RATINGS

Airports Company South Africa has shown a great deal of financial discipline over the years by maintaining a conservative capital structure and prudent financial policy. The company's commitment to prudent financial policy has been demonstrated by borrowing funds solely to finance capital expenditure and suspending dividends payments when rolling-out large capital infrastructure programme.

This has continued to stand the company in good stead over the years as ACSA managed to maintain an investment grade rating since the inception of the rating until early 2020. Following a two-notch downgrade in 2020 to sub-investment (global scale - Ba2), Moody's has since affirmed ACSA's credit rating for two consecutive reviews.

On 5 April 2022, Moody's Investor Services affirmed the company's Ba2 Corporate Family Rating (CFR) and the Aa2.za national scale long-term issuer rating. The rating outlook remains negative which according to Moody's reflects largely the significant uncertainties around traffic recovery prospects and the regulatory tariff determination to be promulgated during the 2023/24 financial year.

According to Moody's following factors could lead to the downgrade of ACSA credit rating:

- Delay in passenger traffic recovery;
- If there were concerns about the company's liquidity;
- The sovereign rating was to be downgraded.

Given the negative outlook, the company's rating is unlikely to be upgraded in the near term, however the rating outlook could change to stable if:

- Traffic recovery looked more certain;
- Improvement in financial profile over the medium term;
- The company's liquidity was solid;
- There was no risk of covenant breaches.

It is important to note that the company's liquidity position has significantly improved owing to the recent issuance of R1.7 billion worth of bonds with the proceeds earmarked for the redemption of the AIR02 bond maturing in April 2023. Moreover, all the financial covenants are projected to remain within the required thresholds over the three year-plan. These developments are credit positive and could prompt Moody's to at least change the rating outlook from negative to stable in the short to medium term.

Table 1: Airports Company South Africa's credit ratings:

Credit rating agency	Date	Rating Action	Long-term national scale	Global scale	Outlook
Moody's	05 April 2022	Affirmed	Aa2.za	Ba2	Negative

7. CAPITAL STRUCTURE

The company minimises the weighted average cost of capital (WACC) by setting a target of gearing ratio (net debt/capitalisation) not to exceed 60 per cent. It should be noted this target can only be breached under exceptional circumstances with the approval of the Board and after obtaining a waiver from lenders who use gearing ratio as part of their financial covenants.

The net debt/capitalisation ratio is expected to decrease over the three-year ending 31 March 2026 and remain below the target of target of 60 per cent as shown in the Table 2 below. The decrease in net debt/capitalisation ratio is combination of projected improvement in financial performance of the company and reduction in debt levels since the company will not require any new debt funding in the forecast period.

Table 2: Estimated Gearing Ratio

	2023/24	2024/25	2025/26
Net Debt/Capitalization	27%	22%	20%

8. FUNDING REQUIREMENTS

The company's ability to meet all its financial obligations from internal generated funds has improved significantly relative to the past two years as operating environment normalises supported by lifting of travel restrictions across the globe. Moreover, the conditions in domestic debt capital market have improved with several State-Owned Companies rising capital through public auctions as opposed to private placements as seen during the height of the Covid-19 pandemic.

The company recently raise R1.198 billion through the public bond auction on the 11 November 2022 as part of the refinancing strategy for the AIR02 fixed rate bond maturing in April 2023. The auction was well supported attracting total bids amounting to R2.8 billion across 3 bonds on offer i.e., AIRF02 floating rate note, AIRF03 floating rate note and AIR05 fixed rate bond. The bond auction results are summarised in Table 3 below.

Table 3: Public Bond Auction results

Issuer	Airports Company South Africa SOC Limited		
Credit Rating	Moody's Aa2.za		
Total Bids	R2 872 million		
Bids Allocated	R1 198 million		
Subscription cover ratio	2.4x		
Number of bidders	10		
Number of bidders allocated	5		
Bank participation Bid : Allocated	17% : 8%		
Settlement Date	16 November 2022		
Instrument Status	Senior unsecured, listed on the interest rate market of the JSE		
Bonds	**AIRF02**	**AIRF03**	**Tap AIR05 (7.5y)**
Bids	R1 235 million	R481 million	R1 156 million
Allocated	R356 million	R210 million	R632 million
Clearing spreads	**255bp**	**287bp**	**150bp**
Price guidance	(260 – 275bp)	(290 – 305bp)	(150 – 165bp)
Pricing Reference Rate	3m Jibar (6.55%)	3m Jibar (6.55%)	R213 (10.50%)
Maturity	16 November 2027	16 November 2029	29 May 2030
WA spread of all bids	261bp	296bp	172bp

Following the public auction on 11 November 2022, the company received a reverse enquiry from two investors for R500 million to be issued either in the 5-year or 10-year maturities. The company opted to issue a 10-year floating rate note with the objective of lengthening the maturity profile. The interest shown by investors serves as a vote of confidence by investors on ACSA's credit and illustrates that the investor engagement program is effective.

Airports Company South Africa will continue to engage proactively with investors, and lenders i.e., Development Finance Institutions (DFIs) and Banks. This will ensure that the company is able to rise funding from various funding sources in cost-effective manner with less onerous terms and conditions. The three-year Borrowing Plan of the company is based on the financial assumptions outlined in the Corporate Plan.

Table 4: Gross Funding Requirements

(ZAR million)	2023/24	2024/25	2025/26
Cash Carried Forward	3 389	1 866	2 275
EBITDA	2 271	3 376	3 558
Capital Expenditure	-679	-874	-2 080
Loan Redemptions	-2 139	-887	-356
Net Interest Payout	-646	-479	-449
WC Changes	-184	203	230
Dividends payout - Preference Shares	0	-484	-484
Tax Payout/Refund	-146	-447	-568
Cumulative Gross Funding Requirement surplus/(shortage)	1 866	2 275	2 114
New Gross Funding	0	0	0
Cash Position after Gross Funding	**1 866**	**2 275**	**2 127**

The three-year Borrowing Plan is based on the following key assumptions:

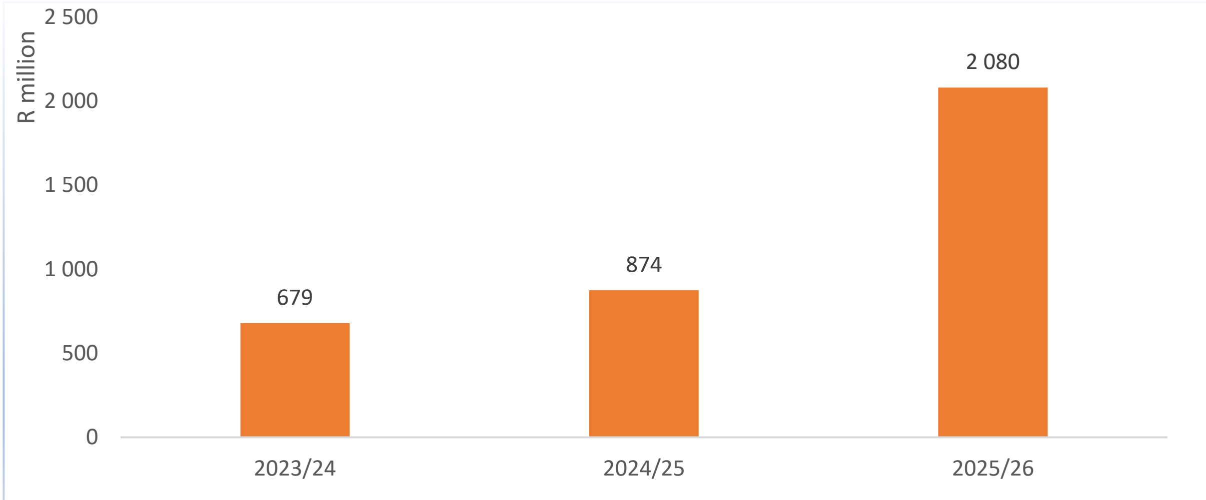
- Capital Expenditure Programme amounting to R3.6 billion (excluding capitalised interest);
- Debt redemptions totalling R3.4 billion (including R1.7 billion of the AIR02 fixed rate bond);
- Interest payments of R1.6 billion;
- Preferences Shares dividends amounting to R967 million (subject to ACSA complying with Section 46 of Companies Act).

During the financial year ended March 2021, the company issued R2.3 billion worth of Preference Shares to government as part of the interventions to mitigate Covid-19 induced liquidity challenges. The structure of the Preference Shares offers the company a great deal of flexibility by permitting roll-up of unpaid dividends until final redemption if there is no sufficient cash to service the shares.

Moreover, the company is required to apply solvency and liquidity tests before paying dividends on Preference Shares. It is important to note that unpaid dividends on Preference Shares are expected to increase to R776 million by the end of March 2025. The Borrowing Plan makes provision for payment of Preference Shares dividends amounting to R967 million. However, this will only be paid if the Board is satisfied that the company will satisfy solvency and liquidity tests immediately after paying dividends as stipulated under Section 4.3.3 of the Preference Shares Subscription Agreement.

The company raised R1.7 billion during the 2022/23 financial year through issuance of bonds under the DMTN programme. The proceeds will go towards the redemption of the AIR02 fixed rate bond maturing in April 2023. Over the forecast period, the company will be able meet its financial obligations including capex amounting to R3.4 billion from internally generate funds and available cash on hand. In a nutshell, Airports Company South Africa will not need new debt funding over the three-year plan.

Figure 2: Planned three-year Capital Expenditure Programme (R million)



9. GOVERNMENT GUARANTEE

The company will meet its financial obligations including capex from internally generated funds and available cash on hand. Therefore, the company will not require a guarantee from its shareholders including government in the forecast period. Moreover, the company intends to secure short-term credit facilities from banks on the strength of its balance sheet without soliciting guarantee.

However, the company will only approach shareholders for support including guarantee under extra ordinary circumstances. For instance, if the operating environment deteriorate significantly as a result of new travel restrictions leading to lenders/banks demanding guarantee as part of the condition precedent for providing funding.

10. DEBT MANAGEMENT

10.1 LIQUIDITY MANAGEMENT

The domestic debt capital market remains an important source of funding for the company given favourable terms and conditions relative to other sources such as banks and DFIs loans. Moreover, the debt capital market allows Airports Company South Africa to reach diverse mix of investors and lengthen maturity profile. The company's term to maturity of the debt portfolio increased following the recent issuance of 5-year, 7-year, and 10-year floating notes under ACSA's R30 billion Domestic Medium-Term Programme.

The company will continue to update its R30 billion DMTN programme whenever required by the JSE to ensure alignment with the JSE Debt Listing Requirements. The company still has sufficient room to rise funding under the DMTN programme with given R24 billion of unutilised facility.

Table 5: DMTN programme facility

Borrowing Facilities	Facility Amount	Utilised	Available
DMTN	R30 billion	R6 billion	R24 billion

Market conditions in the domestic capital market have improved significantly over the past three years as reflected by an increase in primary debt issuance across the board. After being absent for the past two years, we have seen SOEs such as DBSA, Transnet and ACSA returning to the domestic debt capital markets during 2022 calendar year. We have also seen a shift from issuance in the 3 to 5 years maturities to longer maturities i.e 7 to 10 years.

On the 18 May 2022, the company received a second letter from DBSA expressing interest to participate in the funding of Airports Company South Africa's Capex programme amounting to about R1 billion subject to the following conditions:

- Funding to be limited only to capex projects that deemed critical and intended amongst others, meet regulatory and safety standards, and ensure operational efficiently;
- Confirmation of improvement in, amongst others, in passenger traffic volume and operations;
- DBSA conducting detailed legal, financial, technical, socio-economic, institutional, legal, and environmental due diligence.

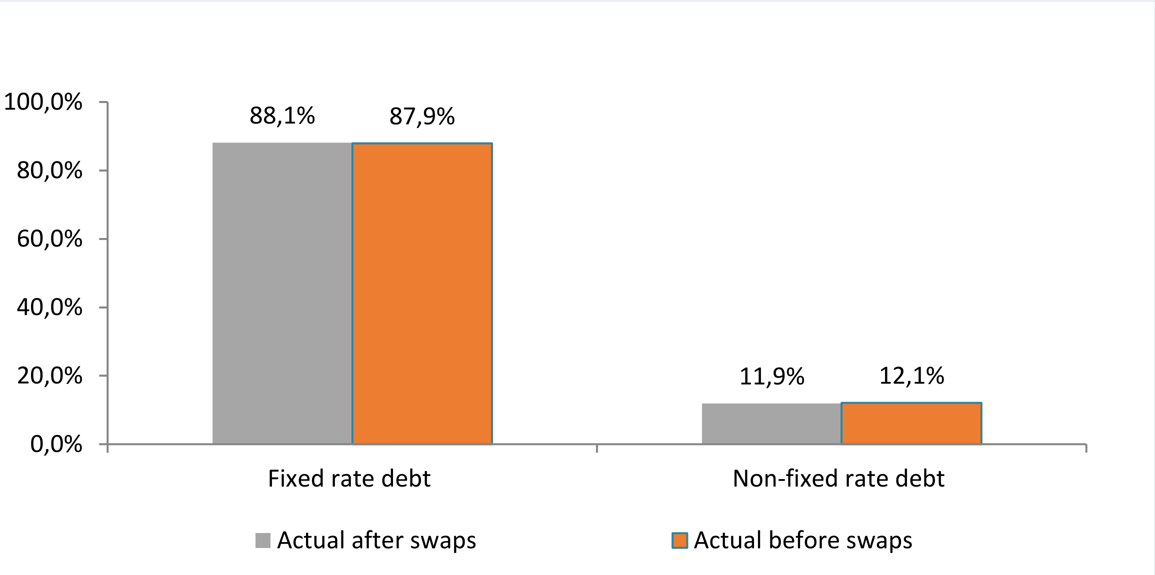
Although the Airports Company South Africa will not require any new debt funding in the forecast period, the company will continue to engage with DBSA as part of its annual investor program. The objective is to strengthen relationship which will allow the two entities to continue exploring capex funding opportunities beyond the three-year plan.

The company will continue to make use of short-term credit facilities to mitigate unforeseen short-term liquidity pressures.

11. INTEREST RATE COMPOSITION OF THE DEBT PORTFOLIO

The company mitigates its debt exposure to interest rate risk by setting limits for both fixed rate and floating rate debt. The limit for the fixed rate debt is set not to be less than 50 per cent while floating rate debt is set not to exceed 50 per cent. As at 31 December 2022, the share of the floating rate debt accounted for 11.9 per cent (after interest rate swaps) of the total debt portfolio while percentage of the fixed rate debt was 88.1 per cent. The redemption of the AIR02 fixed rate bond in April 2023 will lead to share of the floating rate debt increasing to 15 per cent. This will allow the company to benefit from falling interest rate going forward.

Figure 3: Interest rate composition – 31 December 2022



12. DEBT REFINANCING

The company strives to maintain a smooth maturity profile to ensure seamless debt redemptions. Moreover, the company also make use of active debt management strategies such as switch auctions and buybacks to mitigate refinancing risk. The debt maturity profile of the company is fairly spread with large redemptions expected in 2023/24, 2028/29 and 2030/31 financial years. In April 2023, the company will repay R1.7 billion of AIR02 fixed rate bond. The company raised about R1.7 billion through bond issuance between November and December 2022, which will go towards repayment of the AIR02 bond.

The debt redemption for 2030/31 financial year is currently estimated at R2.7 billion comprised largely of preference shares including accrued dividends. The company will start paying dividends on preference shares from 2024/25 financial year which will reduce the amount outstanding in the 2030/31 maturity. Furthermore, the company is entitled to redeem any of the Preferences Shares at any time that the Board determines that there is sufficient available cash. This flexibility allows the company to manage refinancing risk emanating from preferences shares in the financial year ending March 2031.

13. INVESTMENT PLAN

In the forecast period, the company will invest surplus cash in line with Board approved Investment Policy to achieve the following objectives:

- Capital Preservation;
- Maintain sufficient Liquidity to meet debt maturing obligations, capital, and operational expenses;
- Optimise risk-adjusted returns.

Surplus cash is invested in approved financial instruments in line with thresholds set out in the Board Approved Investment Policy to ensure returns optimisation within acceptable risk limits such as:

- Weighted average duration of 180 days;
- Limits in respect of fixed deposits and liquid tradable assets;
- Counterparty limits;
- Credit rating limits;
- Asset allocation.

The company will continue to invest surplus over the three-year plan in the following approved financial products:

- Term investments;
- Income funds;
- Money market funds;
- Call deposits;
- Debt capital markets instruments such as bonds;
- Government backed Investments such as the T-Bills;
- Commercial Paper.

In line with the investment Policy, the company Surplus cash can be invested 100 per cent in money markets with a minimum of seventy per cent (70%) and maximum of thirty per cent (30%) in capital markets. These limits exclude the Debt Redemption Plan as a separate Asset Allocation limit is assigned to the plan as per the policy.

14. DEBT REDEMPTION STRATEGY

Airports Company South Africa has over the years implemented various debt redemption strategies such as switches, buybacks and ringfencing funds for debt repayments. During the 2022/23 financial year, the company successfully executed a refinancing strategy for the AIR02 fixed rate bond which was approved by the Board as part of the Borrowing Plan. This strategy involved issuance of new bonds in the debt capital market and the using the proceeds to repay the AIR02 fixed rate bond.

In 2020, the company faced unprecedented liquidity challenges amid the Covid-19 induced travel restrictions. In response to persisting liquidity pressures, the company doubled its credit facilities, disposed its equity stake in Mumbai, borrow funds from DBSA and issue Preference Shares to government. Moreover, ACSA liquidated the AIRL01 Hedge Strategy which was intended to partially cover the redemption amount of the AIRL01 inflation linked bond maturing in April 2029. The redemption amount of the AIRL01 bond is currently estimated to increase to R2.9 billion by April 2029 due to inflation accretion.

The financial performance of the company is projected to improved significantly over the forecast period necessitating a need to revisit the refinancing strategy for the AIRL01 inflation linked bond. In the last two years of the three-year plan, the company will consider the following strategies to address the refinancing risk of AIRL01 bond by reducing the projected redemption value from R2.9 billion to at least R2 billion:

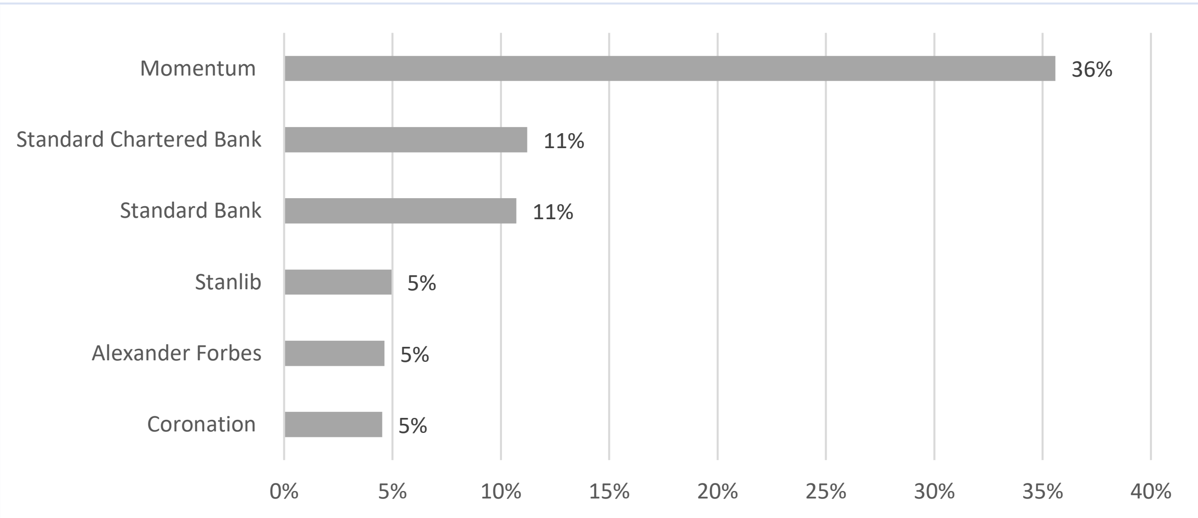
- **Switch auction of the AIRL01 inflation linked bond**

  A switch auction allows existing holders of the AIRL01 bond to exchange the bond for any existing bonds or new bonds that company decides to offer. A similar strategy was successfully executed in 2014 to refinance AIR03 bond. However, the success of the switch auction depends on the willingness of holders of the bond to participate.

  To increase the chances of success, the company will execute the switch auction through a public auction and also entertain reverse enquires from individual investors who might be interested in switching the AIRL01 bond for existing bonds. To entice investors to participate in the public auction, the company will consider issuing a Sustainable Finance Products that incorporate Environmental Social and Governance (ESG) criteria.

  Nonetheless, the investor appetite to participate in the switch auction can only be ascertained after engaging with noteholders. The top noteholders of the AIRL01 inflation linked bonds are show in the figure below.

Figure 4: Top noteholders of the AIRL01 Inflation linked bond



- **Buybacks of the AIRL01 inflation linked bond**

This strategy allows the company to buyback the AIRL01 inflation linked bond through a public auction or reverse enquiry from individual investors willing to sell the instrument. The challenge with the Buyback strategy is that the company needs funds to the be able to execute this strategy. Therefore, to minimise the impact on liquidity, it is always advisable to execute this strategy through a reverse enquiry from individual investors which will give the company leeway to buyback smaller volumes of the AIRL01 bond at competitive pricing and when cash is available.

- **Debt Redemption Plan - Investment Portfolio**

The company will consider setting up an investment portfolio which will be ring-fenced for the purpose of partly redeeming the AIRL01 bond and not to be utilised for any other purposes. The company will be required to make periodic contribution towards to the investment portfolio. Therefore, this strategy will only be undertaken after ascertaining that the company has sufficient funds to meet its financial obligations.

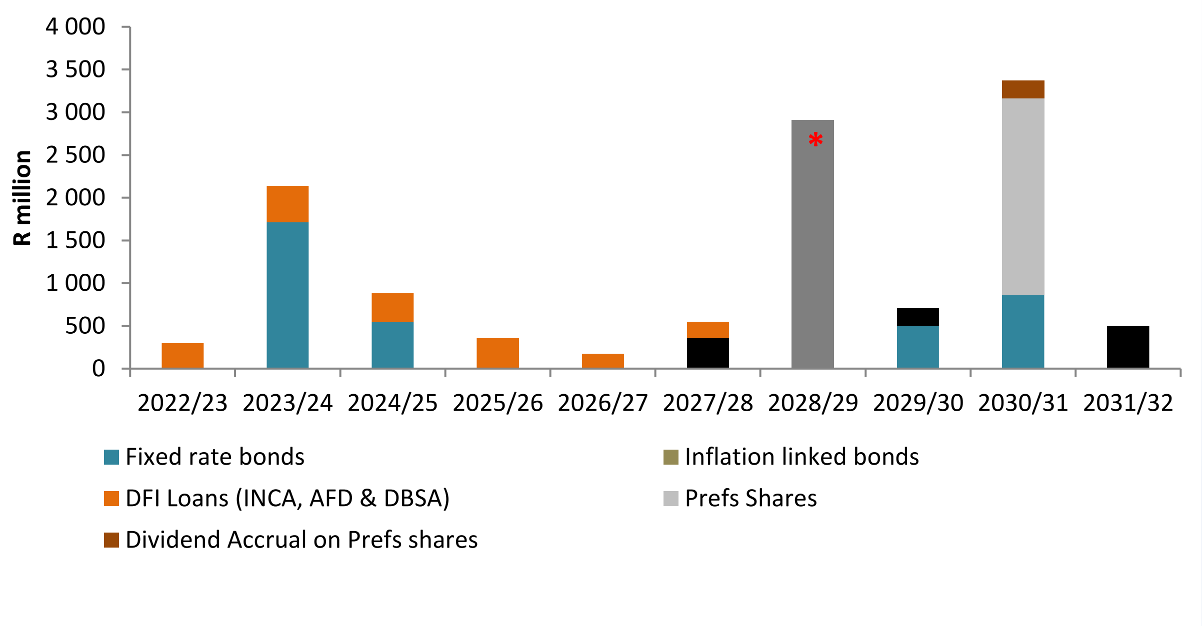
However, the contributions towards the AIRL01 investment portfolio shall be at company's discretion based on cash flow requirements. It should be noted that if the company opt for a Debt Redemption Plan a separate proposal will be submitted to the Board for approval.

15. DEBT MATURITY PROFILE

The company strives to maintain a smooth maturity profile to ensure seamless debt redemptions. Moreover, the company also make use of active debt management strategies such as switch auctions and buybacks to mitigate refinancing risk.

The debt maturity profile of the company is fairly spread with large redemptions expected 2023/24, 2028/29 and 2030/31 financial years. In April 2023, the company will repay R1.7 billion of AIR02 fixed rate bond. The redemption value for the AIRL01 inflation linked due in April 2029 is currently estimated at R2.9 billion including inflation valuation. The debt redemption for 2030/31 financial year is currently estimated at R2.7 billion comprised largely of preference shares including accrued dividends.

Figure 5: Debt maturity profile



* Projected inflation accretion added to AIRL01 in 2029E

The Company will repay R3.4 billion worth of debt over the three-year Plan comprising of the following:

- AIR02 fixed-rate bond - R1.7 billion;
- AIR04 fixed rate bond - R544 million;
- AFD1 loan (amortizing loan) - R82 million;
- AFD2 loan (amortizing loan) - R585 million;
- INCA loan (amortizing loan) - R14 million;
- DBSA loan (amortizing loan) - R444 million.

16. FOREIGN DEBT FUNDING OPPORTUNITY

Although the company will not need any new debt funding oner the forecast period, the company will continue to explore funding opportunities in the foreign market i.e. International Bond market, Bank Loans and Export Credit Agencies. The objective is to ensure that the company can diversify its funding sources and is well prepared to raise funding offshore should the need arises.

17. ACTIVE INVESTOR RELATIONS

ACSA Treasury will continue to engage existing and potential investors with the intention of keeping investors informed about ACSA's financial performance and future capex plans. Effective investor engagement program instils investor confidence in the company's credit. This enables the company to attract new investors while retaining existing investors. Consequently, the company will ensure that investors are kept abreast of any material developments timeously and in a transparent manner. Airports Company South Africa will continue to make use of following channels of communication to engage with investors:

- Annual Roadshows;
- Regular updates by announcement through JSE SENS;
- Upload of information of the Investor Web Page;

The company will continue with its annual road shows program to domestic investors including one-on-one meetings with investors, banks and DFIs.

18. BORROWING FACILITIES

The company maintains short-term committed credit facilities with banks for bridging finance purpose and to comply with requirements of credit rating agencies. The credit facility amount is reviewed on an annual basis considering the size of capex programme and short-term liquidity requirements. The company recently renewed its credit facilities for 12-month period with RMB, Nedbank and Standard Bank totalling R1.8 billion. The current facilities will expire on 30 November 2023, and the company intends **to renew the credit facilities for an amount not exceeding R2 billion**.

The company will strive to meet its financial obligations from available cash and internal generated funds. Therefore, the company will only utilise short-term banking facilities under unavoidable and exceptional circumstances.

Table 6: Bank Facilities as 31 December 2022

Financial Institution	Facility Amount (Rm)	Utilised (Rm)	Available (Rm)	Type	Utilisation Interest
RMB	R650	R0	R650	Committed	Determined on drawdown
Nedbank	R650	R0	R650	Committed	Determined on drawdown
Standard Bank	R500	R0	R1 800	Committed	Determined on drawdown
TOTAL	**R1 800**	**R1 800**	**R1 800**		

The company will occasionally issue bank guarantees and letter of credit to support business operations as and when required by suppliers to facilitate transactions undertaken in the ordinary course of business. The approval of bank guarantees, and letters of credit shall be as per Board approved Delegation of Authority. The company has a performance guarantee for the Gru Concession totalling BRL151 million (R400 million) which is renewed annually. This facility is renewed by the GRU Consortium on annual basis. Furthermore, the company will maintain other uncommitted facilities such as derivative facility, asset-based finance facility and credit card facility to facilitate business operations.

19. RISK MANAGEMENT

19.1 POLICY REVIEW AND GOVERNANCE

The Financial Risk Management and Regulatory Committee chaired by the Chief Financial Officer, and the Board Investment Committee which is a Sub-committee of the Board play an oversight role on the treasury operational activities. This includes review of treasury operational reports and assessment of all treasury related risks to ensure that these risks are managed effectively.

The committees review the following Board approved policies to ensure appropriate risk management guidelines are in place to govern Treasury activities:

- Treasury Risk Management Framework;
- Cash Management Policy;
- Investment Policy;
- Borrowing Policy.

19.2 HEDGING OF TREASURY RISKS

To mitigate Treasury related risks such as foreign currency and interest rate risks, the company make use of hedging instruments approved in the Treasury Risk Management Framework. It is worth noting that hedging strategies are only executed after obtaining necessary approvals in line with the Delegation Levels of Authority. In addition, the accounting and risk implication of each is analysed before each hedge strategy is recommended to the Board. The main objective of hedge strategies is to bring certainty of future cash flow and to minimise volatility in the company's income statement.

19.3 DEBT COVENANTS

The AFD has granted ACSA an extension of the grace period from June 2023 to March 2024, relating to the required levels for the historical and projected Net Debt to EBITDA ratio and historical and projected Debt Service Coverage Ratio. This extension is predicated on the condition that the company continues to provide a 12-month cash flow forecast every six months.

It is projected that all the ratios i.e Net Debt to EBITDA and Debt Service Coverage Ratio will fall back within the required threshold over the three-year plan. Therefore, the company will not require a further extension of the grace period relating to the waiver of the two financial ratios. However, the company will continue to proactively engage with AFD to ensure that if the operating environment deteriorates significantly, ACSA is able to request AFD for a possible waiver.

Dividends payments on preference shares amounting to R967 million are include in the calculation of Debt Service Coverage Ratio. Nonetheless, the payment of preference shares dividends is discretionary and can be suspended if the company:

- Does not have sufficient available cash;
- Is in breach of financial covenants;
- Fails to meet with solvency and liquidity tests.

Table 7: AFD Loan Covenants including preference shares as debt instrument

Covenants	Requirements 2022/23		2023/24	2024/25	2025/26
Credit Ratings	Above Investment Grade – National Scale (BBB)	Aa2.za	Aa2.za	Aa2.za	Aa2.za
Net Debt/Capitalization	Shall not exceed 65%	28%	27%	22%	20%
Net Debt/EBITDA	Shall not exceed 4 times	4,22x	3,28x	1,78x	1,59x
Government Shareholding	At least 50% plus one share	74.6%	74.6%	74.6%	74.6%
Debt Service Cover Ratio by Available cash	Not less than 1.5 times	4,19x	1,98x	2,59x	4,10x

Note: Financial covenant calculations are based on the formulas as agreed with lenders

20. CONCLUSION

The implementation of the Borrowing Plan activities will be undertaken within the parameters set out in the Board approved Treasury Risk Management Policy Framework. This Borrowing Plan will ensure that the company meet its short-term liquidity requirements and achieve long-term financial sustainability. ACSA Treasury will ensure that the implementation of the funding strategies comply with governing legislation.

Appendix A: Three-Year Borrowing Plan

(ZAR Million)	2023/24	2024/25	2025/26
Cash Carried forward – 31 March 2023	3 389	1 866	2 275
New Gross Funding	**0**	**0**	**0**
EBITDA	2 271	3 376	3 558
Capital Expenditure	-679	-874	-2 080
Loan Redemptions	-2 139	-887	-356
Net Interest Payout on existing debt	-646	-479	-449
Dividends Payout - preference shares	0	-484	-484
GRU disposal	0	0	0
Tax Payout	-146	-447	-568
Dividends Payout	0	0	0
WC Changes	-184	203	230
Cash Position after Gross Funding	1 866	2 275	2 114
Inflation accretion y-o-y	135	144	155
Accrued dividends on preference shares	191	191	0
Total Closing Gross Debt incl preference shares	9 306	8 270	7 776

Appendix B: Debt Portfolio as at 31 December 2022

Issue Date	Maturity Date	Financial Institution/ Instrument	Type	Outstanding Amount	Interest Rate	WACOF NACS
FIXED RATE DEBT						
30 Apr 08	30 Apr 23	AIR02	Listed Bond	R1 712 000 000	11.68%	11.68%
29 May 14	29 May 24	AIR04	Listed Bond	R544 000 000	9.25%	9.25%
29 May 14	29 May 30	AIR05	Listed Bond	R864 000 000	10.00%	10.00%
28 Apr 09	15 Nov 23	AFD	DFI Amort. Loan	R123 186 257	10.350%	10.350%
12 Apr 11	12 Jan 26	AFD2	DFI Amort. Loan	R633 750 000	10.550%	10.550%
26 Oct 09	26 Oct 29	AIR04U	Fixed Rate Note	R500 000 000	11.590%	11.590%
05-Mar-21	05-Mar-31	Preference shares	Preference shares	R2 695 663 224	8.200%	8,200%
02-Feb-21	30-Nov-27	DBSA loan	DBSA loan	R810 000 000	8,74%	8,744%
FLOATING RATE DEBT BEFORE SWAPS						
18 Dec 08	30 Nov 23	INCA/Sanlam	DFI Amort. Loan	R19 230 769	9,158%	9,26%
16-Nov-22	16-Nov-27	AIRF02	Fixed Rate Note	R356 000 000	9,808%	9,93%
16-Nov-22	16-Nov-29	AIRF03	Fixed Rate Note	R210 000 000	10,128%	10,26%
05-Dec-22	05-Dec-32	AIRF04	Fixed Rate Note	R500 000 000	10,558%	10,70%

INTEREST RATE SWAPS						
30 Nov 09	30 Nov 23	Nedbank	Notional	R19 230 769	11.44%	11.131%
INFLATION LINKED DEBT						
30 Apr 08	30 Apr 28	AIRL01	Listed Inflation	R1 878 630 195	3.64%	3.64%
TOTAL FUNDING			**R10 846 460 445**	**WACOF**		**8,73%**