

To the Minister of Water Affairs and Forestry
TCTA's 19th Annual Report, 31 March 2006

Established in terms of Government Notice 277 of 24 March 2000,
promulgated in terms of Chapter 10 of the National Water Act, 1998.

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DEFINING TCTA



Who is TCTA?

TCTA is a state-owned entity established in terms of Government Notice No 2631 in Government Gazette No 10545 dated 12 December 1986, replaced by Government Notice 277 in Government Gazette No 21017 dated 24 March 2000, promulgated in terms of the National Water Act, 1998 (Chapter 10).

Our mission

TCTA is a specialised liability management body. Its mission is to fund and implement bulk raw water infrastructure:

- within an acceptable risk framework
- in the most cost-effective manner
- to the benefit of water consumers.

Our business

TCTA was established to implement the South African portion of the Lesotho Highlands Water Project (LHWP) and to take over the South African government's responsibility for the long-term funding and concomitant risk management.

Subsequently, the mandate of TCTA was extended to implement and finance the Berg Water Project (BWP) and Vaal River Eastern Sub-system Augmentation Project (VRESAP), as well as to provide treasury and financial advisory services to the Department of Water Affairs and Forestry (DWAF) and water management institutions.

Each project is governed by a directive from the Minister of Water Affairs and Forestry as well as an Implementation Agreement.

Liability management

TCTA regards liability management as a multi-disciplinary function that extends from funding and risk management at the one end of the spectrum, to managing the engineering, construction and environmental components of a project at the other end (Figure 1).

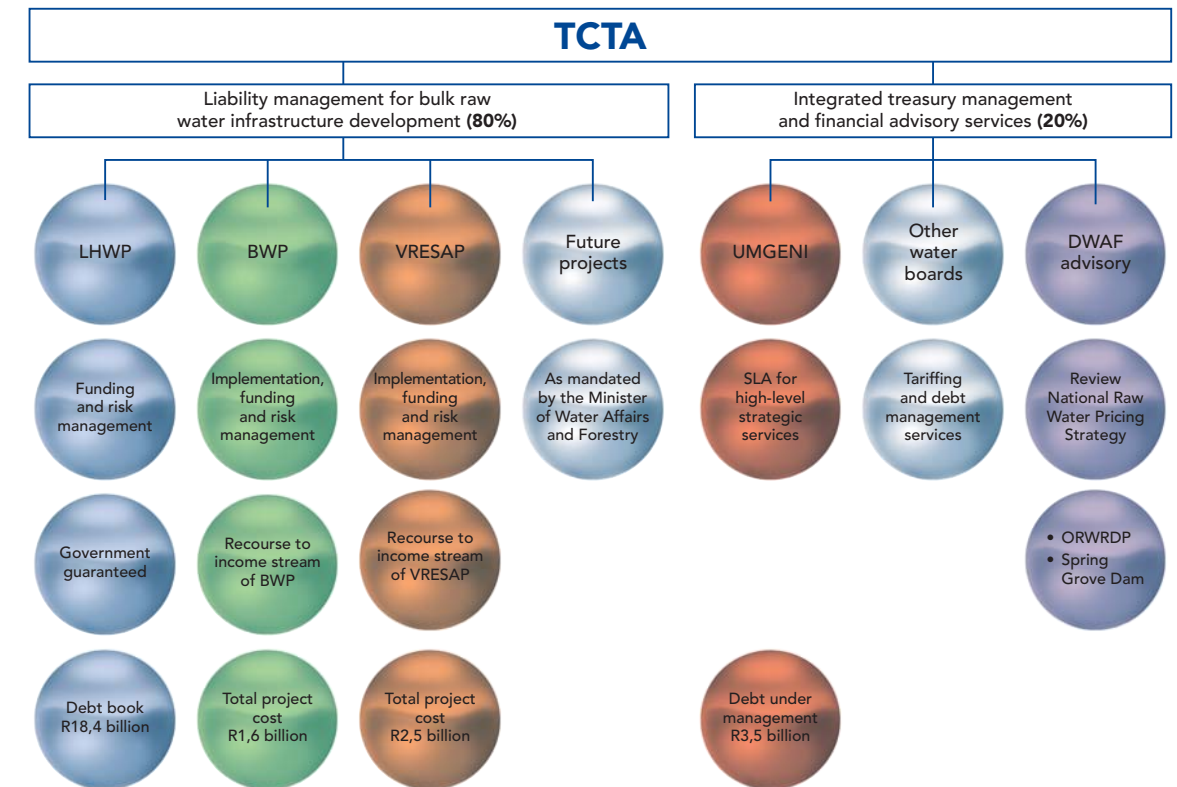
Figure 1: TCTA liability management



Advisory role

TCTA plays an important role as an advisor in the water sector both in the realm of project initiation (Olifants River Water Resource Development Project Phase II [ORWRDPII] and Spring Grove Dam), restructuring of treasury activities (Umgeni Water) and the review of tariffing methodologies.

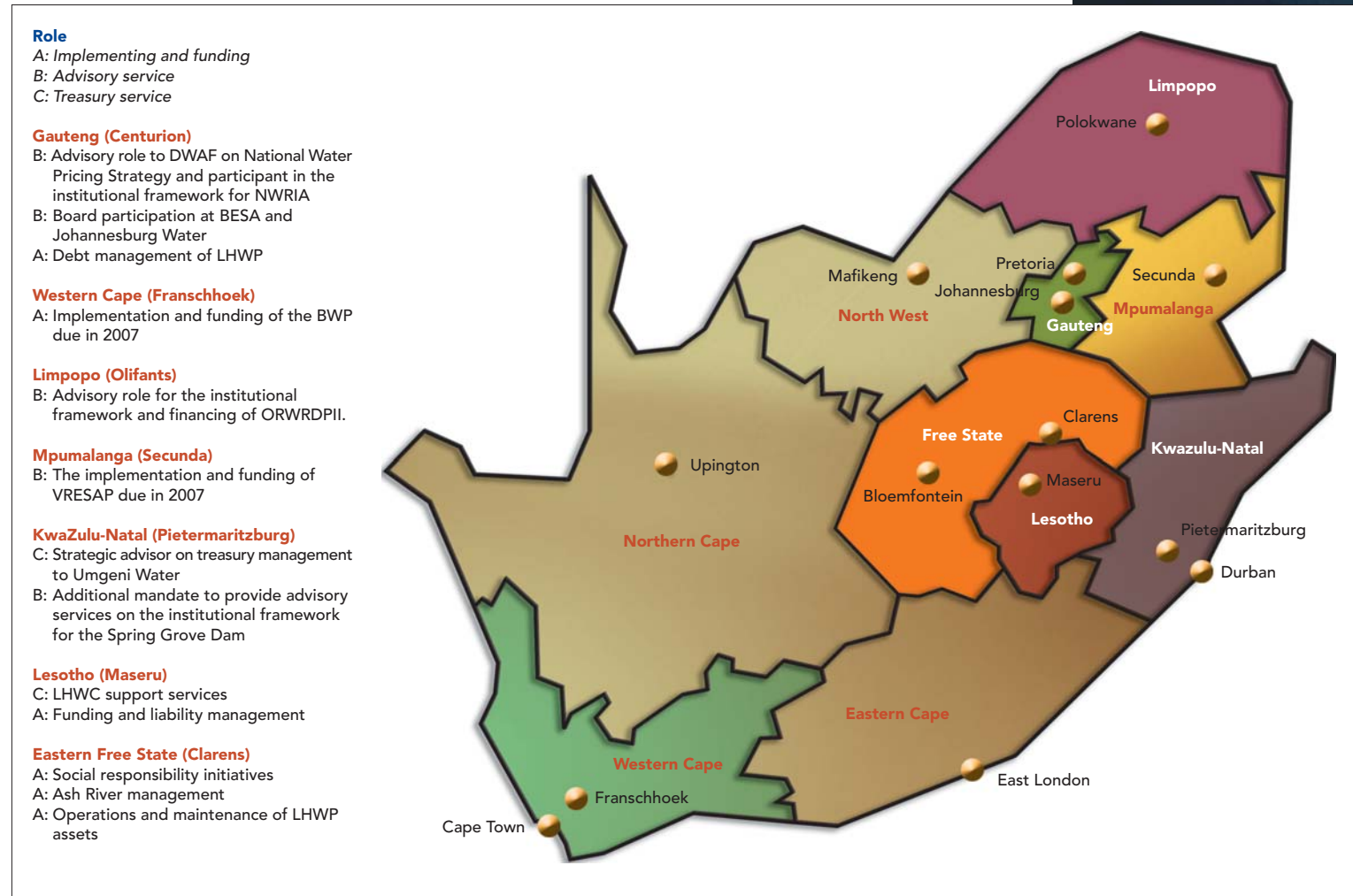
Figure 2: TCTA's multi project business model



TCTA's Footprint in Southern Africa

TCTA operates in six of South Africa's nine provinces, as well as in Lesotho.

Figure 3: Regional footprint





“Hope,” says Jerome Groopman, “differs from optimism. Hope does not arise from being told to ‘think positively’, or from hearing an overly rosy forecast. Hope, unlike optimism, is rooted in unalloyed reality.”

As we enter the second decade of freedom we are still grappling with a myriad of socio-economic challenges brought about by decades of oppression and the systematic exclusion of the majority of our people from economic opportunities. This reality is characterised by underdevelopment, inequalities, massive infrastructure backlogs, grinding poverty, a high rate of unemployment, homelessness and other pressing socio-economic challenges.

CHAIRPERSON'S REPORT

The other reality is that, despite all these mammoth challenges, the country has risen from the ashes like the proverbial Phoenix to experience the longest sustainable growth since the 1960s and the reduction of unemployment by six percentage points – from 32% to 26%.

It is this reality that has propelled us into the “Age of Hope” that President Thabo Mbeki articulated during his State of the Nation address on 3 February 2006. For this spirit of hope to flourish and for the country's economic growth to be sustainable, all of us in key strategic national institutions such as TCTA have a duty and obligation to build on the enormous gains that have been achieved over the past 20 years.

While a great deal has been done and vast amounts of resources deployed to respond effectively and efficiently to these challenges, much more still has to be done to deliver on the promise of a better life for all.

In his State of the Nation address, President Mbeki singled out state-owned enterprises and the public sector as key players that could drive the Accelerated and Shared Growth Initiative of South Africa (ASGISA) to achieve 6% economic growth and halve poverty and unemployment by 2014.

Reference was also made to the need for large investments to satisfy the demand for water as one of the critical elements of meeting the objectives of ASGISA. As TCTA we have a critical role to play in this regard and have the expertise and competencies to drive the agenda of accelerated infrastructure investment in the water sector.

TCTA, as a state-owned specialised entity charged by the Department of Water Affairs and Forestry (DWAF) with the responsibility of developing and funding bulk raw water infrastructure to drive industrial development and feed domestic needs, finds itself at the centre of this national effort to leverage economic growth in a sustained and accelerated fashion to lay a solid foundation for the Age of Hope.

The theme for this year's annual report – Rejuvenation, Revival, Renaissance and Transformation – speaks for itself. We at TCTA, a prime national asset, have chosen these four elements because we believe they are key drivers to the rebirth of the South African economy, particularly in the water sector. Through the theme, we also fully commit ourselves, together with our strategic partners and other key stakeholders, to actively contribute to the achievement of ASGISA objectives.

Already, TCTA's work of funding and managing the development of the Vaal Pipeline Project, which will see two of the country's major energy producers – Sasol and Eskom – benefit from increased water supply, inspires a great deal of confidence. The associated social and economic benefits that will result from this project are significant.

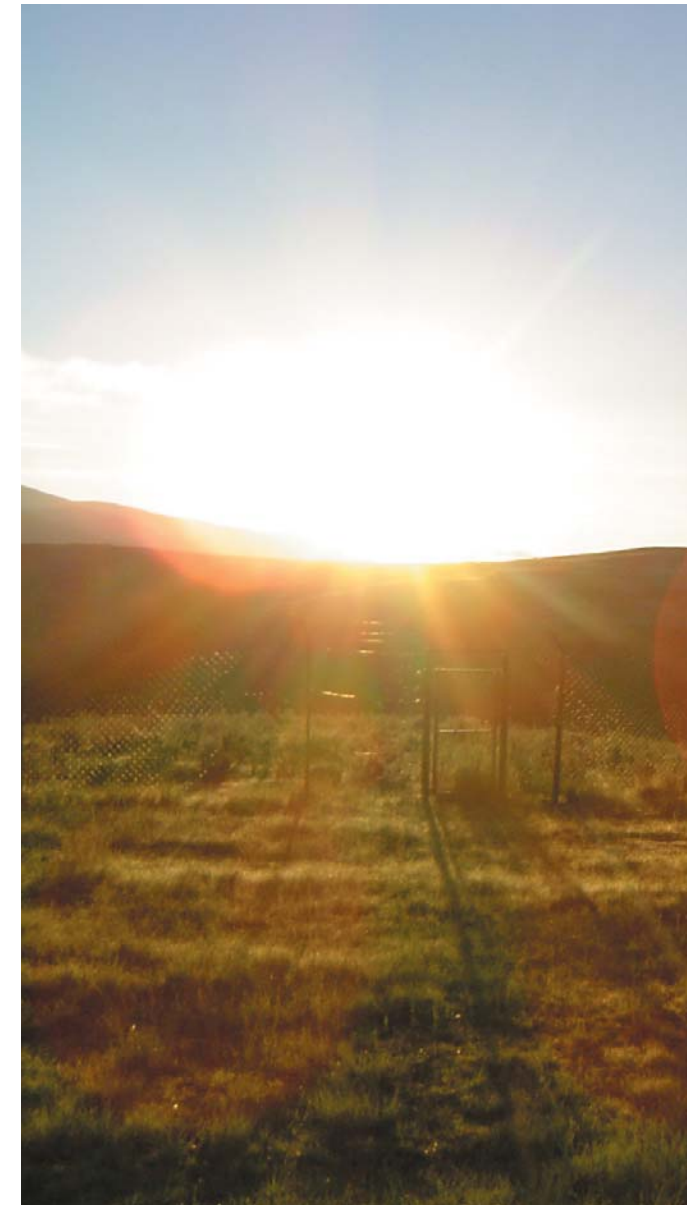
The phenomenal success TCTA has achieved and the experience it has gained from financing and implementing the Lesotho Highlands Water Project (LHWP), its flagship project, and the current Berg Water Project (BWP), will significantly strengthen our capacity for future projects. The critical skills

and project implementation models that were developed as a result of TCTA's involvement in these two projects, will no doubt add a significant impetus to the ASGISA agenda and delivering the infrastructure investment requirements of our country.

These projects will contribute to the rejuvenation and revival of the economy, by creating new jobs, providing skills and training, creating tourism opportunities and injecting resources into the local economy. In addition, local economic development will be achieved by ensuring that labour is sourced locally and that goods and services are procured in such a way that local black economic empowerment (BEE) companies, small, medium and micro enterprises (SMMEs), especially those owned by women, benefit.

Cabinet's approval in August 2005, of the establishment of the National Water Resource Infrastructure Agency (NWRIA), which will see TCTA playing an increased role in the development of the water sector to ensure that government's objectives come to fruition, will bring with it new challenges. We look forward to this new phase in our existence and will endeavour to contribute actively to realise the vision of a NWRIA.

TCTA has a proven track record, requisite skills and expertise that will enable us to play a leading role in the development, operation and funding of bulk water infrastructure in South Africa in accordance with international standards and best practices. This year we will be celebrating our 20th anniversary on 12 December 2006.



CHAIRPERSON'S REPORT CONTINUED

We are committed to preserving our reputation as a professional organisation that subscribes to transparency and integrity, a proven track record in the local and foreign financial markets, the engineering and construction sectors, as well as bringing innovation to achieve the best possible outcome in the delivery of mandates.

Finally I would like to express my gratitude to the outgoing Board since our term of office will come to an end on 30 June 2006. The depth and breadth of experience of each member has contributed greatly to the success of TCTA over the past four years. Your role in shaping TCTA into one of the key economic instruments in the country needs to be applauded.

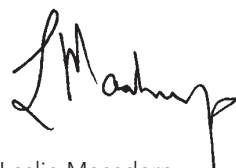
When we assumed office on 1 July 2002, the mandate by Cabinet for the funding and implementation of the BWP was issued only two months earlier in May 2002. During the past four years TCTA has transformed into a multi-project implementation body devising and implementing models and strategies in unsheltered waters. The BWP was the first bulk raw water development to be implemented in South Africa by accessing private sector funding and engineering and construction contractors within the guidelines prescribed by the World Commission on Dams. As the outgoing Board we commit ourselves to assist with the transition to the new Board to ensure a smooth transition and provide the necessary orientation to the new Board.

I would like to thank the Chief Executive Officer, Martie van Rensburg, and the entire management

and staff of TCTA for the dedication and commitment they have displayed yet again. We are confident that we can rely on all your talents, enthusiasm and drive in tackling the enormous and complex challenges that lie ahead as we seek to create an economy that delivers a better life for the majority of our people.

In conclusion, on behalf of the Board, I would like to thank the Minister, her Director-General and the management of the Department of Water Affairs and Forestry for their leadership, guidance and support.

We would like to wish Minister Buyelwa Sonjica well in her new portfolio and express our gratitude for her consistent support in the activities of TCTA during her period of office.



Leslie Maasdorp
Chairperson





It gives me great pleasure to report on the achievements of TCTA in the past period as

we embark on a new wave of transformation in TCTA and the water sector.

On 12 December 1986 TCTA was created specifically to implement and fund the Lesotho Highlands Water Project (LHWP) and now nearly 20 years later we can celebrate two decades of successful delivery on government's bulk water supply agenda.

CHIEF EXECUTIVE OFFICER'S REPORT



TCTA shares the vision of a new Africa and a transformed South Africa. We believe we are constantly contributing innovative solutions to complex challenges in the water sector, and in doing so, enabling the achievement of development goals both nationally and beyond our borders.

The President has set the agenda for the second decade of freedom by calling for the delivery of better services, infrastructure and development to our people, especially in neglected rural areas. TCTA has the experience, drive and motivation to respond to this agenda as we are committed to playing a significant role in developing the second economy, while providing momentum in the first.

The current mandates from the Minister of Water Affairs and Forestry require that TCTA finances and implements bulk water resource infrastructure projects using private sector funding instead of government's budget. This enables government to allocate and spend taxpayers' money on the creation of social infrastructure and services to alleviate poverty. This is achieved through strategic public/private and public/public partnerships.

TCTA welcomes and supports the principles included in the Accelerated and Shared Growth Initiative SA (ASGISA) to halve poverty and

unemployment by 2014. TCTA's business model is designed to meet the objectives thereof.

- Together with DWAF we play a key role in the development of bulk water infrastructure and water supply networks. This infrastructure development creates a supply capacity which can serve as a springboard for economic development, and contribute to the expansion of water and sanitation services to rural and urban communities.
- TCTA recognises that we, as an organisation, are dependant on our human resources in order to operate efficiently. Many TCTA employees are included in the ambit of scarce skills such as engineering, finance, treasury and project management and we need to develop and retain these individuals and nurture their critical skills in order to contribute to TCTA and South Africa's development. The redeployment of TCTA seconded staff on the LHWP to projects such as BWP and VRESAP enabled TCTA to retain these scarce skills. The program embarked upon in 2004 to attract and retain engineers who gained experience on the LHWP is showing dividends. The experience gained by these individuals through working on mega infrastructure development like LHWP, places TCTA at an advantage, as we were able to

respond immediately to the roll-out of the VRESAP emergency project. It is however recognised that we need to feed the "pipeline" with young professionals to develop more skilled people. Our secondment arrangements with project partners such as DWAF also create the opportunity to transfer commercial, risk management and integrated management skills to young professionals.

TCTA's project implementation methodology meets the following key government principles:

- Involvement of the **private sector** in the roll-out of infrastructure. The private sector participates in competitive contracts in areas such as the design, supervision and construction of major works. Funding is raised in local and international financial markets at competitive rates.
- Suitable institutional arrangements to achieve **appropriate risk allocation** and binding in rights and obligations of parties. These arrangements are formalised in agreements to create a basis for **sound co-operative governance**. All parties play a meaningful role in key strategic decisions in the implementation of the project related to them.
- Tariff setting is done in accordance with best practice to promote **transparency**,

predictability and sustainability. The tariffs strive to remain constant in real terms and to grow with inflation, subject to review triggers aimed to create a balance between affordability and acceptable growth in debt, taking cognisance of the economic life of the asset and future augmentation in the system.

- TCTA sets clear **socio-economic** objectives for its consultants and contractors to contribute to making a difference to peoples lives in the project areas where we operate, contributing to the development of the second economy.
 - Targets for the use of **local labour** from the project regional area are contractually set.
 - Contractors are also required to provide job specific training and development which is monitored.
 - All contracts include targets for the **procurement** of goods and services from BE, BEE, SMME and woman owned enterprises within the project area.
- Clear minimum **BEE ownership** requirements (varying from 20% in 2002 to 25% in 2005) are set for consultants and contractors as part of the qualifying criteria to procure work from TCTA.
- **Infrastructure** such as housing and roads are transferred to the relevant local or provincial government on completion of the project.

CHIEF EXECUTIVE OFFICER'S REPORT CONTINUED

I would like to report on:

Previously-mandated projects

LHWP

The sheer size and development impact of the LHWP makes it TCTA's flagship. The management of the debt related to the LHWP remains TCTA's core business and defines our position in the financial market.

While the Lesotho project authorities are changing focus from implementation to operations and maintenance, both the Lesotho and South African governments have agreed to investigate the feasibility of further phases. The completed first phase of the project has provided a steady stream of high-quality water to the Vaal River system. Additional augmentation will only be required after 2020 and feasibility studies commenced during the year under review.

Since completion of the LHWP, more emphasis is placed on sophisticated debt management within a conservative risk management framework. Currently, the LHWP stock of debt under management is ±R18 billion and is expected to grow to R20 billion by 2013. The total debt will be repaid by 2025. In the budgeting process, TCTA clearly identifies the costs that are not directly under its control. These costs are controlled and approved by either the Lesotho Highlands Water Commission (LHWC) or DWAF.

We believe the liability and risk management best practice developed on this project provides a benchmark in the delivery of cost-effective infrastructure solutions required to drive consistent

economic growth and development in South Africa. The LHWP provides a firm foundation for similar projects in the African region as we seek to realise the dream of an African renaissance.

During December 2005 we redeemed the WS01 bond amounting to R4.6 billion. This was the first bond launched by TCTA in December 1993. The successful refinancing of this bond in various other TCTA bonds contributes to the strategic objective to achieve a higher level of asset and liability matching.

BWP

Progress on BWP has been excellent. It is the first major project to be implemented following changes to environmental legislation and the release of the World Commission on Dams development guidelines. TCTA devised and is implementing innovative processes and structures to ensure compliance and project sustainability. Construction is progressing well and it is expected that the project will be delivered on time, and within budget. Good progress has been made by all contractors in achieving targets set for employing local labour, training and procurement from local and BEE sources.

A major fire broke out in the Berg River Dam construction area on 27 December 2005. The fire, which burned for two days, caused extensive damage to natural vegetation but damage to property was limited to the adjacent Trout Farm. The related insurance implications are addressed in the notes to the annual financial statements.

BWP was awarded an excellent Fitch credit rating AA+(zaf) long-term and F1+(zaf) short-term; the best ever for a project of this nature, in 2004. This rating was reaffirmed in November 2005. The R1,5 billion funding for the project was negotiated successfully in 2004 with three major financial institutions. These long-term loans will be repaid over a 20-year period from revenue generated by the sale of water to the City of Cape Town. The project debt will peak at R1,3 billion in 2009 and will be repaid by 2028.

VRESAP

TCTA received a new mandate on 26 November 2004 to implement and finance VRESAP – a high-priority project to increase water supply for the planned expansion of Sasol (Secunda) and the re-introduction of mothballed Eskom power stations on the Mpumalanga highveld. The scheme will transfer water through a ±120km long pipeline from the Vaal Dam near Vaal Marina to the Knoppiesfontein diversion structure that will discharge into the Trichardtsfontein and Bosjesspruit dams near Secunda.

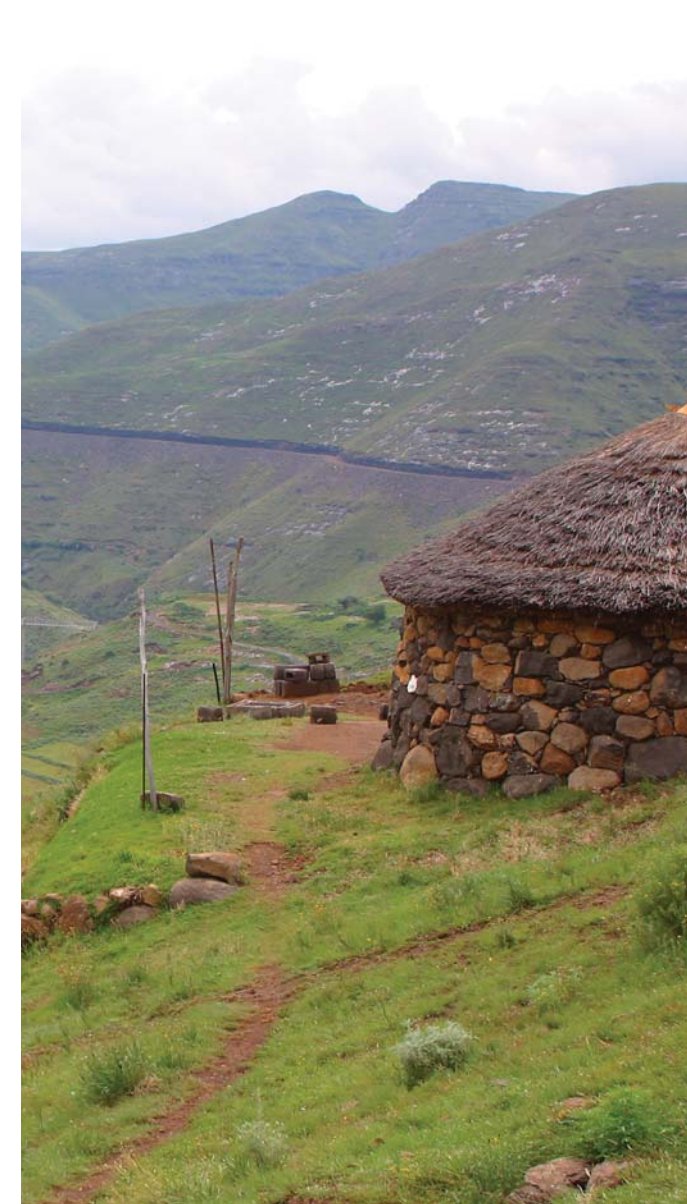
The estimated final cost of VRESAP is R2,5 billion and the project is due to be completed by October 2007. It will be funded on an off-budget basis; the capital costs will be recovered from revenue generated from the sale of water to Eskom and Sasol with repayment of debt set for 2027. Bridging finance facilities of R600 million were arranged in October 2005. The project was

awarded an excellent Fitch credit rating AA+(zaf) long-term and F1+(zaf) short-term. The long term funding for the project was finalised in January 2006 and loan agreements signed with the European Investment Bank (EIB) and four local banks.

The engineering consultancy contract was awarded on 1 December 2004, the construction contract for pipe supply and installation (R1,5 billion) was awarded in October 2005 and the second construction contract for the civil and mechanical works (R420 million) was awarded in November 2005. Environmental approval was granted in September 2005 after intensive consultation with interested and affected parties. The agreements governing the relationships between TCTA, DWAF, Sasol and Eskom were signed on 11 October 2005.

Umgeni Water

All objectives defined by the Minister of Water Affairs and Forestry in the initial directive were successfully met, as well as the deliverables outlined in the service level agreement. Subsequently, the operational and treasury activities were handed back to Umgeni Water in January 2005. TCTA's involvement continues on strategic treasury issues based on a commercial contract.



Advisory services

TCTA has also been mandated by the Minister of Water Affairs and Forestry to broaden its role in the water sector by providing additional capacity-building services.

In this vein, we were asked to review and advise on the institutional and financial development of water resource infrastructure projects in July 2004. The **ORWRDP II**, which straddles the borders of Limpopo and Mpumalanga, involves the construction of the De Hoop Dam on the Steelpoort River and a bulk raw water distribution system. This water will not only boost supply to a number of municipalities in Limpopo but will provide much-needed water to support the proposed platinum mining development in the province.

The estimated cost of the project is R3,7 billion, which will be incurred over the implementation period to 2010. Discussions have been taking place with National Treasury to finance the large social component of infrastructure development and to provide (interim) finance for the mining component. The latter is conditional on the finalisation and signing of a memorandum of agreement between the mines and DWAF which will secure future repayment of the project by the mines. Significant progress has been made in the agreement of the principles governing this arrangement.

TCTA is also required to advise on the institutional and funding arrangements of the **Spring Grove Dam** bulk raw water development in KwaZulu-Natal, to be implemented by DWAF. The indicative cost of the development is R409 million in July 2005 terms, including funding cost.

TCTA also participated in the review of the department's **National Water Pricing Strategy** and the definition of the institutional arrangements for the proposed **National Water Resources Infrastructure Agency**.

Water sector reform

TCTA continues to participate in the national task team for water services institutional reform. The task team is responsible for reviewing the institutional arrangements necessary to facilitate the required infrastructure developments, skills and capacity in the water services sector.

The ongoing restructuring of DWAF will culminate in further reform. We will continuously assess and adopt the most appropriate role for TCTA in the best interest of the water sector.

TCTA has been operating self-sufficiently as a commercially viable entity for almost two decades and has consistently reported on its efficient operations and the clear public benefits they deliver. In a sector where skills, experience and capacity are in short supply, we believe such a knowledge repository is priceless.

National Water Resource Infrastructure Agency

On 3 August 2005 the Cabinet approved the creation of a National Water Resource Infrastructure Agency (NWRIA). The NWRIA, created through the phased integration of TCTA and the Water Resource Infrastructure Branch of DWAF, will be responsible for the development, operation and funding of national water resource infrastructure. It is anticipated that the NWRIA will start operating as an entity in 2008. The integration will be done in a manner that does not affect TCTA's obligations to the financial markets, its project credit ratings and explicit government guarantees.

The contributions TCTA will be able to make to such an agency are:

- A proven track record in terms of achieving a strong credit rating and investor appetite for project financing and institutional structure.
- A proven track record in terms of mitigating design and construction risk as evidenced by the Fitch rating of BWP and VRESAP and reiterated by EIB.
- In addition to TCTA's strong appreciation for the importance of long-term integrated water resource planning, a core strength of TCTA is its ability to price water effectively, in a sustainable manner.

- TCTA's success has also been its ability to apply an integrated mindset as well as commercial practices.
- TCTA has proven its ability to align itself effectively to all regulatory and legislative conditions, including the PFMA, King II guidelines, National Water Act, FIDIC, FICA.
- As the second largest issuer of registered bonds after National Treasury, TCTA has strong funding capabilities and has been commended for its innovation, transparency and commitment to the South African financial markets.
- TCTA already has the appropriate autonomy levels and powers being a Schedule 2 Public Entity in terms of the PFMA.
- Within the context of having end users pay for bankable infrastructure, TCTA is a leader in this initiative and the success of this model provides a solid platform to roll out infrastructure development within South Africa and may even be used in Africa.

Governance

Board of Directors

The Board has met its fiduciary responsibilities with excellence during the year under review, dealing with TCTA matters in a responsible and transparent manner.

The Minister extended the term of the current Board three times since May 2005, initially until December 2005, with a second extension to 31 March 2006 and a further extension to 30 June 2006. These extensions enabled the review of the Board composition in view of the proposed restructuring in the water sector.

The Board successfully conducted an efficacy assessment during the past year. The outcome showed that a high degree of effectiveness was achieved. No material aspects were highlighted, except that there was a need to strengthen the Board's skills base in the financial and engineering areas.

Risk management

We fund and implement every project mandate in an acceptable risk framework to the benefit of the end user. A risk dashboard is a standard reporting item in the CEO's report to the Board. All significant risks are quantified by determining the likelihood and impact on the business objectives. Risk quantification is performed on financial risks such as currency, interest rate and credit, and covers the impact of macro risks such as inflation, real interest rates and water demand on the cumulative debt. All other risks such as strategic, social, environmental and construction, are also assessed and quantified. At the inception of a project, implementation risks are identified and assessed and matched with



CHIEF EXECUTIVE OFFICER'S REPORT CONTINUED

mitigation strategies. The effectiveness of these strategies is continually evaluated and monitored. The focus during the past year was to integrate risk management into an enterprise-wide risk management (EWRM) framework.

Stakeholder management

Our approach is inclusive and transparent, it involves and informs stakeholders on the impacts of our projects, services and activities. During the year under review, special briefing sessions were given to the Parliamentary Portfolio Committee on Water Affairs and Forestry and the National Council of Provinces. Site visits were provided for the Minister of Water Affairs and Forestry, the TCTA Board, foreign and local financiers and other decision-makers. TCTA also held workshops with senior government officials, meetings with community leaders and a variety of public events to engage affected communities.

We recognise the value of the contributions made by our stakeholders to our success.

Integrated management

TCTA has developed integrated management systems to ensure that all aspects of project implementation are addressed with equal vigour and dedication. The introduction of this hybrid matrix structure means that the project management teams are integrated both horizontally and vertically, to ensure that knowledge and learning are shared. This structure, coupled with the rigorous ring-fencing of each project, obviates the need (and cost) to create a special implementing body for each project.

Project partners play a significant role in the implementation of the projects through their involvement with the Project Coordination Committees and Project Board Technical Committees.

Operational highlights

IFRS reporting

TCTA opted for the early adoption of reporting in terms of International Financial Reporting Standards (IFRS) for the year ended 31 March 2005. In 2006 reporting in terms of IFRS continued.

The disclosure in the notes to the annual financial statements have been augmented to provide project partners and stakeholders additional information on the full cost of the projects as the application of these standards does not allow for the capitalisation of overhead costs.

LHWP cost allocation

As reported last year the cost allocation between hydro power and water transfer costs that have been funded by water transfer funding, received priority in 2006 and all reconciliations to 2006 have been agreed to by the LHWC. Currently the amount is R454 million (R29 million capital and R425 million cumulative interest over a period of 15 years) to be repaid by the government of Lesotho to TCTA, acting on behalf of the government of South Africa. Protocol IV to the treaty makes provision for such arrangements.

TCTA currently reflects in the balance sheet an amount due by the government of Lesotho of R142 million based on the 2005 calculations and

adjustments for R51 million received during 2006. The full amount has not been reflected but shown as a contingent asset in note 18 to the financial statements. Once this amount has been agreed by the respective parties, it will be raised in the annual financial statements.

Transformation

Transformation is fundamental to the management of our organisation and has been declared a priority by the Board and management of TCTA.

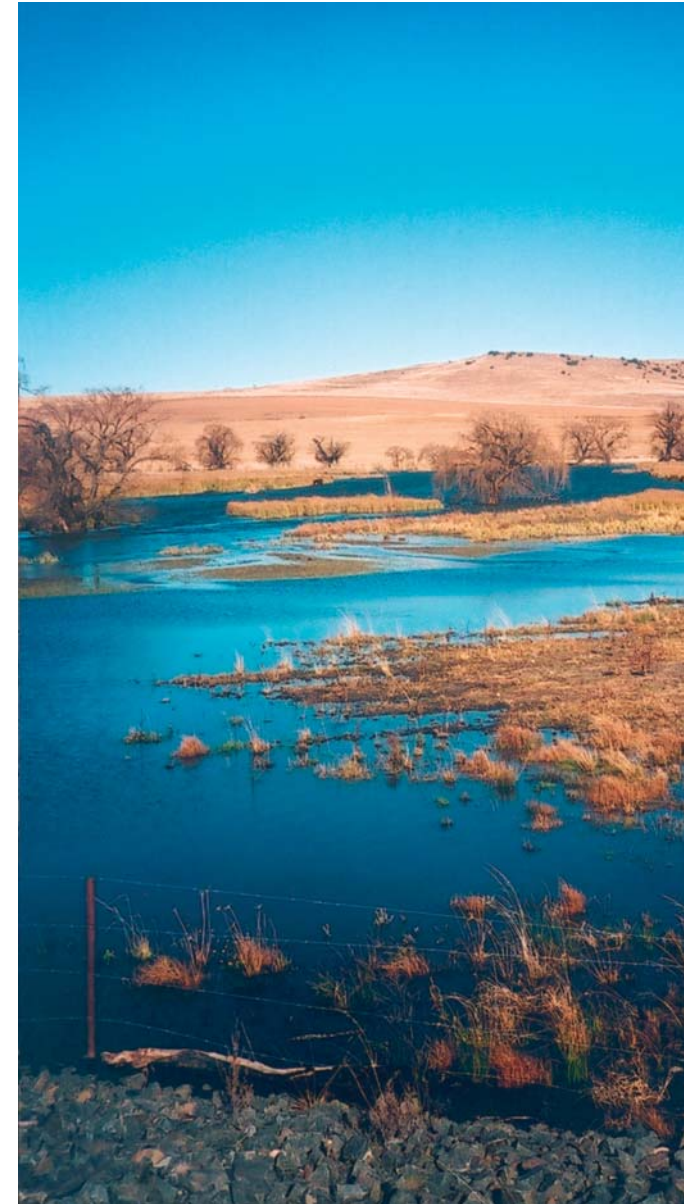
A Transformation Forum, which reports to the HR Committee of the Board, was established to ensure that due attention is afforded to this important element of the business. To ensure simplicity in application and monitoring, transformation outcomes are aligned to all business plans and follow the TCTA strategy formulation and implementation methodology.

The TCTA Employment Equity Forum contributes significantly to the transformation agenda and to managing diversity. In the recruitment of staff, preference is given to HDIs. Currently 67% (2005: 61%) of staff, 56% (2005: 50%) of management and 62% (2005: 60%) of professional staff are black. Gender balance in the organisation remains unchanged at 60% female. During the year under review, the staff complement at TCTA increased from 59 to 90 (52%) in response to the new mandates received from the Minister.

The diversity management programme instituted during the past year has had a positive effect, creating awareness of our shared strengths and









common challenges. This ongoing process has been underpinned by our organisational DNA programme, designed to develop a shared value system and agreed principles for success. We recently expanded our staff wellness programme to empower individuals to manage their own well-being.

As part of the transformation agenda a Leadership Development programme has been devised with a leading business school. The programme is attended by a group of 30 staff members including senior and middle managers as well as individuals with high potential. The spend on training was 5% of the salary bill.



Staff Awards

Staff members were invited to nominate candidates who best exemplified the organisational "DNA principles" throughout the year. The following winners were awarded prizes at the year-end function held during December 2005.

Award category	Division	Winner		
Living the DNA	Finance, Assurance & Treasury	Ronelle Singh (Treasury Dealer)		
	Lesotho Highlands Water Commission	Leon Tromp (RSA Delegate)		
	Projects	Ntšoli Maiketso (Contracts Engineer, BWP)		
	Support Services	Catherine Varner (HR Administrator)		
Performance Excellence	Finance, Assurance & Treasury	Eric van der Merwe (Management Accountant)		
	Lesotho Highlands Water Commission	Piet Swart (Financial Controller)		
	Projects	Tente Tente (Site Engineer, BWP) and Tim Staples (Project Engineer, VRESAP)		
	Support Services	Gijimani Vezi (PR Practitioner)		



Broad-based black economic empowerment

We embrace our responsibility to further government's economic empowerment agenda, including the Financial Sector Charter and the use of a balanced scorecard approach to measure progress. The direct procurement spend on BEE and BE for the year was R731 million (96% of total spend).

Expropriation of land

The process of acquiring land for the construction of BWP continued.

- The dispute on the two privately owned farms, expropriated in 2003 for the construction of the Berg River Dam and for which TCTA paid compensation in terms of the Expropriation Act in 2004 continued. In July 2006 settlement was reached on the compensation for the business operated from one of the farms, whilst the final compensation amounts on the farm land are at present subject to negotiation and due legal process.
- Towards the end of 2005 expropriation notices were issued to acquire privately owned land required for the construction of the supplement scheme, as well as servitudes of aqueduct for the pipeline. TCTA is awaiting claims for compensation from the land owners.
- The process for the transfer of state land is making good progress.

The process of acquiring land for the construction of VRESAP commenced during the latter part of 2005.

- 127 of the 134 land owners along the pipeline route entered into agreements with TCTA and were compensated.
- Expropriation notices were issued to acquire privately owned land required for the construction of the abstraction and desilting works, as well as the remaining 7 servitudes for the pipeline and 25 borrow pits. All claims for compensation from the land owners were settled.
- The process of payment of compensation for the servitudes of aqueduct commenced and is well advanced.

Post balance sheet event

Minister Lindiwe Hendricks appointed TCTA's reconstituted Board on 29 June 2006 for a three year term to 2009. We welcome our new Board Chairperson, Mr Malixole Gantsho; Vice Chairperson, Ms Londiwe Mthembu, and the following members:

- Mr Gerald Dumas
- Mr Leslie Maasdorp
- Ms Angie Makwetla
- Ms Evodia Malefane
- Mr Robert Mbwana
- Ms Sethe Mothibi
- Ms Simphiwe Kondlo
- Ms Thami Sithole
- Mr Lebogang Thotanyana

CHIEF EXECUTIVE OFFICER'S REPORT CONTINUED

Future

To date, TCTA has developed excellent treasury, financial management and project implementation skills and capacity. Market credibility for accessing off-budget funding at excellent rates was achieved. Income streams from bankable projects ensure that the social and environmental imperatives of sound corporate citizenship are met. Our innovation is tested by implementing fast tracked bulk raw water infrastructure.

Our ability to raise funding and service debt, and to implement projects and manage the concomitant risks, has been honed to a level of specialisation that makes us unique in South Africa and, indeed, Africa. To achieve this with a relatively small team places the responsibility for success squarely on the shoulders of each team member – a value we call “leadership by all”.

In the evolving water sector, TCTA remains enthused and challenged about its ongoing participation in the reform of the sector. TCTA will

continue contributing its skills and know-how for the benefit of all. We welcome the opportunity to meet the challenges posed by the implementation of projects mandated to us and continue to set new benchmarks for infrastructure development.

We are confident that TCTA has gained valuable experience over the years and is well positioned to play a significant role in the water sector. Our role becomes even more critical now given the evolving changes in the sector, specifically the realisation of key national initiatives, the institutional alignment required in water resource development and the augmentation of liability management skills in the sector. It is our belief and that of our stakeholders that TCTA is niche and unique in its offering and can play a pivotal role in the water sector.

In light of looking forward and the integration of TCTA and DWAF: National Water Resource Infrastructure Branch, the words of former President Mandela in his first State of the Nation address in 1994 give guidance:

“We must, constrained by and yet regardless of the accumulated effect of our historical burdens, seize the opportunity to define for ourselves what we want to make of our shared destiny”

We would like to thank Minister Buyelwa Sonjica for her guidance and leadership during her deployment as Minister of Water Affairs and Forestry and wish her well with her new Portfolio in Minerals and Energy. We further extend a warm welcome to Minister Lindiwe Hendricks and look forward to working with her.

I wish to thank:

- Leslie Maasdorp, our outgoing Chairperson, and all the members of the Board for their guidance and support throughout the year and in the past four years which marked an era of significant transformation in our expanded leadership role and delivery of critical infrastructure

- DWAF and National Treasury for their continued support
- our stakeholders and partners in the public and private sectors for constructive relationships that paved the way for sustainable infrastructure development
- all role players during the past 20 years who contributed significantly to TCTA's success
- my management team for their unwavering dedication in achieving TCTA's strategic objectives
- all my colleagues for their dedication, passion, energy and capacity to take on new mandates with enthusiasm – **a team that plays to win.**



Martie Janse van Rensburg

BOARD OF DIRECTORS

Leslie Maasdorp (Chairperson)

BA, M.Sc (Economics)

Leslie is a director of Absa Group Limited and Chairman of Yard Capital, a BEE investment company. Leslie played a key role in Batho Bonke, the empowerment group that participated in the Absa empowerment transaction in 2005. For the past four years he served as International advisor with Goldman Sachs International based in South Africa. Prior to his appointment, he was Deputy Director-General in the Department of Public Enterprises, responsible for restructuring and privatisation of state assets. He played a central role in economic policy-making in the early 1990s when he worked for the ANC Department of Economic Planning. In 1994, he was appointed special advisor to the Minister of Labour, Mr Tito Mboweni. His areas of expertise include corporate finance, investment banking and public finance.

Angie Makwetla

BA (Social Work)

Angie is the Chief Executive, Makwetla & Associates, a company specialising in event management, public relations, disability equity and community development. She has extensive experience in community development and manages, on a national basis, the *Sowetan's* Nation Building projects. She serves on a voluntary basis on the Boards of various development agencies.



Jabulani Sindane

MA African Politics, BA (Hons) Politics, Sussex (UK)

In September 2005 Jabulani was appointed Director-General in the Department of Water Affairs and Forestry following a stint as the Deputy Director-General: Regions for the same department. He has a profound understanding of local government politics and policy development.

Jabulani served as a member of the TCTA Board until 31 March 2006.

Carmen Maynard

MCom (Wits)

Carmen retired in 2001 as Executive Director: Strategy, for the Liberty Group. She is a member of the policy board for financial services and regulation, and a director of Sanlam Limited, Sanlam Life and Sanlam Investment Management.

Carmen resigned as a TCTA Board member on 14 February 2006.



Robert S Mbwana

BSc (Civil Engineering),
Pr Eng

Robert is a managing member of Inhlakanipho Consultants. He has extensive experience in management design and implementation of water and sanitation projects in Malawi, Botswana and South Africa. His experience is mostly in programme and project management as well as the management of operations and maintenance of water supply systems. He also works as a consultant and project manager for donor-funded water and sanitation programmes.





Mike Muller

MSc (Civil Engineering)

Mike served as the Director-General of the Department of Water Affairs and Forestry for 8 years until September 2005. He has extensive general public management experience. He is now a visiting research fellow at the School of Public and Development Management at the University of the Witwatersrand.

He was a member of the UN Millennium Project Task Force on Water and Sanitation (2003 – 2005) and continues to work at both national and international level on water programmes and broader development issues.

Mike served as a member of the TCTA Board until 31 March 2006.



Professor Omar Latiff (Vice Chairperson)

BCompt (Hons), CA (SA), HDip Tax

Omar is an Associate Professor at University of KwaZulu-Natal. His areas of specialist interest are taxation and infrastructure financing. He is Executive Chairman of LMD Africa Chartered Accountants Inc, a national firm of public accountants and auditors. Omar played a leading role in the transition to a democratic local government in KwaZulu-Natal.

He served as Mayor of Pietermaritzburg/Msunduzi from 1995 to 1997. He has extensive experience in the water services industry including at Umgeni Water where he served as board member and later chairman from 1997 to 2005.

Martie Janse van Rensburg (Chief Executive Officer)

CA (SA)

Martie has extensive experience in funding and liability management and a keen interest in the refocusing and alignment of organisations in changing environments. She is a member of the Governing and Audit and Risk Committees of the Bond Exchange of South Africa and is a non-executive director and was Chairperson of the Audit Committee of Johannesburg Water (Pty) Limited (until February 2006) where she also acted as Chairperson of the Board on a number of occasions. She is a specialist member of the Audit Committee for the Airports Company of South Africa and is also a member of the National Task Team on Institutional Reform in Water Services constituted by DWAF.



Phakamani S Hadebe

MA Economics, Sussex (UK) and University of Durban Westville

Phakamani joined the National Treasury in 1996 where he is currently the Deputy Director-General: Asset and Liability Management where he is responsible for liability, strategy and risk management. He also serves on the Boards of the Corporation for Public Deposit and South African Special Risk Insurance Association.

Phakamani served on the Board until January 2006 when the Minister of Finance reappointed the designated TCTA Board representative.

Dr Simo Lushaba

BSc (Hons) Zululand, MBA (Wales), DBA (Natal)

Simo, Chief Executive Officer of Rand Water until his resignation in December 2005, is now an executive at Lonmin Plc and a Harmony Gold Ltd Board member. He has extensive experience in management positions, ranging from the brewery industry to Spoornet, where he was General Manager: Rail and Terminals Services.



PERFORMANCE MEASUREMENT



Each year the performance of TCTA is evaluated according to a balanced scorecard, developed to ensure that the corporate and project plans are adhered to and an acceptable risk framework maintained. Below is a summary of TCTA's performance during the year under review. Further detail is provided in the sustainability report.

Improved Internal Organisation Functioning

To enhance management capability through improved governance structures

This year TCTA focused on strengthening the integrated management assurance, compliance and governance functions.

- Residual risks have been rated and action plans devised to further mitigate risks. These risks and action plans are standing items at Manco, Risk Forum, Exco and Board Committees.
- The terms of reference of all Board committees were reviewed to include enterprise-wide risk management.
- Existing systems were enhanced to ensure that TCTA fully complies with relevant legislative regulatory frameworks. No material or significant audit findings have emanated from the internal and external audit.
- An unqualified audit report has been received and no significant unresolved findings were reported on.
- TCTA continued to place emphasis on good corporate governance.

To effectively re-align the organisational structure in support of its new multi-project environment

An extensive organisational development exercise to align the structure to the extended scope of work.

A significant recruitment drive was launched to meet the growing need for human resources, with specific regard to the transformation agenda.

Human Capital and Development

Compliance with EE plan

EE targets were met and the staff profile (excluding seconded and contracted employees) is:

- Female 59% (1% disabled)
- Black 67% (39% African; 10% Coloured; 18% Indian)
- Management: Black 56% (31% African; 25% Indian)
- Professionals: Black 62% (38% African; 14% Indian; 10% Coloured)

Compliance with training and skills development plan

- Total spend on training: R1 013 500 (5% of payroll)
- Training programmes attended by 55 employees, of which 36 were Employment Equity candidates
- 260 days training (average: R18 500 spent per employee)
- 38 training programmes (average: R7 300 per programme)

Compliance with BEE procurement targets

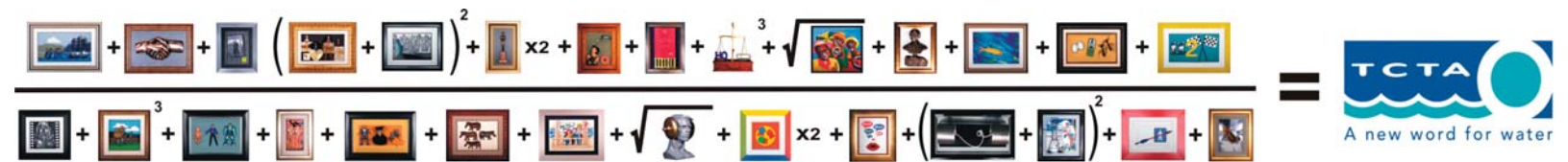
Overall direct spend R731 million (96%)

Staff satisfaction as measured on the DNA index

Process to revitalise and re-energise DNA has begun
Year average 1,16

Staff turnover (Industry 15% to 18%)

13 persons resigned, 18% (2005: 14%)



Integrated Treasury Management and Advisory Services

To facilitate and support sustainability in the water sector

During the year, TCTA

- continued to provide Umgeni Water's Treasury team with strategic guidance
- played an instrumental role in the review of the National Raw Water Pricing Strategy, now in its final draft form
- assisted DWAF to identify and develop optimal financing options and structure institutional arrangements on the ORWRDP II and the Spring Grove Dam development in KwaZulu-Natal
- was involved in reviewing the viability of the Kunzvi Dam in Zimbabwe to be BOOT-contracted (Build, operate and maintain, own and transfer,) by Kunzvi Water Development Corporation.

The CEO's participation on the National Task Team for Institutional Reform in water services provides a holistic view on the impact of changes in the water sector.

Stakeholder Relations

	Strategic and operational functions	LHWP	BWP	VRESAP
To strengthen relationships with key stakeholders	<ul style="list-style-type: none"> • Briefed and updated the Portfolio Committee on Water Affairs and Forestry. • TCTA has maintained regular and constructive interaction with both National Treasury and DWAF. • To support transparency and openness, regular meetings with the investor community, bond holders, market makers and financiers were held. • Made a strategic contribution to Johannesburg Water (JW) through the Chief Executive Officer's involvement as a non-executive director on the Board. 	<ul style="list-style-type: none"> • Participated in the Rand Water Services Forum on issues of demand management, tariff setting and end-user education. • The CEO is a member of the Governing Committee of the Bond Exchange (SA). 	<ul style="list-style-type: none"> • A public engagement plan has been developed as part of the Environmental Management Plan (EMP). • A communication strategy to facilitate and maintain the dissemination of relevant information to stakeholders has been implemented. • Monthly Project Coordination Committee meetings are held with DWAF (National and Western Cape region) and City of Cape Town (CCT). • A Technical Committee, established to consider and approve all technical matters and to make recommendations to the Board, meets on a bi-monthly basis. Membership includes DWAF and City of Cape Town. 	<ul style="list-style-type: none"> • An implementation agreement was concluded with DWAF in October 2005. • Supply agreements between DWAF, Sasol and Eskom were concluded. • Monthly Project Coordination Committee meetings are held with DWAF (National and Gauteng region), Eskom and Sasol. • A Technical Committee established to consider and approve all technical matters and to make recommendations to the Board meets on a bi-monthly basis. Membership includes DWAF, Eskom and Sasol.
To support Black Economic Empowerment (BEE) and make a meaningful contribution to social responsibility	96% of TCTA's total procurement spend for the year ended 31 March 2006 was in support of BEE.	<ul style="list-style-type: none"> • Total direct spend: R12 million (44%). 	<ul style="list-style-type: none"> • Total direct spend: R262 million (91%). • Total indirect spend through contractual requirements for BE and BEE: R109 million. 	<ul style="list-style-type: none"> • Total direct spend: R455 million (99%). • Total indirect spend on contract V020 for February and March 2006: R6 million.
Project Finance				
To enhance financial and risk efficiency and expertise	<ul style="list-style-type: none"> • Tariff setting is done in accordance with best practice to promote transparency, predictability and sustainability. 		In November 2005 Fitch Ratings reconfirmed a long-term AA+(zaf) and short-term F1+(zaf) credit rating, initially awarded in November 2004.	In November 2005 Fitch Ratings awarded a long-term AA+(zaf) and short-term F1+(zaf) credit rating.

PERFORMANCE MEASUREMENT CONTINUED

Project Finance (continued)

	Strategic and operational functions	LHWP	BWP	VRESAP
	<ul style="list-style-type: none"> • Suitable institutional arrangements to achieve appropriate risk allocation and binding in rights and obligations of parties. • Risk quantification is performed on all financial risks. 	<p>Effective collection of water tariff income to repay debt was maintained during this period, with income from LHWP collected strictly on 60 day terms. Actual water consumption on LHWP exceeded forecasted volumes with an estimated 27 million m³.</p>	<p>TCTA consults with CCT on capital charge related issues. The Board Technical Committee, where the city is a voting member, also reviews these matters.</p>	<p>Income agreements with DWAF and the off-takers were signed in October 2005. The agreements make provision for income allocation to the repayment of the project cost, based on a water consumption tariff that accommodates the recovery of the full financial cost of the project.</p>
<p>To manage funding proactively in order to achieve the lowest effective cost within acceptable risk parameters</p>	<p>TCTA's economic performance is measured by its ability to meet and deliver on the requirements of individual projects in the most cost-effective manner within agreed upon time-frames and budget.</p> <p>Where possible, TCTA benchmarks its funding performance against appropriate government debt instruments.</p>	<ul style="list-style-type: none"> • Raised gross funding of R3,6 billion; R1,9 billion for funding activities and R1,7 billion as part of the redemption strategy for the WS01 bond on 1 December 2005. • The total amount raised through TCTA's locally registered LHWP WS-bonds was R3 billion for the year. The amount borrowed through the Commercial Paper Programme was reduced by R428 million. • Achieved a funding rate of 10,65% on the stock of debt against a benchmark rate of 10,68%. • Operated within authorised borrowing limits of R24 billion. • Effective management of the WS01 redemption portfolio reduced costs to R9,3 million against a budget of R11,6 million. • Compliance with the risk management framework was achieved. • Successfully redeemed the principal amount of R4,36 billion on 1 December 2005 for the 12% WS01 bond. The 12-year bond was first issued in 1993. The total cash paid on 1 December 2005 was R4,6 billion which included both capital and accrued interest. 	<ul style="list-style-type: none"> • TCTA obtained the necessary borrowing authority of R1,5 billion for the period to March 2009 and performed within its parameters. • R219,3 million was raised to cover the funding requirement for the year under review. • Benchmarking and performance measurements for BWP commercial paper were approved by the Finance Committee in January 2006. Achieved a funding rate of 7,00% on incremental debt on the Commercial Paper Programme against a benchmark rate of 7,11%. • Compliance with the risk management framework was achieved. 	<ul style="list-style-type: none"> • National Treasury approved a borrowing authority of R3,3 billion. • Bridging facilities of up to R600 million were secured. • Long-term funding for R3,3 billion was put in place through agreements with the European Investment Bank (EIB), ABSA, Investec, Nedbank and Standard Bank. • 100% asset and liability matching achieved. • The Commercial Paper Programme of R300 million was approved and implemented during March 2006. • R257,5 million was raised to cover the funding requirement for the year under review. • Compliance with the risk management framework was achieved. • Benchmarking and performance measurements for VRESAP commercial paper were approved in January 2006. Achieved a funding rate of 7,10% on incremental debt on the Commercial Paper Programme against a benchmark rate of 7,13%.

- 91% of new funding supports asset/liability matching, i.e. debt redemption after 2012 aligned with "free cash".

Project Implementation

To implement the engineering and construction activities of projects in accordance with best practice.

- The private sector participates in competitive contracts in areas such as the design, supervision and construction of major works.
- Project partners and a panel of experts play a central role in overseeing the implementation of projects.
- Projects are implemented in accordance with best practice guidelines provided by industry bodies.

The Ash River management plan is being implemented, including the construction of erosion protection weirs as required.

- Dam construction commenced on 1 June 2004 and is on schedule for impoundment by June 2007. Progress to date:
 - dam wall (embankment) 70% complete
 - intake tower 60% complete
 - diversion conduit 100% complete. Berg River was diverted 24 November 2005
 - balancing dam (Supplement Scheme) 75% complete.
- The construction of the village services contract commenced on 13 October 2004 and is largely complete. The outstanding component for the landscaping will be implemented once all the houses have been completed.
- Construction of the 80 housing units started from January 2005, the first 40 houses were handed over for occupation in July 2005. The second batch of 20 houses was completed in January 2006, with the last batch of 20 on schedule for completion in May 2006.
- A principal-controlled insurance strategy is followed and all contract insurances are in place.

- In November 2005 the contract for the supply and installation of the pipeline, worth R1,39 billion, was awarded to the Mpumalanga Pipeline Contractors Joint Venture.
- The contract to inspect the pipeline was awarded to Pipetech cc. a month later in December 2005.
- The Covec-Mathe Construction Joint Venture was awarded the contract for the civil works and structures.
- The contracts for land acquisition (purchase, expropriation and servitudes) were awarded in February 2006 and the valuator appointed at the same time.
- The task of relocating the graves was awarded through a contract worth R470 000 to Professional Grave Solutions.
- A principal-controlled insurance strategy is followed and all contract insurances are in place.

To implement projects in accordance with acceptable environmental standards and best environmental practices.

Through its environmental policies and strategies TCTA endeavours to ensure that:

- Stakeholder engagement is an on-going process.
- Environmental Management System (EMS) frameworks are implemented with the objective of achieving continuous improvement in environmental performance.

Environment

- All environmental monitoring policies, procedures and controls were adhered to.
- In-stream Flow Requirements adhered to.

Environment

- All environmental monitoring policies, procedures and controls were adhered to.
- The Environmental Control Officer (ECO) conducted two comprehensive audits. An improvement in compliance was reported.
- Working for Water achieved its targets for clearing alien vegetation from the dam catchment area.

Environment

- Strategic Environmental Focus has been appointed to perform the Environmental Impact Assessment and the Public Information Plan (PIP) to obtain environmental approvals.
- The final Environmental Impact Report (EIR) was submitted to the Department of Environmental Affairs and Tourism (DEAT) on 4 July 2005.

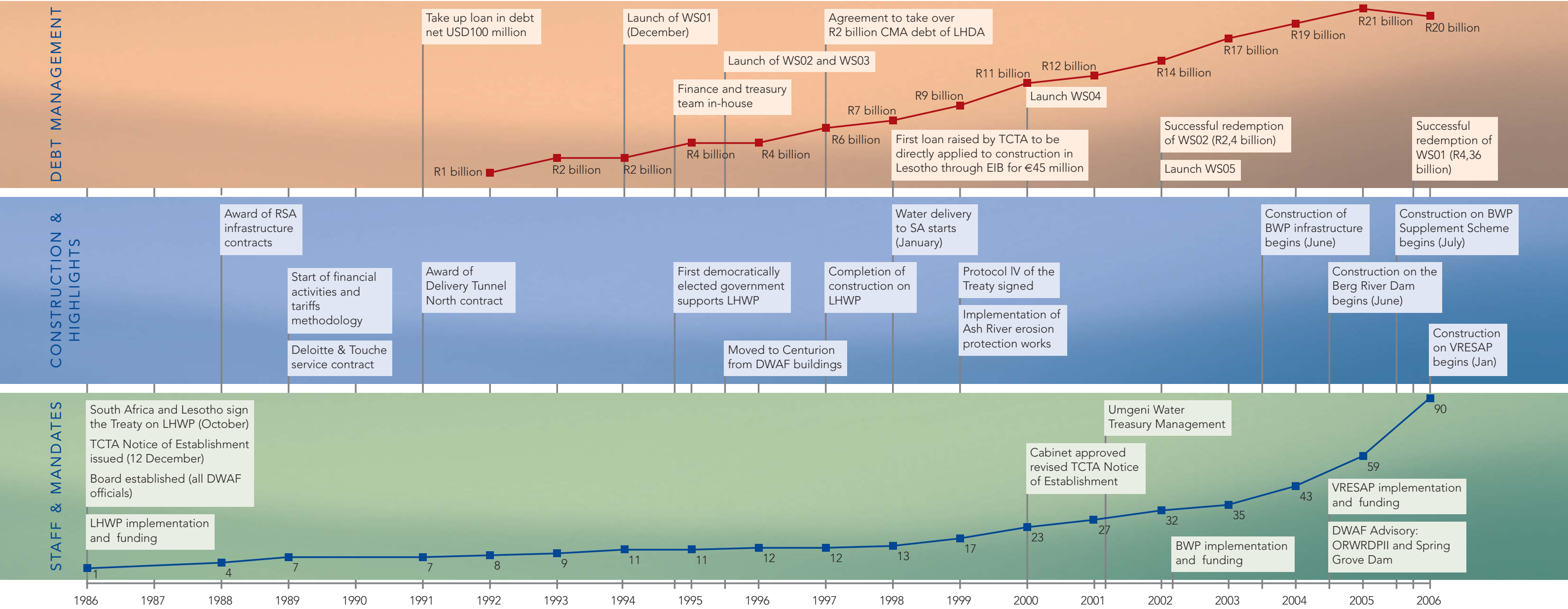
PERFORMANCE MEASUREMENT CONTINUED



Project Implementation (continued)

	Strategic and operational functions	LHWP	BWP	VRESAP
	<ul style="list-style-type: none"> Operational procedures are implemented to control, reduce and avoid negative impacts. Environmental impacts are internalised as part of the project controls and do not become a social cost. Environmental legislation is adhered to. 	<p>Social South Africa</p> <ul style="list-style-type: none"> Support and enable tourism initiatives in the eastern Free State and along the Maloti Route <ul style="list-style-type: none"> sponsorship of the Maloti Route's participation in the Tourism Indaba information centres in Clarens, Ficksburg, Fouriesburg and Ladybrand training of tour guides and information officers. Community Development <ul style="list-style-type: none"> sponsorship of the Slalom Development Team in Clarens transfer of assets to local authorities. <p>Lesotho</p> <ul style="list-style-type: none"> Social development initiatives implemented include: <ul style="list-style-type: none"> capacity building to enable community participation water and sanitation infrastructure social impact epidemiology & social survey. 	<ul style="list-style-type: none"> The amendment to the Record of Decision (RoD) due to the changes in the design of the abstraction works is pending. <p>Social</p> <ul style="list-style-type: none"> 70% labour recruited from local project area. 636 people employed by Working for Water for the TCTA contract. Opportunities and Constraints report on future use of the land surrounding the dam was completed. The report will inform the Sustainable Utilisation Plan. Training implemented by all contractors. Social Monitoring is ongoing. Interventions to mitigate impacts of the project were identified and will be implemented in the next financial year. 	<ul style="list-style-type: none"> DEAT reviewed the EIR and issued a RoD on 5 September 2005. The process to identify and procure the services of an Environmental Control Officer has begun. The Environmental Management Committee was established in February 2006. <p>Social</p> <ul style="list-style-type: none"> Employment and procurement targets for each contract have been set. To date 611 jobs have been created of which 289 were recruited from the local project area. Social Impact Assessment completed. Assessment identified several potential positive spin-offs for the community including: <ul style="list-style-type: none"> increased infrastructure investment stimulation of the local economy increased employment skills transfer and development.
<p>To operate and maintain the works in accordance with best practise</p>		<ul style="list-style-type: none"> Complied with provisions of protocol VI. Operated and maintained the works in accordance with international best standards and practice. Delivered the required volume of water in accordance with the Treaty. 		

TCTA 20 YEARS



CORPORATE GOVERNANCE



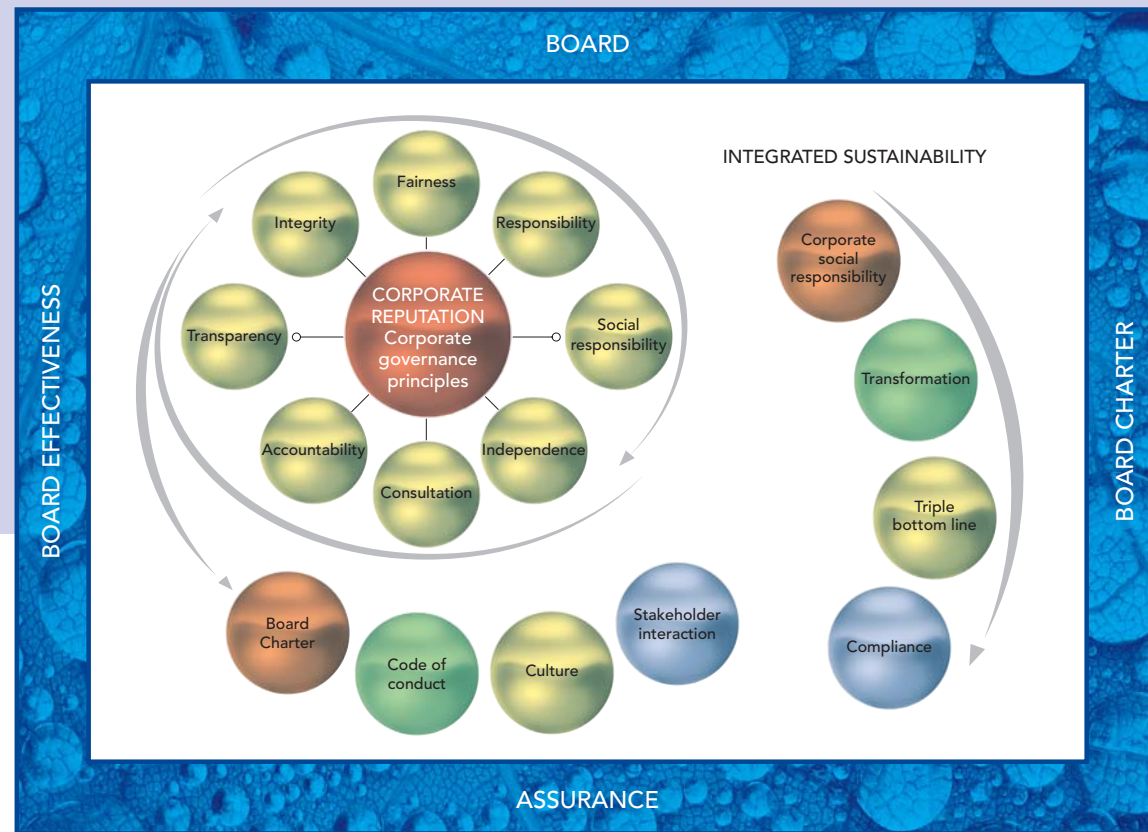
The degree of adherence to corporate governance is seen as a barometer of the health and performance of an organisation.

TCTA is characterised by its drive to meet all corporate governance expectations of the

highest standard and exceed all international best practice benchmarks.

TCTA is committed to an open governance process through which its stakeholders derive assurance that it is being managed ethically and according to prudently determined risk parameters and best international practices.

Figure 4: TCTA's corporate governance framework



TCTA subscribes to the corporate governance principles of accountability, responsibility, equity, transparency, discipline and social responsibility as contained in the second King report (King II) in all its business undertakings and always aims to conduct its business with integrity.

TCTA ensures that its processes and practices on corporate governance and compliance are comprehensively and continuously reviewed to ensure compliance with all legal obligations to prevent fruitless and wasteful expenditure.

TCTA's directors, management and employees are committed to transparent, sound and ethical business practices as expressed in its code of conduct. There is a clear delineation of responsibilities between the Board, Board Committees and the Executive Committee.

The Chief Executive Officer and the legal compliance division are responsible for monitoring compliance within the organisation.

Board of Directors

Composition of the Board

In terms of the Public Finance Management Act (PFMA) 2001, read with TCTA's Notice of Establishment in terms of the National Water Act, 1998, the Minister of Water Affairs and Forestry is the executive authority of TCTA to whom its Board

of Directors, as the accounting authority, is directly accountable.

The Board comprises of:

- five independent non-executive directors
- three non-executive directors
- one executive director.

The non-executive directors are appointed on a three-year term. The current Board cycle expired on 31 May 2005. However, the Minister extended the term of the current Board to 30 December 2005 then further extended to 31 March 2006 and finally to 30 June 2006 to enable the recomposition of the Board in line with water sector developments. The Chief Executive Officer, appointed in May 1998 on a permanent basis, remains the only executive director on the Board.

- The Director-General of DWAF, Mr Sindane was appointed to the Board in September 2005.
- Ms Maynard resigned on 14 February 2006. Her position is currently vacant. The Finance Committee which was previously chaired by Ms Maynard, is being chaired by Prof Omar Latiff.
- Mr Muller and Mr Sindane's terms expired on 31 March 2006 and their appointment was not renewed.
- In January 2006 National Treasury indicated that Mr Hadebe would no longer be the designated TCTA Board member, an alternate is yet to be appointed by the Minister of Finance.

The Board consists of directors of high calibre and expertise with an appropriate mix of skills, experience and diversity.

Directors' induction and orientation

New Board members are taken through a strategic induction programme before commencing their duties as directors. This programme was designed to enhance:

- the directors' understanding of their fiduciary duties and responsibilities
- TCTA's legislative framework, including its governance processes
- the nature of TCTA's business, management structure and operations.

Board Charter

A Board Charter has been developed and established for the Board of Directors and includes the directors' code of conduct. The Board is fully committed to maintaining the standards of integrity, accountability and openness required to achieve effective corporate governance.

The Charter confirms the Board's:

- accountability
- fiduciary duties
- duty to declare conflict of interests
- appointment of Committees
- relationship with TCTA staff
- meeting procedures.

Furthermore, the Charter also defines the Board's responsibility to:

- report on integrated sustainability
- monitor operational performance and management
- determine policy and processes to ensure the integrity of TCTA
- guide director selection, orientation and evaluation.

CORPORATE GOVERNANCE CONTINUED

Role and function

The Board's role as the accounting authority of TCTA in terms of the PFMA includes the following functions:

- Exercising the duty of utmost care to ensure reasonable protection of the assets and records.
- Providing strategic direction and leadership.
- Identifying and monitoring key risk areas and key performance indicators.
- Ensuring the preparation of annual financial statements in accordance with international financial reporting standards (IFRS).
- Appointing independent auditors to review and report on annual financial statements.
- Ensuring adequate, efficient, effective and transparent internal controls and systems of financial and risk management.
- Monitoring and reviewing performance and effectiveness of controls and systems.
- Ensuring the maintenance of adequate financial records.
- Approving transactions beyond the authority of management.
- Maintaining full and effective control over the operations of the organisation.
- Approving the delegation of authority.
- Ensuring good corporate governance and ethics.

- Monitoring and ensuring triple bottom line performance.
- Identifying and monitoring the non-financial aspects relevant to the business.

Board effectiveness

The Board operates within an established structure that ensures there are adequate processes in place to monitor its operation. The assessment of the effectiveness of both the structure and processes of the Board is vital to the achievement of TCTA's objectives and for maintaining good corporate governance.

All Board members completed an efficacy assessment in November 2005. The assessment examined the following areas:

- the Board's role, agenda setting, performance monitoring and strategic planning
- size, composition and independence of the Board
- director orientation and development
- Board leadership, teamwork and management relations
- Board and Committee meetings
- director and Board evaluation and compensation
- management evaluation and compensation
- succession planning
- constituencies.

No material concerns were expressed in these evaluations and the Committees in their opinion have satisfied their responsibilities during the year.

Remuneration of the Board

The directors are remunerated on a basis determined by the Minister of Water Affairs and Forestry.

The non-executive members of the Board, barring those who are public servants or attached to semi-government organisations, are remunerated on the basis of a monthly retainer and Board meeting attendance, including attendance of Committee meetings.

The Minister approved a remuneration policy in 2003 which ensures that remuneration of directors is comparable to the level, skill and expertise required from Board members and in accordance with current market practice. (Details of directors' remuneration are stated in the notes to the annual financial statements).

Independence of the Board

The independence of the Board is maintained by adhering to certain key principles:

- The Minister appoints the members of the Board for a term of three years.
- The positions of Chairperson and Chief Executive Officer are kept separate.

- The Chairperson is an independent non-executive member of the Board.
- All Board Committees are chaired by independent non-executive members and specialist skills are provided to the Committee by independent advisors who are members of the Committees.
- The Chief Executive Officer is the only executive member of the Board and Committees.
- All directors have access to TCTA's senior management.
- All directors are entitled to seek independent specialist advice on the affairs of TCTA. Such advice or services will be paid for by TCTA if sought with the prior approval of the Chairperson.

Board Committees

The Board has established a number of Board Committees to assist it in discharging its responsibilities. The current Committees are:

- Board Chairs Committee
- Audit and Risk Committee
- Finance Committee
- Human Resources Committee
- BWP Technical Committee
- VRESAP Technical Committee.

The Board recognises that it is ultimately accountable for the performance and affairs of the

organisation and that the use of Board Committees in no way mitigates or dissipates the duties and responsibilities of the Board and its directors.

These Board Committees operate under written terms of reference approved by the Board and members of these Committees are appointed by the Board. Furthermore the Committees are chaired by a Board member who reports to the Board, ensuring transparency and full disclosure.

Reports by Committee Chairpersons and minutes of Committee meetings are discussed at Board meetings. Directors have full access to Committee documentation. Board Committees are free to take independent professional advice as and when necessary.

The Board has delegated authority to these Committees which is reviewed at least annually. These delegated authorities are intended to assist in the control of decisions and in the smooth and efficient functioning of the organisation.

Notwithstanding these delegations the Board has reserved for itself certain decisions to ensure that it retains proper direction and control in particular regarding significant strategic, financial, organisational and compliance matters. In this regard recommendations are made by Committees to the Board for consideration and approval.

Board Chairs Committee

Consists of

- Chairpersons of Board Committees
- Chief Executive Officer – ex officio member
- Invited persons:
 - Chief Financial Officer
 - Head of Strategy and Development
 - Head of Organisational Development & People Management
 - Projects Manager
 - Experts as and when necessary

Function

- The duties of the Committee are:
 - to deal with any matter that is not included in the terms of reference of any of TCTA Board Committees
 - to consider and resolve any dispute which arises at Board Committee level
 - to consider any matter which is referred to it by the Board
 - to appoint specialist members of Board Committees and EXCO members
 - to consider the strategic direction of the organisation and participate in setting strategy
 - to act as a “think tank”.

Four meetings were held during the financial year.



Audit and Risk Committee

Consists of

- Two non-executive directors
- Independent audit expert
- Chief Executive Officer
- Invited persons:
 - Chief Financial Officer
 - Head of Internal Audit
 - External Auditor
 - Risk Manager
 - Financial Controller
 - Legal Advisor
 - Head of Strategy and Development
 - Head of Governance
 - Project Managers

Function

- Ensures that:
 - Adequate and appropriate internal, financing and operating controls are in place.
 - Significant business, statutory and financial risks have been identified and are managed.
 - Appropriate standards of governance, reporting and compliance are in operation.
 - Compliance cycles for financial year, taking into account high-risk areas and their impact on external and internal audits, are appropriate.
 - Enterprise-wide risk assessment is adequately applied and identified high risks are appropriately addressed.
- Reviews:
 - annual financial statements and accounting policies
 - effectiveness of management information and other systems of internal control
 - identified weaknesses in controls and systems
 - compliance to all relevant legislation.
- Recommends the approval of the annual financial statements to the Board.
- Recommends the appointment of the external auditors to the Board.

Three meetings were held during the financial year.

CORPORATE GOVERNANCE CONTINUED

Finance Committee

Consists of

- Two non-executive directors
- Independent specialist advisor
- Chief Executive Officer
- Invited persons:
 - Chief Financial Officer
 - Head of Strategy and Development
 - Financial Controller
 - Project Managers
 - Treasury Manager
 - Assistant Treasury Manager

Function

- Provides assurance to the Board that:
 - Financial risks are appropriately identified, measured, managed and reported.
 - An appropriate funding and risk strategy is formulated to meet current and future business requirements.
 - Financial policies are adhered to and reported.
 - The financial performance of the organisation is measured and reported using relevant benchmarks.
 - Relevant financial information is reported to assess the financial position and performance of the entity.

Five meetings were held during the financial year.



Human Resources Committee

Consists of

- Two non-executive directors
- Chief Executive Officer
- Independent advisor
- Invited persons:
 - Independent remuneration consultants and performance management consultants as required
 - Chief Financial Officer
 - Head of Strategy and Development
 - Head of Organisational Development & People Management
 - Chair of the Employment Equity Committee

Function

Acts as a remuneration committee, driven by TCTA's philosophy to reward appropriate performance based on achievement of business strategies and goals.

- Ensures that:
 - The human capital of TCTA is appropriately managed and developed.
 - Labour law is adhered to, specifically regarding employment equity and skills development.
 - Management and staff receive market-related remuneration
 - o independent opinions and advice are obtained on market moves regarding remuneration
 - o incentive reviews are appropriately applied in the organisation.
 - Human resources policies are adhered to and reported on.
 - Succession plans exist and are appropriately reviewed and actioned.
 - Executive management reports progress on business plans and general human capital development and management.
 - Activities and progress of the Transformation Forum are reviewed.

Four meetings were held during the financial year. One special joint meeting was held by the Finance and HR Committees.

BWP Technical Committee

Consists of

- TCTA
 - Two non-executive directors
 - Chief Executive Officer
- City of Cape Town (CCT)
- Department of Water Affairs and Forestry (DWAF)
- Invited persons:
 - Engineering specialists
 - Independent technical experts as required
 - Project Manager
 - Project Engineer
 - Head of Strategy and Development
 - Chief Financial Officer

Function

- Ensures that:
 - The terms of the mandate to fund and implement the BWP are adhered to.
 - Appropriate policies are in place to regulate the award of tenders and contracts for capital works and any variation orders.
 - Policies for capital expenditure are adhered to.
 - Appropriate technical consideration is given to recommendations from the independent technical review panels.
 - Associated project risks are appropriately identified, managed and reported.
 - Progress on the project is monitored and reported.

Five meetings were held during the financial year.



VRESAP Technical Committee

Consists of

- TCTA
 - Two non-executive directors
 - Chief Executive Officer
- Sasol*
- Eskom*
- Department of Water Affairs and Forestry (DWAF)
- Invited persons:
 - Engineering specialists
 - Independent technical experts as required
 - Project Manager
 - Project Engineer
 - Head of Strategy and Development
 - Chief Financial Officer

* Sasol and Eskom may have more than one representative but only one vote.

Function

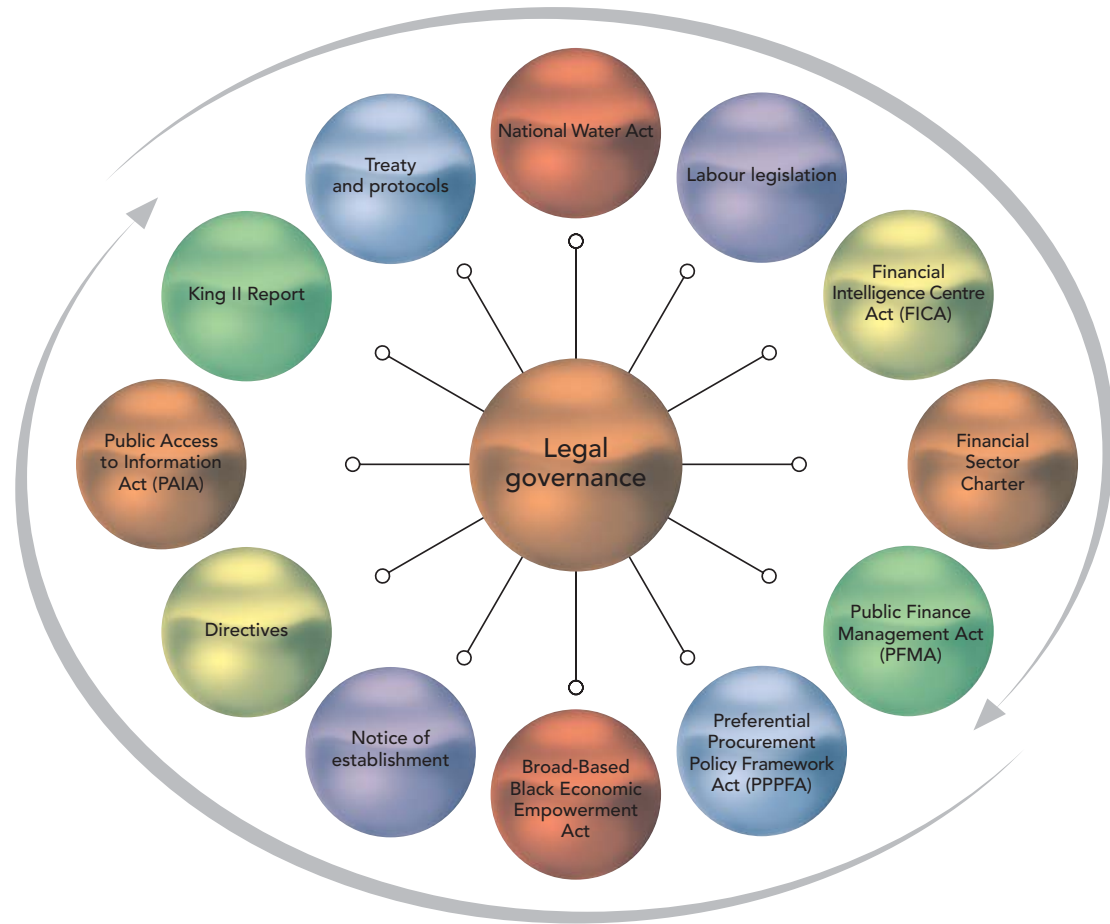
- Ensures that:
 - The terms of the mandate to fund and implement VRESAP are adhered to.
 - Appropriate policies are in place to regulate the award of tenders and contracts for capital works, and any variation orders.
 - Policies for capital expenditure are adhered to.
 - Appropriate technical consideration is given to recommendations from the independent technical review panels.
 - Associated project risks are appropriately identified, managed and reported.
 - Progress on the project is monitored and reported.

Seven meetings were held during the financial year.

Compliance with legislation, regulations and guidelines

TCTA complies with the governance legislation regulations and guidelines illustrated in Figure 5.

Figure 5: Regulations and guidelines



Public Finance Management Act (PFMA)

TCTA has implemented governance structures and processes that conform to the provisions of the PFMA. Regular compliance reviews are conducted and findings are reported to the Audit and Risk Committee. TCTA complies with the PFMA in all material respects.

No irregular, fruitless or wasteful expenditure was reported during the year under review.

King Report on Corporate Governance for South Africa 2002 (King II)

TCTA conducts an annual review of its compliance with King II. The results of such reviews are reported to the Audit and Risk Committee. TCTA complies substantially with King II.

The structure of TCTA's company secretariat is unique and not completely aligned to the traditional role as set out in King II. However, TCTA is satisfied that this function is performed adequately within the organisation.

Procurement framework

Regular reviews are conducted to ensure TCTA complies with government's procurement regulations. TCTA has structures in place (refer to Figure 5) to ensure application and compliance with the Preferential Procurement Policy Framework Act of 2000 and its regulations, the Broad-Based Black Economic Empowerment Act of 2003 and Policy to Guide Uniformity in Procurement Reform Processes in Government. TCTA has also aligned the procurement target setting to the recently published draft Codes of Good Practice.

TCTA complies with the Financial Sector Charter.

At projects level, targets are set in line with specific policies which seek to maximise job and business opportunities for local people. The policy ensures that employment, procurement and training opportunities for local communities are created by project role players, to the extent that targets are specified in contract documentation.

Public Access to Information Act

TCTA complied with the requirements of the Promotion of Access to Information Act of 2000. The manual is available on TCTA's website and intranet.

Financial Intelligence Centre Act (FICA)

TCTA has a zero-tolerance approach to fraud and corruption. Internal rules were drafted and approved as required by the Act. Maintenance of FICA is an ongoing function. TCTA's compliance is well within the parameters provided by National Treasury.

With the objective of continuous improvement and operating at best practice standards, TCTA is continuously training staff to ensure awareness of the organisation's reporting and identification obligations under FICA. Procedures have been implemented and a money-laundering control officer in terms of the Act has been appointed.

Labour legislation

TCTA has developed and implemented structures and processes to comply with all labour legislation. TCTA is committed to black empowerment initiatives and its support of such initiatives extends to its employment equity plan and skills development plan.

Consultants were commissioned to evaluate TCTA's compliance with labour legislation and reported that TCTA is in full compliance.

Notice of establishment

The Notice forms part of the National Water Act. TCTA fully complies with the Act, Notice, its directives and the Treaty and its protocols.

Internal, financial and operating controls

The Board acknowledges its responsibility for ensuring that TCTA implements and monitors the effectiveness and adequacy of systems of internal, financial and operating controls. These systems are designed to guard against material misstatement and loss. TCTA's Audit and Risk and Finance Committees review these matters regularly on behalf of the Board.

The Board adopted a risk-based approach in establishing a sound system of internal control and reviewing its effectiveness and adequacy. This is incorporated in the normal management and governance processes.

The Board has considered all significant aspects of internal control in TCTA for the year under review and up to the date of approval of the annual report and accounts. The internal audit function as well as the compliance function assist in providing the Board and executive management with monitoring mechanisms for identifying risks and assessing controls appropriate to managing such risks.

TCTA's internal control systems facilitate the effectiveness and efficiency of operations and help to ensure the reliability of internal and external reporting, as well as to assist with compliance to laws and regulations. The entity's effective financial controls, including the maintenance of proper accounting records, are an important element of internal control. They help to ensure that TCTA is not exposed to avoidable financial risks, and that financial information used internally and externally is reliable. They also contribute to the safeguarding of assets, including the prevention and detection of fraud. TCTA performs a thorough and regular evaluation of the nature and extent of the risks to which the entity is exposed.

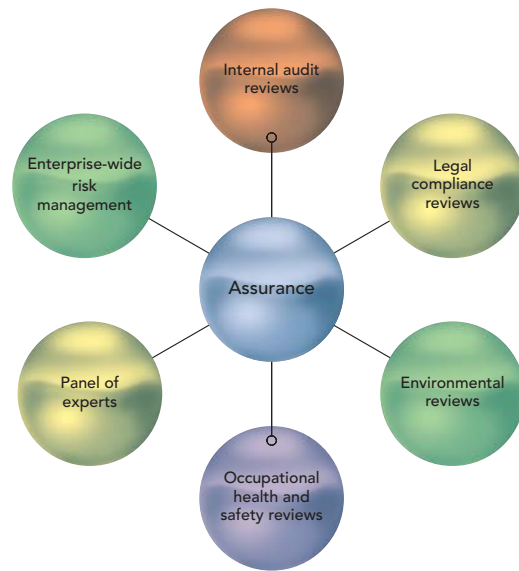
In terms of the PFMA, the Board is pleased to confirm that no material loss through criminal conduct was experienced by the business and no irregular expenditure or fruitless and wasteful expenditure was incurred during the period under review.

To ensure that business practices are above reproach under all reasonable circumstances, all employees are required to maintain the highest ethical standards. Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

Assurance

During the period, the governance function was restructured to integrate the divisions dealing with governance, internal audit, risk management and legal issues reporting directly to the CEO. Figure 6 illustrates the structure.

Figure 6: Assurance mechanisms



Internal audit

In compliance with the Institute of Internal Auditors' (IIA) standards, TCTA commissioned KPMG to perform a follow-up review of its internal audit function. The implementation of the KPMG findings has been completed.

The internal audit function is a co-sourced independent appraisal function. The Head: Internal Audit is a full-time position which is currently vacant and filled by a consultant seconded from KPMG. The internal audit function examines and evaluates TCTA's activities, with the objective of assisting executive management to discharge its responsibilities effectively. It assists all levels of management in TCTA and the Board through the Audit and Risk Committee to achieve the objectives of TCTA by evaluating and developing recommendations for the enhancement of the processes through which:

- objectives and values are established and communicated
- the accomplishment of objectives is monitored
- accountability is ensured
- corporate values are preserved.

The internal audit activity also evaluates and contributes to the improvement of risk management, control and governance systems regarding:

- the information systems environment
- reliability and integrity of financial and operational information

- effectiveness and efficiency of operations
- safeguarding assets
- compliance with laws, regulations, controls and contracts
- organisational ethical culture
- prevention and detection of fraud.

The internal audit function is independent of management. The purpose, authority and responsibility of the internal audit activity is defined in the Internal Audit Charter approved by the Board. The Charter is consistent with the IIA's definition of internal auditing.

The Head: Internal Audit is accountable to the CEO, who has delegated the responsibilities to the Head: Governance. The Head: Internal Audit has free and unrestricted access to the chairperson of the Audit and Risk Committee and the chairperson of the Board. The Head: Internal Audit has attended and reported at all meetings of the Audit and Risk Committee.

The function is independent of activities that were audited, and there was no limitation on its access to information.

Standards and best practices

The internal audit function adheres to international standards and best practice, including the standards for the professional practice of internal auditing.

External liaison

The internal and external audit functions liaise on audit coverage for the period to maximise assurance on financial, operational and compliance control, and minimise duplication of effort.

Communication with stakeholders

The principle of regular, relevant, open and factually correct communication with stakeholders is upheld in all targeted and general communications by TCTA in its interaction with its stakeholders. TCTA believes that to present a balanced and understandable assessment of its position in financial and non-financial matters, both positive and negative aspects are reported and addressed to demonstrate the long-term sustainability of the organisation, and full disclosures are made regarding all relevant aspects of information.

Communication and interaction with stakeholders was an ongoing process, and was addressed through various channels according to the needs of stakeholders.

All relevant TCTA-related information is freely available on the TCTA website or by request from TCTA offices. The approach to disclosure of information reflects TCTA's core business values of integrity, trust and good corporate governance.

CORPORATE GOVERNANCE CONTINUED

Social and transformation issues

More details of the highlights for the year are provided in the Sustainability Report. TCTA fully ascribes to the government's initiatives to eradicate poverty.

Black economic empowerment (BEE)

TCTA fully supports and is committed to black economic empowerment and is compliant with all appropriate legislation. TCTA's philosophy in support of BEE extends to its employment equity plan, procurement, recruitment, learning and development, and the skills development plan.

Employment equity

The management of TCTA is committed to developing all staff and creating access to growth and development opportunities in the workplace. TCTA applies the principles of employment equity which includes an affirmative action programme.

Affirmative action is an integral part of the employment equity plan and is emphasised through the appointment of suitably qualified individuals in appropriate positions.

Recruitment and selection are implemented in terms of the targets in the employment equity plan, taking TCTA's culture into consideration.

TCTA also offers its staff study assistance to create expertise in the financial and engineering sectors and other project related fields.

Code of conduct

TCTA has developed a code of conduct for all employees and consultants. The directors believe the ethical standards and the criteria as set out in the code of conduct were met.

TCTA Board Committee members and attendance

During the period under review, the Board and Committee members' attendance was as follows:

Meetings	Board ⁽¹⁾	Board Chairs	Audit and Risk	Finance	Human Resources	BWP Technical	VRESAP Technical
Planned/Scheduled	6	0	4	6	4	6	6
Held	8	4	3	5	4	5	7
Board of Directors							
Leslie Maasdorp (Chairperson)	7	4					
Omar Latiff (Vice Chairperson)	8	3	3	1 ^(A)			
Mike Muller	6		1	1 ^(A)		2	3
Carmen Maynard	7	1	1 ^(A)	4	2 ^(A)		
Phakamani Hadebe ⁽²⁾	4			4			
Robert Mbwana	5	4	1 ^(A)			5	6
Simo Lushaba	5				2	3	3
Angie Makwetla	5	3	1 ^(A)		4		
Martie Janse van Rensburg	8	4	2	5	4	5	7
Specialist members							
Paul Roberts ⁽³⁾						5	7
Alison Beck ⁽⁴⁾			3				
Louis Kingma ⁽⁵⁾				2			
Maura Jarvis ⁽⁶⁾					4		
Project implementation partners							
DWAF: Willie Croucamp ⁽⁷⁾						5	6
DWAF: Vusi Khubeka							1
CCT: Dave Brooks (until February 2006)						3	
CCT: Letlhogonolo Motlhodi (effective February 2006)						1	
Sasol: Loekie Pretorius							5
Sasol: Fritz Weilbach							1 ^(A)
Eskom: Rob Lines (until May 2005)							1
Eskom: Nanda Govender (effective June 2005)							6

Footnotes to TCTA Board Committee members and attendance:

- ⁽¹⁾ Includes two special Board meetings.
- ⁽²⁾ This position on the Board is a National Treasury nomination. In January 2006 National Treasury indicated that a replacement will be nominated.
- ⁽³⁾ DSc (Civil Engineering) (MIT). Extensive experience in the planning, design and implementation of national and international bulk water supply projects as well as involvement in policy preparation on water resources and management of information services.
- ⁽⁴⁾ BCom, CA, CAIB (SA). Partner in Financial Services Group KPMG. Extensive experience in financial markets, corporate treasury and assurance investigations.
- ⁽⁵⁾ FCIS. Extensive experience in banking and commerce, project finance of major projects (IDC) and risk management. Served on the Credit Committee of a major financial institution. Deceased in September 2005.
- ⁽⁶⁾ BA (Industrial Psychology), PDM (Human Resources), DPLR (Labour Relations). Extensive experience in strategic human resource development and management at director level.
- ⁽⁷⁾ BSc (Hons)(Civil Engineering). Chief Director: National Water Resource Infrastructure, DWAF. Extensive experience in large water resource development project implementation and dam safety.
- ^(A) Alternate members – the alternate member will hold a voting right in instances when they are representing the primary member in his/her absence. The alternate member shall not carry this voting right if he/she is accompanying the primary member to the meeting.

Independent auditors

Deloitte & Touche, Woodmead, Johannesburg.





Enterprise-wide risk management (EWRM)

Introduction

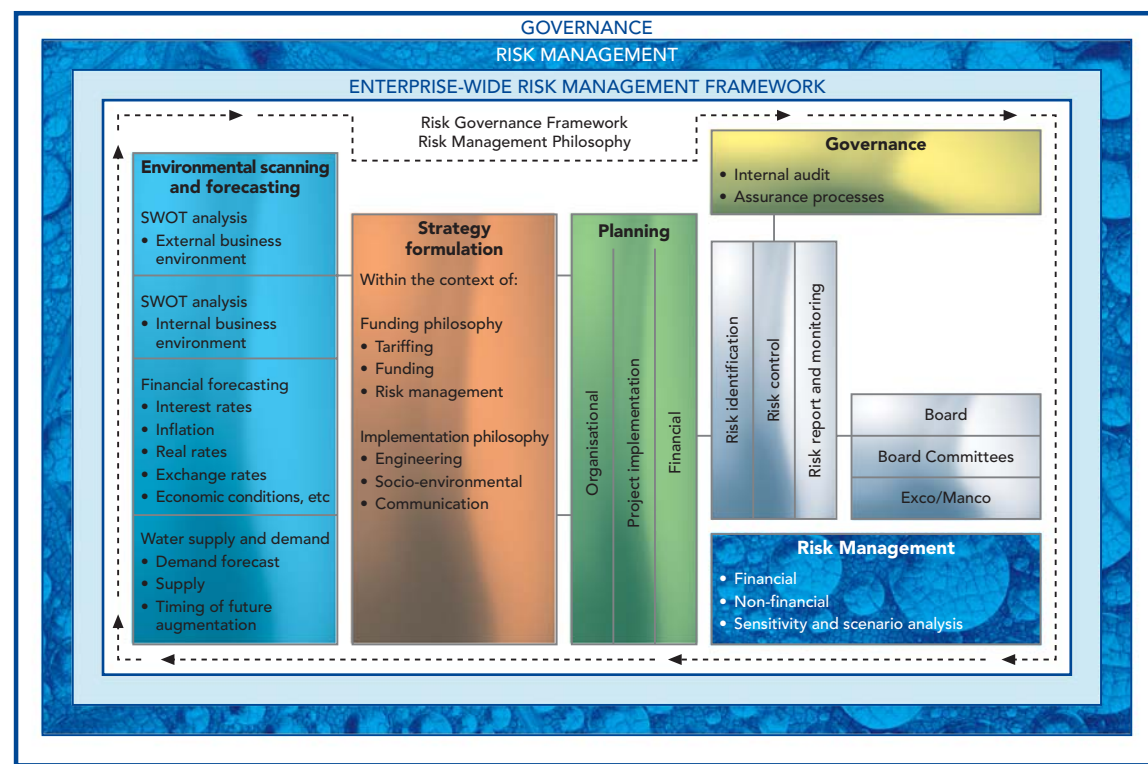
EWRM is a formal response to corporate risk and is a structured, systematic process woven into existing management responsibilities. This is a continuous, on-going process that responds to all types of risk in all parts of the organisation. EWRM is inherently part of the management philosophy of TCTA.

TCTA's EWRM Philosophy

TCTA's EWRM function takes place within the organisation's risk management governance framework. The achievement of TCTA's strategic objectives and stakeholder requirements is based on a management principle of incorporating EWRM in all aspects of TCTA's business. This is done by "living an integrated risk management approach to business" as set out in the TCTA EWRM framework.

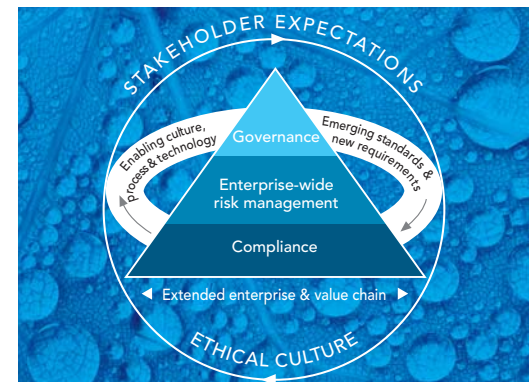
RISK MANAGEMENT

Figure 7: Enterprise-wide risk management framework



TCTA's approach to risk management is enterprise-wide and supported by the organisation's structure.

Figure 8: TCTA's integrated approach to risk management



EWRM is an integrated component of TCTA's governance function that addresses the corporate governance, risk management and compliance objectives of the organisation. These objectives are built into the ethical culture of TCTA as reflected in TCTA's DNA, and support the overall governance objective of meeting stakeholder objectives. EWRM within TCTA enables management to determine how much uncertainty and risk it is prepared to accept as it strives to grow stakeholder value. This process enables management to identify, assess and manage risks in the face of uncertainty and is therefore integral to value creation and preservation within the organisation.

TCTA's risk management philosophy, which is conservative and has a low level of risk tolerance,

includes its funding and project implementation philosophy.

TCTA's EWRM philosophy extends beyond financial risk management to a more holistic approach, taking into consideration:

- The specific risks associated with project implementation, such as those pertaining to social, environmental, geo-technical, supervisory and construction aspects.
- The links between risk variables and natural hedging or risk transfer mechanisms that may exist.
- The ability of the risk management process to reinforce TCTA's business objectives.

TCTA's EWRM philosophy, methodology, and approach are aligned with generally accepted international best practices as set out in the COSO EWRM Integrated Framework.

TCTA's EWRM methodology

EWRM within TCTA is a continuous process incorporated into the day-to-day management of the business. Strategy and objective setting takes place annually. The TCTA strategy is however reviewed and updated on a continuous basis by the Board, Exco and senior management. Aligned with strategy setting is formal risk identification and rating. The steps that follow on the risk identification and rating include development of responses to risks identified and executing these responses. Finally a process of monitoring and reporting involving completion and updating of risk registers, reporting to the Risk Forum, Exco and eventually the Board via the Audit and Risk Committee takes place.



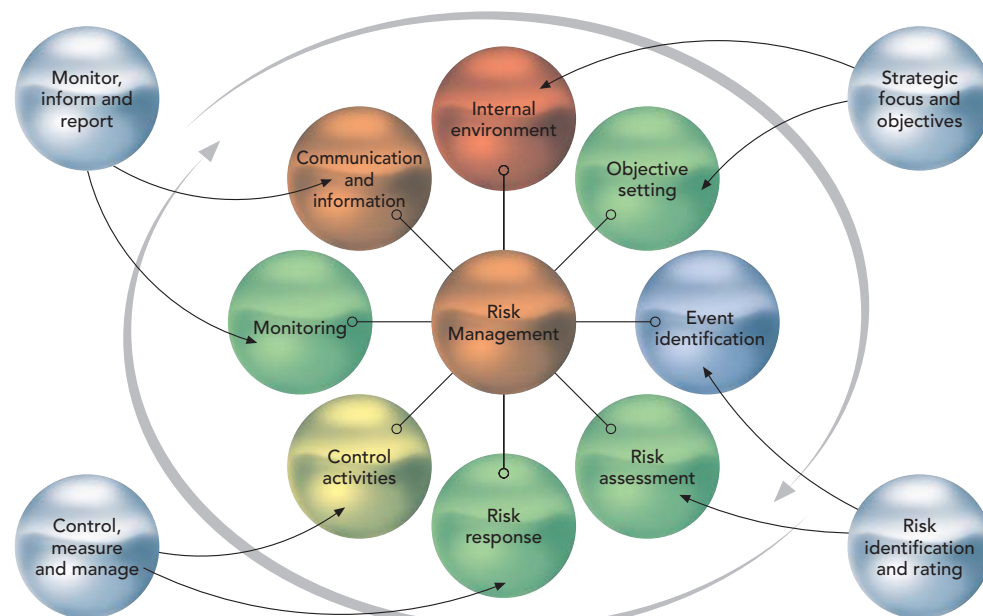
RISK MANAGEMENT CONTINUED

The EWRM framework encompasses the environmental scanning and forecasting process within the context of liability management and TCTA's balanced scorecard strategy. Within this framework, risks are identified, controls designed and implemented to address and manage these risks. Monitoring and reporting procedures are designed to enhance the risk management function further. Results of this process are reported to the Risk Forum, Audit and Risk Committee and Board.

The interrelated components as depicted in Figure 9 form the baseline of an efficient and effective EWRM methodology, which is incorporated in TCTA's methodology of managing risks. The components are linked and serve as criteria for ensuring that EWRM is effective.

- The **internal environment** encompasses the management style and tone within TCTA which is based on achieving stakeholder objectives within parameters set by the organisation's risk management philosophy, risk appetite and risk culture, oversight by the Board of Directors, the integrity, ethical values and competence of TCTA's people.
- TCTA's annual EWRM approach is fed by the organisation's annual **strategic objective setting** process which also feeds into the balanced scorecard and budget, thereby ensuring integration of risk management and strategy within the organisation.

Figure 9: TCTA's EWRM Methodology



- **Event identification** is the process of identifying potential events both internal and external that may affect TCTA's ability to successfully implement strategy and achieve objectives. It includes distinguishing between events that represent risks, opportunities, and those that may be both. Enterprise-wide risk identification within TCTA takes place on a regular basis as required by section 38a of the PFMA, and is

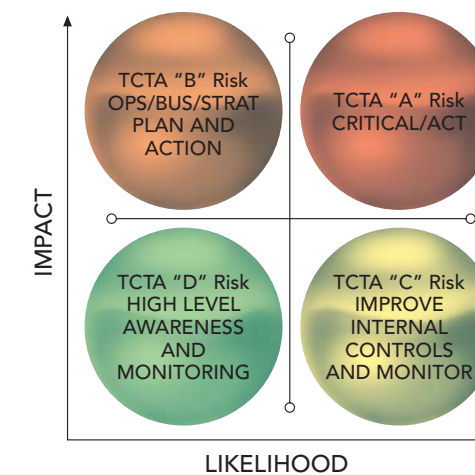
updated at least once every quarter at a divisional and/or functional level within the organisation in order to stay current with new developments.

- **Risk assessment** allows TCTA to consider the extent to which potential events might have an impact on achievement of objectives. Identified risks are analysed in order to form a basis for determining how they should be managed. Identified risks are assessed on both an inherent and a residual basis, with the assessment considering both risk likelihood and impact.
- Having assessed relevant risks, management determines how it will respond. **Risk responses** include risk avoidance, reduction, sharing and acceptance. Although level "D" risks are associated with acceptance, TCTA does maintain a high level of awareness and monitoring which is aligned to its low risk appetite and tolerance for risks. In considering its response, management considers costs and benefits, and selects a response that brings expected likelihood and impact within the desired risk tolerances (Figure 10).
- **Control activities** are the policies and procedures that help ensure that management's responses to identified risks are carried out. These control activities are recorded in TCTA's enterprise-wide risk register that acts as the driver for **monitoring** and reporting on the status of risk management within the organisation. Pertinent EWRM information is identified, captured and communicated in a

form and timeframe that enables staff members to carry out their risk management responsibilities.

- The status of EWRM is monitored on a continuous basis through ongoing monitoring activities involving amongst others Internal Audit and the Risk Forum, comprised of members of management meeting on a monthly basis to monitor the status of risk management activities within each division and functional area.
- The status of EWRM is **communicated and reported** upstream on a monthly basis via the Risk Forum, with serious matters reported to the top management at EXCO level, and the Board via the Audit and Risk Committee as and when required.

Figure 10: TCTA's approach to identified risks



RISK MANAGEMENT CONTINUED

Current TCTA EWRM developments

Effective EWRM, no matter how well designed and operated, provides only reasonable assurance to management and the Board regarding the achievement of an entity's objectives. In order to improve the status of TCTA's existing EWRM function, it was considered necessary to benchmark the current status against best practice. TCTA has towards the end of the 2006 financial year assessed the current status of EWRM within the organisation by measuring and benchmarking the risk management methodology and processes against generally accepted risk management best practice. The guidelines and best practice for enterprise risk management as drafted by The Committee of Sponsoring Organisations of the Treadway Commission (COSO), the ERM Framework as drafted by National Treasury, the requirements for risk management as contained in the PFMA, and guidelines provided by the Institute of Risk Management of South Africa were used as a baseline to enhance the EWRM function within TCTA.

The overall conclusion reached during the benchmarking exercise was that TCTA does adhere to generally accepted risk management best practice with room for improvement to be considered. Flowing from this benchmarking exercise, TCTA identified areas for improvement in the existing risk management process and methodology. A detailed action plan together with estimated timescales for completion of recommended improvements was developed and

is being implemented. This process, facilitated by the TCTA EWRM function, will assist in the continued enhancement of risk management within the organisation. Completion of this round of enhancement of business practices within TCTA is expected to be completed during the first quarter of the 2007 financial year.



Financial risks

The major features of the risks to which TCTA is exposed are covered in detail in note 5 to the annual financial statements. The different financial risks are outlined below.

Liquidity risk

Liquidity risk is the possibility of defaulting on financial obligations of the project as a result of TCTA's failure to settle its debt at the agreed time. It is managed by ensuring that sufficient liquidity facilities such as commercial bank facilities and Commercial Paper Programmes are in place and can be accessed at all times to effect settlement at the appropriate time.

LHWP

TCTA operates in local money and capital markets, as well as in local and offshore loan markets. To meet its liquidity requirements under LHWP, TCTA has an explicit government guaranteed Commercial Paper Programme with an authorised borrowing limit of R4 billion. TCTA can tap into this programme as and when the need arises.

In addition, TCTA has guaranteed commercial bank facilities with members of the market-making panel. As with the Commercial Paper Programme, these

facilities can be utilised at any time to help meet TCTA's liquidity obligations.

In terms of the treaty, the South African government undertook to provide, on request, guarantees for all loans, credit facilities and other borrowings entered into for financing the water delivery component of the project. At the end of the year under review, the government's overall commitment in this regard amounted to R17 702 million (2005: R19 497 million). Details are reflected in note 5 to the annual financial statements.

BWP

BWP is funded through long-term committed facilities provided by the EIB, DBSA and ABSA as well as a R450 million Commercial Paper Programme which ensures that liquidity needs are catered for at all times. The R300 million revolving facility offered by one of the banks serves as an alternate liquidity facility for BWP.

VRESAP

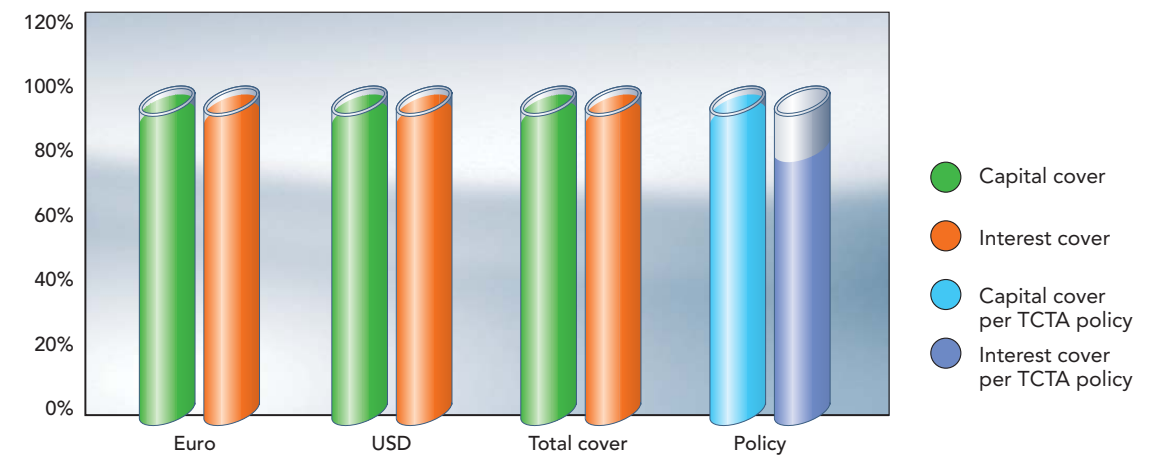
VRESAP was initially funded through a R600 million bridging finance facility. Long term committed facilities to the value of R3,3 billion were secured with the EIB, Standard Bank, ABSA, Investec and Nedbank. Over and above that, a R300 million commercial paper facility was authorised and put in place to cater for short term liquidity requirements. TCTA, therefore, has fairly limited exposure to liquidity risk.

Foreign currency risk

LHWP

Foreign currency risk arises from the impact of exchange rate fluctuations on the LHWP foreign currency liabilities. In terms of the foreign exchange risk management policy, the capital value of all foreign loan facilities are hedged 100% and all anticipated interest costs and fees by 75%. (Figure 11).

Figure 11: Currency exposures on capital and interest – LHWP



RISK MANAGEMENT CONTINUED

TCTA is within the policy framework (100%) in terms of forward cover on capital exposures, but still exceeds the policy (75%) for forward cover on interest and fees. The reasons for this are twofold:

- Lower and slower than anticipated drawdowns on the foreign facilities.
- The foreign variable interest rates varied from around 2,5% to around 4,7% during the year under review.

BWP

TCTA is not currently exposed to any foreign exchange risk on BWP.

VRESAP

TCTA is not currently exposed to any foreign exchange risk on VRESAP.

Interest rate risk

Interest rate risk is the risk of adverse interest rate fluctuations negatively affecting debt exposures, including the repricing of TCTA's floating rate debt obligations and the short-term rollover of maturing debt. A key focus area of the risk management policy is to monitor and manage the interest rate risk proactively.

To do this, TCTA hedges interest rate exposure using approved derivative instruments, and works actively towards achieving an optimal capital structure, given the nature of the project.

A part of the risk evaluation process also deals with the evaluation of foreign versus local funding as well as duration matching of liabilities with free cash flow.

LHWP

Overall, LHWP has a prevailing and conservative capital structure of 68% fixed and 32% floating (2005: 72% fixed, 28% floating). This is in line with the targeted ratio of 70% fixed and 30% floating which has been statistically calculated to minimise LHWP's sensitivity to interest rate movements under various scenarios. The current 68:32 structure allows TCTA to participate in the low interest rate environment (Figure 12).

BWP

TCTA's funding on BWP is currently at a fixed/floating ratio of 33% fixed and 67% floating (2005: 46% fixed, 54% floating) interest rate. During the remainder of the implementation period, TCTA will target a ratio closer to 70:30 fixed to floating (Figure 13).

VRESAP

TCTA's funding on VRESAP is currently 100% floating interest rate. During the remainder of the implementation period, TCTA will target a ratio closer to 70:30 fixed to floating (Figure 14).

Counterparty risk

The risk of counterparties failing to deliver on their obligations is managed by the allocation of appropriate credit limits for each counterparty. TCTA deals only with reputable institutions and within the limits set for these institutions. Risk is proactively managed through liaison with credit rating agencies and continuous monitoring of the financial standing of all counterparties. Credit limits are regularly reviewed and adjusted when it is deemed prudent to do so.

Figure 12: Interest rate exposure – LHWP

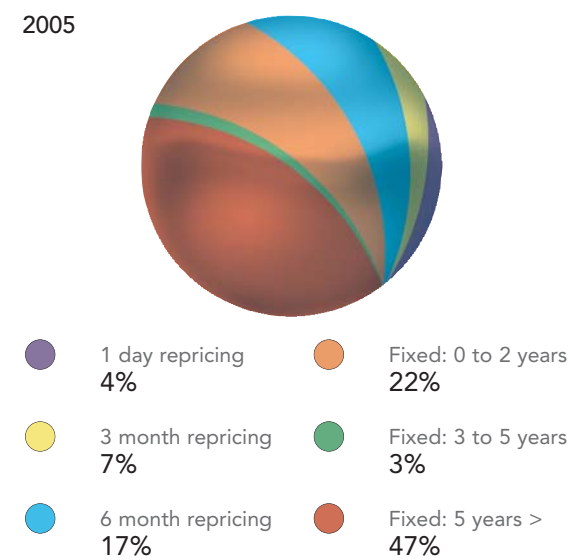
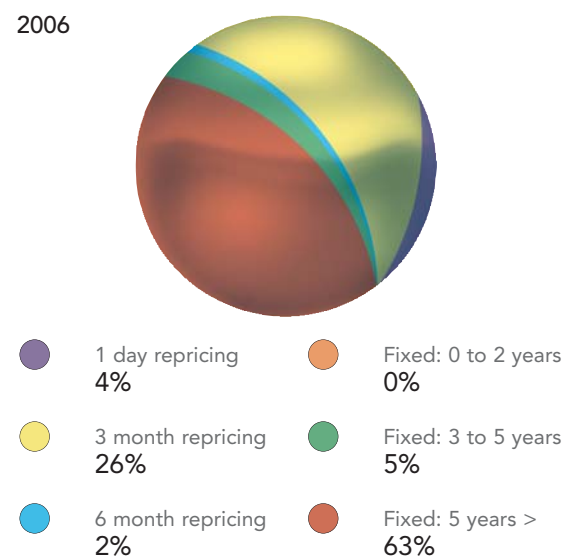


Figure 13: Interest rate exposure – BWP

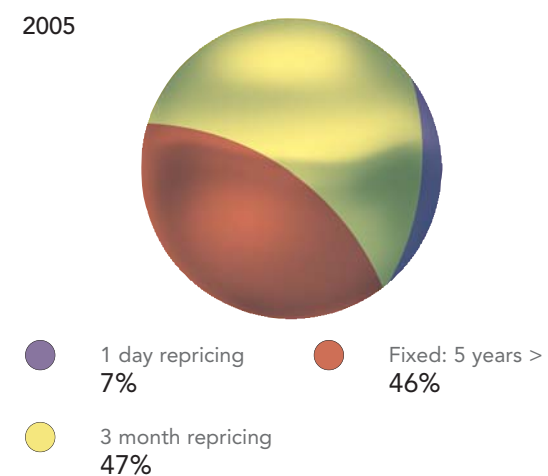
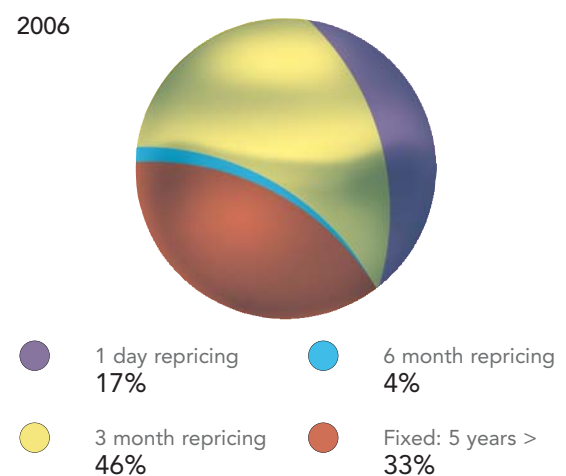
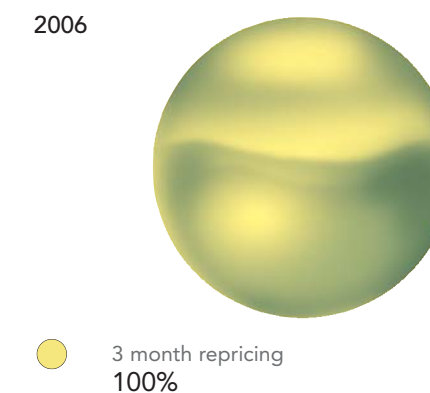


Figure 14: Interest rate exposure – VRESAP



In addition to ensuring strict compliance with approved credit limits, credit risks associated with derivative instruments are further mitigated by the use of master netting agreements, as well as collateralisation arrangements.

TCTA only places funds with counterparties with a short-term credit rating of A1 and better.

LHWP

The credit limit consumption of FEC's with commercial banks are determined according to the Risk Policy whereby the maximum of a risk weighted value, or the mark-to-market value of an instrument will be used as the consumption against the credit limit of a specific counterparty. Only counterparties with a minimum rating of A1 can qualify for a credit limit.

BWP

The only credit exposure BWP has is to A1+ rated counterparties where surplus cash is placed on overnight deposit.

VRESAP

The only credit exposure VRESAP has is to A1+ rated counterparties where surplus cash is placed on overnight deposit.

Funding risk

In terms of managing risks associated with funding and debt management, TCTA actively manages the sensitivity of the cumulative liability curve to changes in water demand, interest rates and inflation rates.

LHWP

These risks are minimised or mitigated through asset/liability matching, sensitivity analysis and scenario planning.

From a funding perspective, TCTA strives to achieve an optimal capital structure by managing the fixed-to-floating ratios and evaluating foreign versus local funding opportunities.

BWP

TCTA has successfully procured the full funding required for BWP and hence there is no funding risk associated with this project. In terms of the refinancing risk, TCTA has mitigated this risk through proactive asset/liability matching.

VRESAP

TCTA has successfully procured the full funding amount required for VRESAP and hence has no funding risk associated with this project. In terms of the refinancing risk, TCTA has mitigated this risk through proactive asset/liability matching.

Refer to the Sustainability Report for debt curves for all projects.

Project risks
In addition to the financial risks associated with a project, TCTA packages and manages the full ambit of project implementation risks. These range from risks linked to design, supervision and construction through to revenue and operations and maintenance, in the post-construction period.

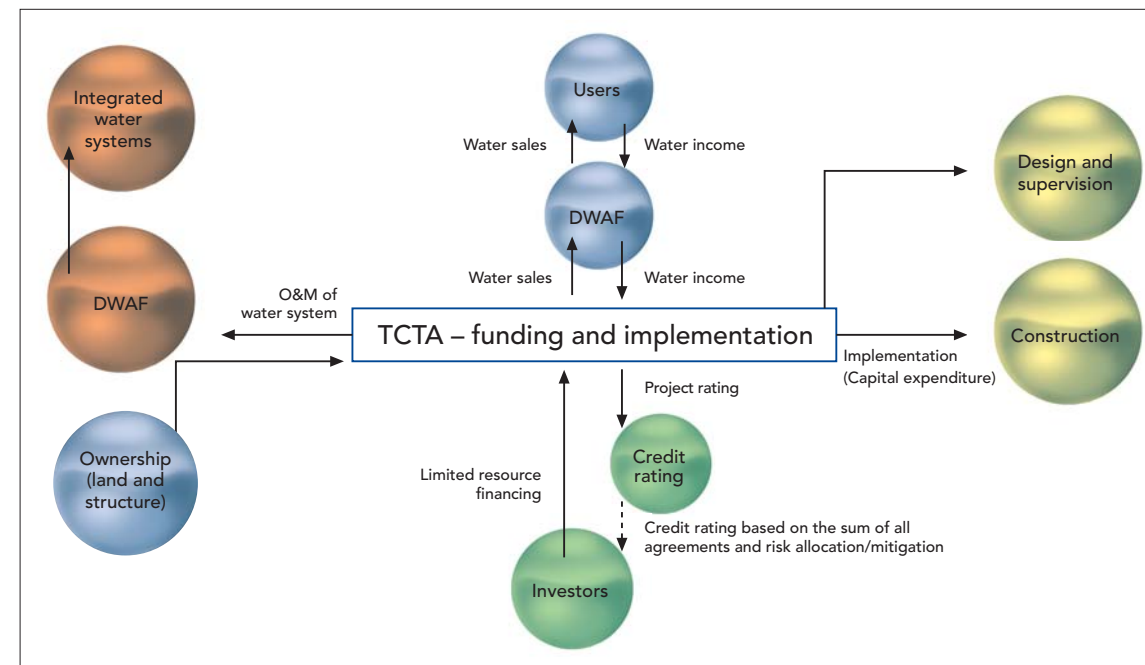
The various project components and their associated activities are depicted in Figure 15.

Managing project implementation risks

Social and natural environmental risk

- Appropriate environmental assessments are undertaken to ensure all environmental impacts are identified and assessed.
- Appropriate Environmental Management Plans (EMP) are compiled and approved by the Department of Environmental Affairs and Tourism (DEAT) to ensure that all environmental impacts are mitigated, managed or compensated.
- Environmental Monitoring Committees are established to ensure interested and affected parties are consulted and play a role in monitoring the implementation of the EMP.
- Appropriate social and environmental contractual obligations are written into project

Figure 15: Project components and associated activities



implementation contracts with service providers.

Engineering risk

- Engineering risks are mitigated through outsourcing the design and supervision to the private sector on the basis of competitive tendering processes and compliance to international standards. Furthermore, a panel of experts is appointed to regularly review design and monitor the implementation of the project.
- Contract management is in-house and supplemented by independent design and

RISK MANAGEMENT CONTINUED

supervision consultants responsible for overseeing delivery by contractors.

- The risks associated with engineering error are insured through appropriate levels of professional indemnity insurance.

Construction risk

- Risks relating to construction works are mitigated through insurance against all insurable events that may arise during the construction period as well as appropriate risk transfer agreements.
- Procurement risks are mitigated through a pre-qualification process that ensures the identification of technically competent tender applicants. Tendering on fixed bill of quantities increases certainty pertaining to construction costs.
- Contract risk is managed by using the standard conditions as detailed and prescribed by the International Federation of Consulting Engineers (FIDIC).
- Independent design and supervision consultants are appointed to oversee implementation by contractors. Furthermore, corporate governance, including legal governance, is managed through TCTA's formal legal governance framework as detailed in the corporate governance section of this report.
- The performance of contractors and consultants is managed through contractual agreements providing remedies in the case of non-performance, e.g. performance bonds, retention monies, liquidated damages and professional indemnity insurance.

Managing revenue risks

- On completion of construction, the user tariff is adjusted based on final implementation costs.
- During the operational phase the tariff is adjusted annually, until repayment of the debt, to take account of
 - CPIX
 - changes in water demand and system yield
 - changes in financial assumptions used in the base case financial model.

Managing operation and maintenance risks

- Contractual agreements set out the rights and obligations of the operator as well as remedies against the operator arising from failure to operate and maintain the system, where such failure adversely affects the quantity and quality of water available for sale.



SUSTAINABILITY REPORT



Sustainability is fundamental to all aspects of TCTA's business.

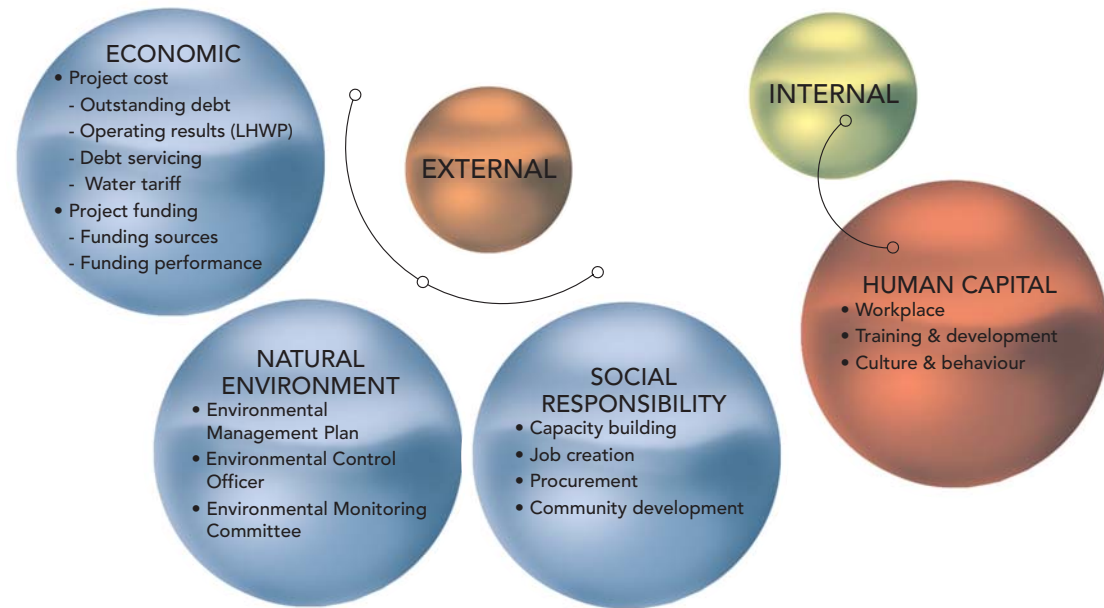
TCTA is acutely aware of how its 'product', namely bulk water infrastructure, lies at the foundation of development in South Africa. Without water, the capacity of a community to develop economically, socially and environmentally is drastically constrained. For this reason, sustainability remains a priority in all aspects of TCTA's business.

Sustainability is a priority demonstrated in the manner in which TCTA implements its projects,

from the development of economically sustainable funding models; to the design and implementation of environmental management and socio-economic strategies; through the design of cost-effective and environmentally-sound infrastructure.

TCTA remains pertinent in its commitment to rejuvenation, revival, renaissance and transformation within the project areas, public and private sectors, communities and individuals connected to TCTA.

The structure of the Sustainability Report is outlined below.



Economic performance

TCTA's economic performance is measured by its ability to meet and deliver on the requirements of individual projects in the most cost-effective manner within agreed time frames and budgets. Where possible, TCTA benchmarks its funding performance against corresponding and appropriate government debt instruments.

Lesotho Highlands Water Project

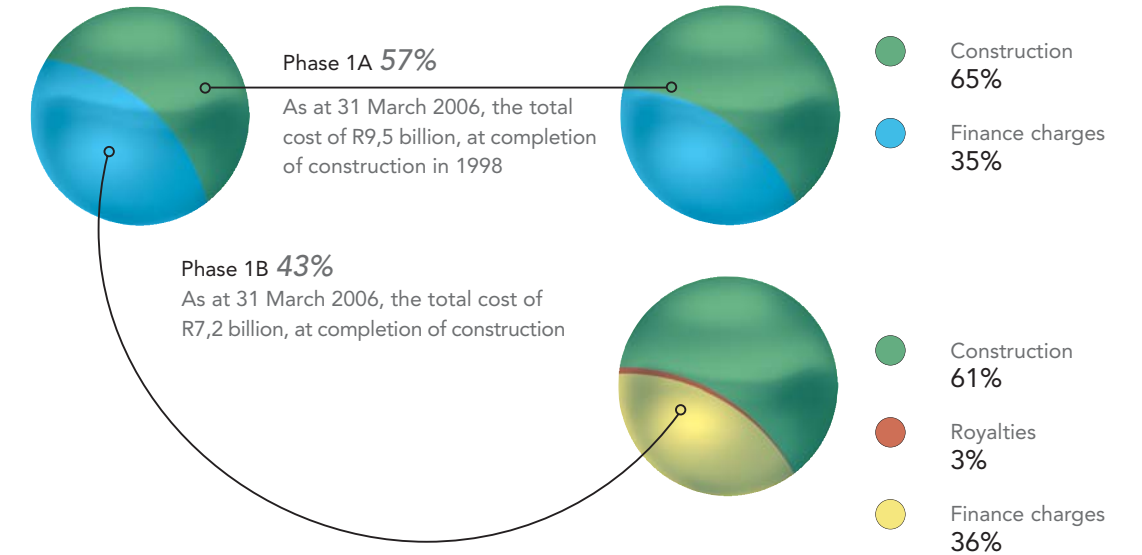
Background

LHWP is termed a sustainable, bankable bulk infrastructure project in that it will be fully paid for by water users. Water has been transferred to South Africa since 1998, as such LHWP depends on the revenues generated by water sales from the Vaal River system.

Project cost

Since water delivery began in January 1998, water income and related operating costs for Phase 1A have been recognised in the income statement. Costs on Phase 1B were capitalised until 31 March 2004. The R16,7 billion total project cost of the two phases is split 57:43 (Figure 16).

Figure 16: Total project cost – LHWP



The full water transfer costs, incurred by both TCTA and LHDA, are the responsibility of the South African government and are included in TCTA's balance sheet. See note 5 to the financial statements for a split of the debt.

SUSTAINABILITY REPORT CONTINUED

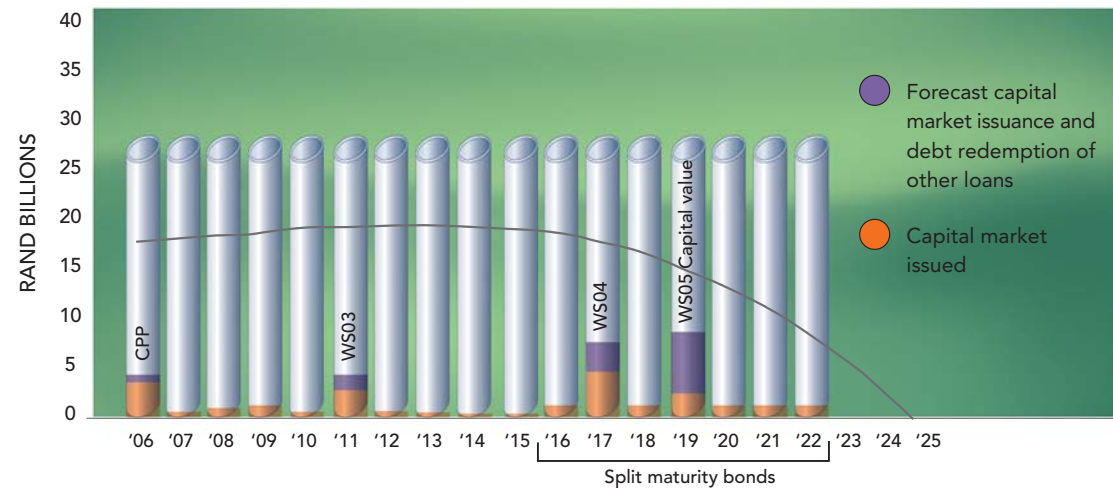
Outstanding debt on the project

The project debt, after taking into account water tariff income and annual shortfalls due to interest after completion of construction, was R18,4 billion as at 31 March 2006.

Based on the current debt curve, it is estimated that the outstanding liabilities will peak in 2013 at R20 billion and that all debt will be repaid by 2025 (Figure 17).

Sensitivity analysis is continuously performed on the debt curve for changes in interest rates, inflation and water demand to determine the optimal capital structure. Based on these sensitivities, the optimal capital structure is currently determined at 70% fixed rate debt versus 30% floating rate debt.

Figure 17: LHWP debt maturity profile and forecast cumulative net liability curve



Operating results

TCTA reports an operating surplus of R1 576 million for the year under review (2005: R1 568 million). A net deficit for the year amounting to R588 million (2005: R638 million) has been realised, and reflects a shortfall in covering interest. Included in the net deficit for the year is a net loss of R33 million* (2005: net loss R21 million) resulting from the accounting treatment as required by IAS 39 and IAS 21.

* Included in the loss is a transfer of R19 million unrealised loss from equity to income statement resulting from the hedge effectiveness criteria for forward exchange contracts on future interest payments not being met.

The net deficit after interest is a result of keeping water tariffs constant in real terms, taking into account the impact of future water demand, as well as the future timing of augmentation schemes. Income is sufficient to repay all water transfer costs within ± 20 years after completion of each sub-phase. However, interest will be capitalised for the first number of years of operation.

Debt servicing

The revenue generated from the sale of water from the Vaal River system will be sufficient to repay the project debt.

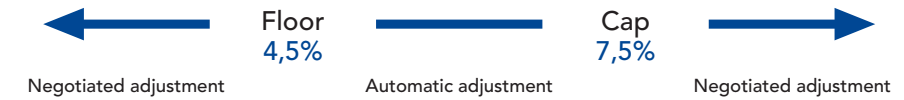
Revenue generated by the sale of 1 349 million m³ (2005: 1 351 million m³) of raw water amounts to R1 775 million (2005: R1 654 million). This revenue is based on a bulk raw water tariff of 131,6 cents per m³ (2005: 122,4 cents per m³) for the year under review. The higher revenue is due to a 7,5% increase in the water tariff.

Water tariff

TCTA entered into an income agreement with DWAF in August 2001 which determines the Vaal River raw water tariff for augmentation schemes. TCTA annually sets a constant tariff in real terms over a 30-year period based on agreed input assumptions. The income agreement allows for automatic and negotiated adjustments (Figure 18).

Should CPIX fall between the floor and the cap level of 4,5% and 7,5% respectively, the tariff will be adjusted automatically. However, should CPIX be below 4,5% or above 7,5%, TCTA will be entitled to a negotiated adjustment to the tariff according to that agreement.

Figure 18: Water tariff adjustment mechanism



Other tariff review triggers include:

- adjustment for changes in demand
- adjustments for further augmentation (yield, timing, cost and construction period)
- operations and maintenance charge after the redemption of debt
- change in input assumptions that increase/decrease the final repayment date.

During the 2000/01 tariff determination, the yield of the Vaal River system was determined to be lower than originally anticipated by DWAF. This resulted in an under recovery in the tariff of 6,71 cents per m³, which triggered a negotiated adjustment to be phased in over a three-year period.

During the tariff revision in 2005, three of the allowable tariff adjustments, were triggered and they are as follows:

- 3% reduction in the yield due the finalisation of the inflow requirement from Lesotho to the Orange River
- downward revision in the forecast long-term CPIX as determined by the Bureau of Economic Research
- lower future long-term demand forecast.

The cumulative effect of the three factors, yield, demand and inflation, necessitated an additional

7,2% increase in the tariff over and above CPIX. It was agreed with DWAF and the major bulk users to phase this adjustment in over a three-year period to take account of end-user affordability and administered price initiatives.

The Vaal River tariff therefore increased by 7,03% in 2006/07, consisting of 4,5% CPIX (actual June index was 3,5% but the CPIX floor as per the income agreement with DWAF was applied) and 2,53% as the second portion of phasing in the 7,2% additional adjustment required to redeem the LHWP debt by 2025 in line with the income agreement.

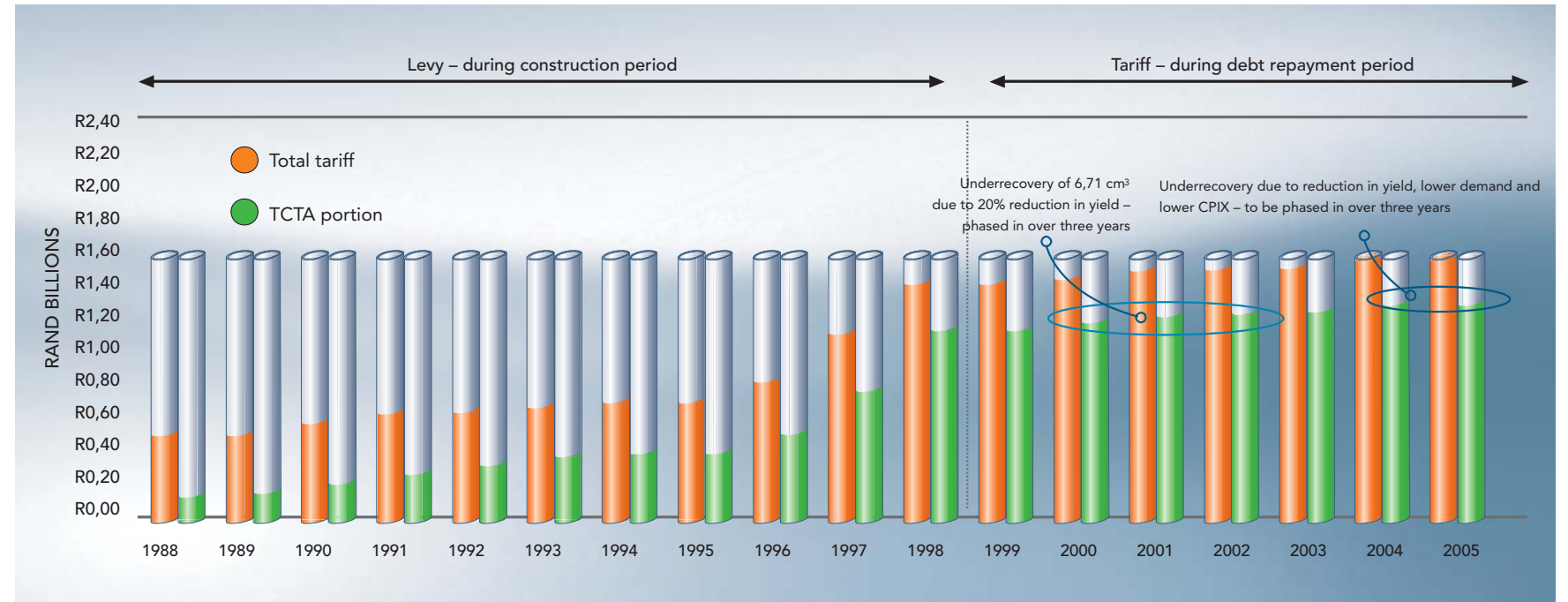
SUSTAINABILITY REPORT CONTINUED

The tariff adjustments since the re-assessed yield are indicated in the table:

	Increase c/m ³	% increase due to CPIX	% increase due to triggers	Total % increase
Vaal River tariff for augmentation schemes				
2000/01 tariff:	88,14			
Phase in portion one	2,11		2,39%	
CPIX adjustment	7,05	8,00%		
2001/02 tariff:	97,30			10,39%
Income agreement signed August 2001				
Phase in portion two	2,33		2,53%	
CPIX automatic adjustment	5,97	6,00%		
2002/03 tariff:	105,60			8,53%
Phase in portion three	2,57		2,43%	
CPIX negotiated adjustment capped	7,93	7,50%		
2003/04 tariff:	116,10			9,93%
CPIX automatic adjustment	6,30	5,40%		
2004/05 tariff:	122,40			5,40%
CPIX automatic adjustment	6,14	5,00%		
Phase in portion one of three	3,06		2,50%	
2005/06 tariff:	131,60			7,50%
CPIX automatic adjustment	5,92	4,50%		
Phase in portion two of three	3,33		2,53%	
2006/07 tariff:	140,83			7,03%

Figure 19 indicates the raw water tariff expressed in 2005 values.

Figure 19: Water levy/tariff expressed in terms of April 2005 Rands



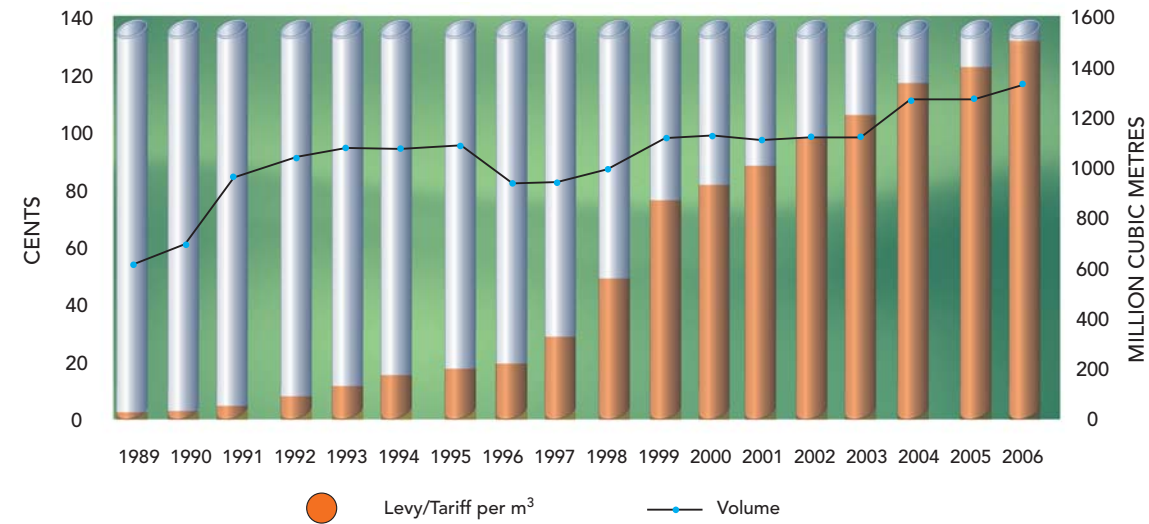
In 1988, a levy was introduced to fund part of the development costs of LHWP until it started to deliver water in 1998. The levy partially financed costs during the initial construction period and

started at 2 cents per cubic metre in 1988. The total revenue generated in levies was R1 688 million and in tariffs to date is R10 157 million (2005: R8 382 million).

SUSTAINABILITY REPORT CONTINUED

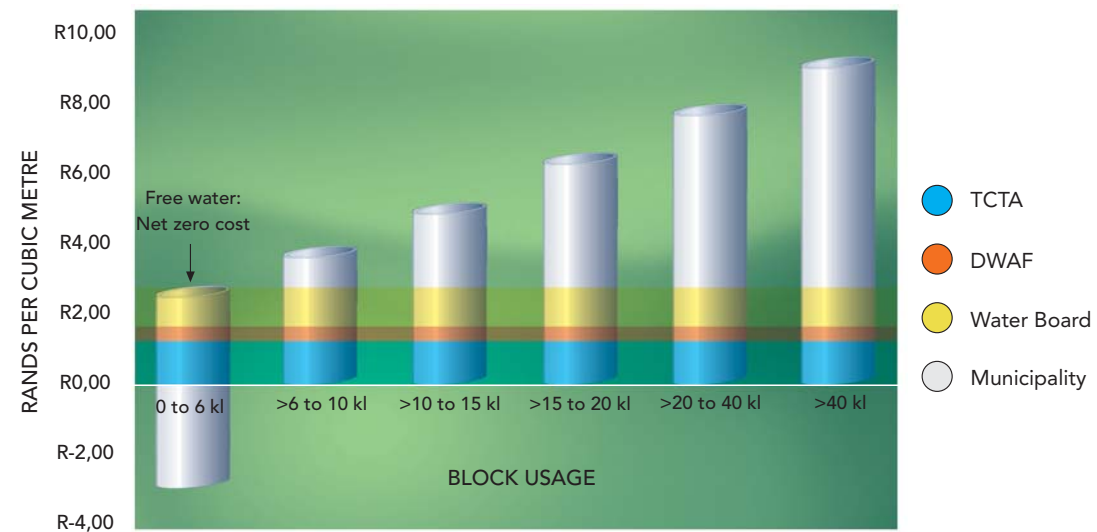
Figure 20 sets out the actual tariff charged each year for bulk water and the volume of sales on which the tariff was charged.

Figure 20: Water levy volume



Tariff composition in a typical urban environment is determined by volume usage per month, as illustrated in Figure 21.

Figure 21: Tariff composition for domestic usage 2005/2006 financial year



TCTA has successfully managed debtors' recoverability to strictly 60 days in accordance with the income agreement.

Royalties and water delivery

Royalties payable to Lesotho are one of the components of water transfer costs. The royalties are payable to the government of Lesotho in line with the benefit sharing agreement in the treaty.

The royalties are based on the calculated net benefit (1986) of the construction of LHWP compared to a transfer scheme based entirely inside South Africa. It was agreed to split the benefit 44:56 between South Africa and Lesotho and to pay the Lesotho portion as a royalty over 50 years. The royalty comprises a fixed component (based on calculated capital cost savings) and a variable component (based on calculated operating cost savings). South Africa benefits from the reduced investment and operating costs.

The fixed royalty component started to accrue in 1995 and the first payment was due in October 1996, when the volume of water stored in Katse

Dam reached the previously agreed level of 1 993 metres above sea level. The fixed component is payable monthly to Lesotho until 2045.

The variable royalty, based on the calculated operating cost saving of LHWP measured against a pumped water scheme, is calculated monthly on the actual volume of water delivered.

The total amount of royalties paid to date to the government of Lesotho is R1 723 million (2005: R1 472 million). (Refer to Figure 22)

The 2006 water delivery schedule, as approved by the Lesotho Highlands Water Commission, consists of an annual volume of water delivered not exceeding 780 million m³.

During this financial year, 788,1 million m³ (2005: 692,9 million m³) of water were transferred to South Africa. This meets the agreed volume for the year as set out in the Treaty.

To date, the total volume of water delivered by the project is 5 031 million m³.

Project funding

Funding sources

A net amount of R3,6 billion was borrowed during the year under review to meet funding requirements. The table below indicates the composition of funding:

Funding requirement	R million
Incremental	1 330
Refinancing	522
Redemption (WS01 maturing 1 December 2005)	1 719
Total	3 571

TCTA funded the requirement through various financial markets as follows:

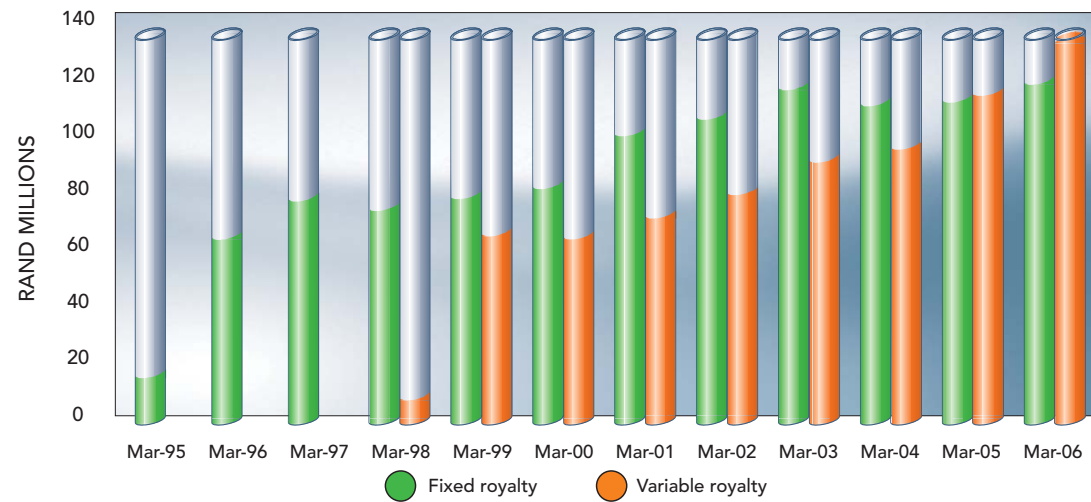
Funding Sources	Funding R million	Redemption R million	Total R million
Capital market	1 330	1 719	3 049
Money market	522	-	522
Total	1 852	1 719	3 571

Capital market

TCTA launched its first split maturity capital market bond, WSP1-WSP5 with a value of R1 billion (nominal) translating into R200 million per maturity date, in May 2003. However, the authorised amount was increased for the period under review to R1 billion per tranche. The split maturity bonds mature between May 2015 and May 2021. The tap issues under the WSP1-5 formed part of the WS01 redemption strategy and supported the asset/liability matching objectives which sought to align debt maturities with areas where surplus cash is generated (2012 to 2024). TCTA subsequently tapped this bond by R500 million during the year under review and R500 million in the previous financial year.

TCTA successfully redeemed the principal amount of R4,36 billion on 1 December 2005 for the 12% WS01 bond. This 12-year bond was first issued in 1993 as TCTA's inaugural entrance into the capital market.

Figure 22: Royalties paid



SUSTAINABILITY REPORT CONTINUED

Total capital market bonds in issue as at 31 March 2006:

Nominal bond	Maturity date	Coupon	Nominal 31 Mar 06 R million	Authorised amount R million
WS03	15 Sep 2010	13,00%	3 185	8 000
WS04	30 May 2016	12,50%	5 576	7 000
WS05	1 Aug 2018	5,00%	3 177 ⁽¹⁾	4 000
WS06	30 April 2008	8,00%	800	2 500
Total			12 738	21 500

Split maturity bond	Maturity date	Coupon	Nominal 31 Mar 06 R million	Authorised amount R million
WSP1	28 May 2015	9,00%	400	1 000
WSP2	28 May 2017	9,00%	400	1 000
WSP3	28 May 2019	9,00%	400	1 000
WSP4	28 May 2020	9,00%	400	1 000
WSP5	28 May 2021	9,00%	400	1 000
Total			2 000	5 000

Note 1: The WS05 bond issued amount is reflected at principle value

TCTA is one of the largest issuers of bonds in the local capital market. R3 billion was raised using TCTA's locally-registered bonds through our panel of market makers.

Commercial Paper Programme (CPP)

Short to medium-term funding in the domestic market is also accessed through a CPP and other local loans. As at the end of March 2006, TCTA had issued R1,5 billion against an authorised amount of R4 billion.

The CPP is used by TCTA to fund overnight to five years on a fixed or floating rate basis. The CPP is actively traded in the market with a turnover of about R22 billion (2005: R24 billion) over the past year.

Foreign funding

Foreign facilities were accessed during the year through drawdowns on the export credit loans. This funding is applied directly to the costs of construction on Phase 1B which has now been completed. Foreign funding has been on a steady decline and currently constitutes less than 3% of the entire project funding.

Figure 23: Growth in capital market issue versus average daily trading differential



Funding performance

The average annual borrowing rate achieved during the year was 10,65% on the stock of debt (2005: 11,17%) and 7,40% on incremental funding (2005: 7,84%). The project as a whole achieved a rate of 10,80% (2005: 11,31%) which includes the Lesotho Highlands Development Authority's water transfer debt.

TCTA's domestic capital market performance and funding in Figure 23 indicate:

- the growth of debt in issue over the past eight years
- the trading differential above the government benchmark bond.

SUSTAINABILITY REPORT CONTINUED

Medium-term funding

TCTA will raise R1,3 billion in 2006/07 as follows:

Funding requirement	Funding portfolio R million	Redemption portfolio R million	Total funding R million
Incremental funding requirement	206	-	206
Refinancing requirement	271	290	561
Redemption	-	498	498
Total 2006/07 funding requirement	477	788	1 265

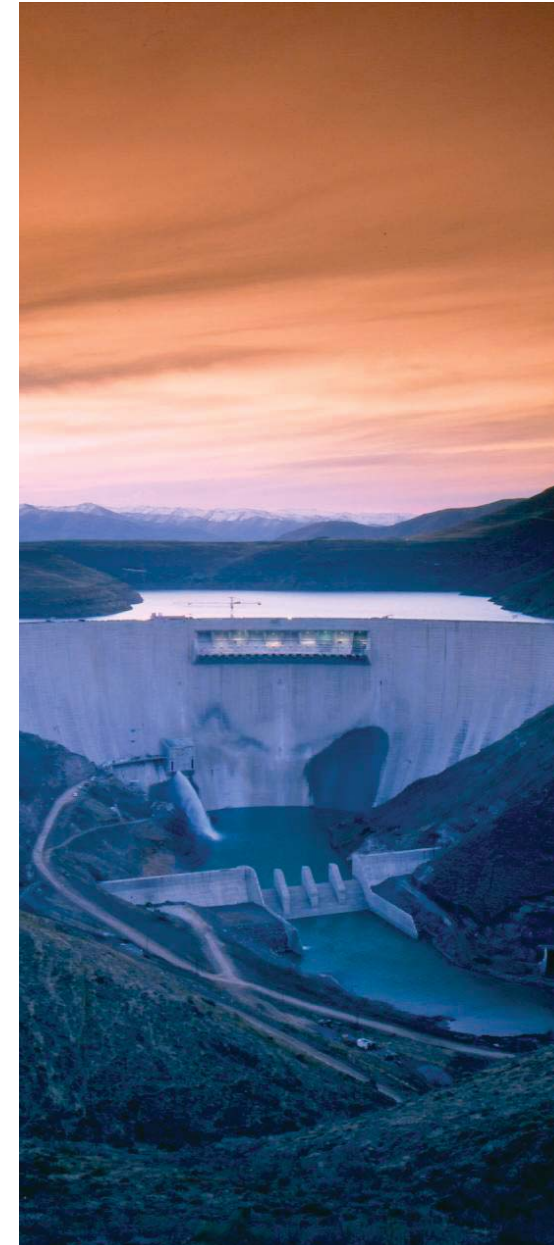
From the 2007/08 financial year to 2011 TCTA expects to raise on average R1 784 billion a year. This includes provision for the redemption of locally-registered bonds on maturity. Funds are raised as required.

Figure 24 : Funding requirements for the next five years before and after smoothing of WS-Redemptions



The review of the economic performance corroborates that the funding model developed and implemented by TCTA guarantees affordable water to drive economic development, ensuring public health, urban development and equitable access to this resource.

TCTA's panel of market makers



BWP

Background

In May 2002 cabinet approved the R1,5 billion BWP. The Minister of Water Affairs and Forestry subsequently directed TCTA, in terms of section 103(2)(B) of the National Water Act 1998, to finance and implement BWP in the upper reaches of the Berg River, near Franschhoek in the Western Cape.

BWP will increase availability of water for the water-stressed Western Cape.

Project cost

Budgets indicate that capital expenditure (excluding Berg Water Capital Charge, administrative and finance cost) on BWP will be incurred as follows:

Date	Escalated value R million
2003	14,6
2004	55,5
2005	287,4
2006	381,2
2007	624,5
2008	160,5
2009	28,9
Total	1 552,6

SUSTAINABILITY REPORT CONTINUED

Outstanding debt on the project

TCTA is constantly monitoring the possible impact of water restrictions in the Western Cape on the debt redemption. Thus far, no adjustment to the capital charge has been required.

In addition to the BWCC, a third-party capital charge will be levied by DWAF to any user other than the CCT for water allocated or deemed to be allocated from BWP, as set out in the raw water supply agreement. This charge will be calculated separately for each allocation given to each user of water from the project.

Debt servicing

In terms of DWAF's National Water Policy (1997), water development projects should be funded by users, if possible. Water users in Cape Town will repay this economically-viable scheme through a BWCC to be added to the tariff charged by DWAF on water supplied from the Western Cape Water System (WCWS).

The CCT pays a water tariff based on WCWS usage to DWAF which pays TCTA to cover the costs and repay the loans obtained to fund the project.

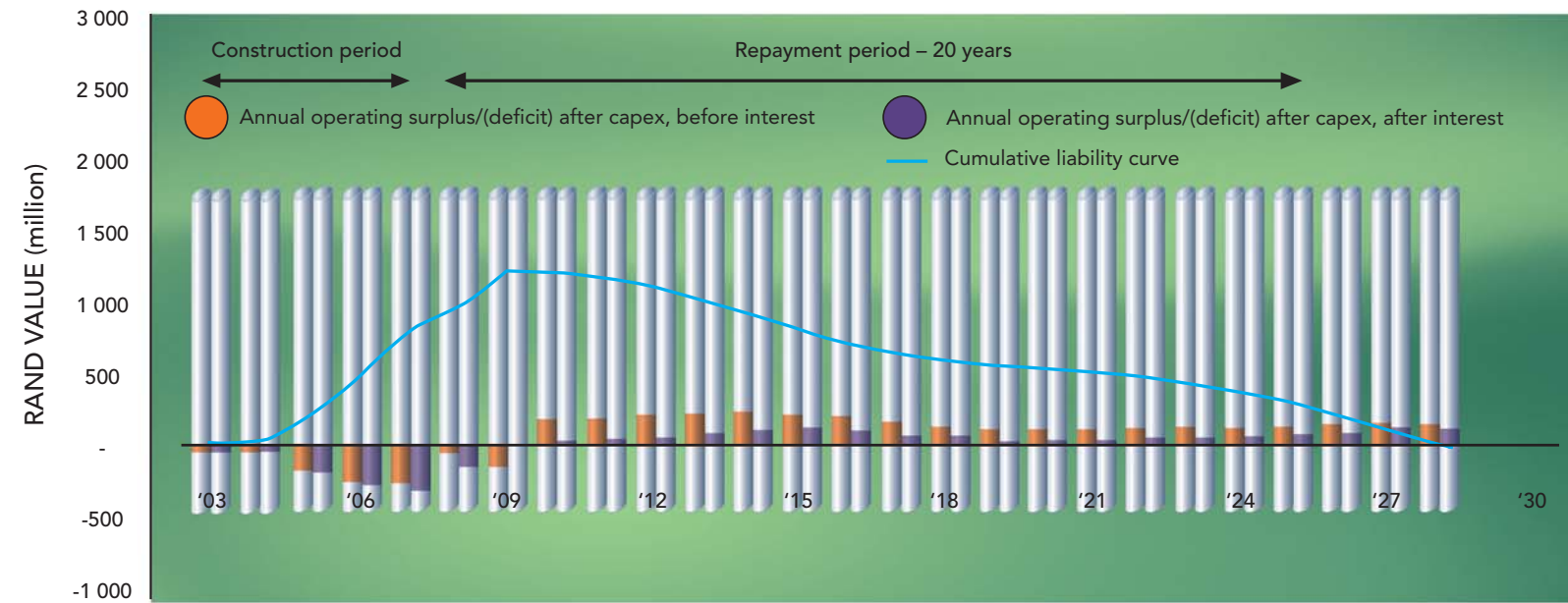
TCTA consults with CCT on capital charge related issues. The Board Technical Committee, where the CCT is a voting member, also reviews these matters.

Water tariff

- The tariff is based on water used by consumers, not on water delivered into the system.
- The principle applied is that the project cost will be repaid within a reasonable period, which should not be longer than the economic life of the asset.
- The tariff payable by DWAF to TCTA is to redeem development costs and excludes operations and maintenance costs.
- The BWCC is phased in over a four-year period, commencing 1 July 2003 on a straight-line basis to 30 June 2007, and will continue until the project is fully repaid.
- The BWCC is based on the projected low-growth water demand of the CCT over a 24-year period.
- A step-down approach will be considered from 2015 to 2019. This provides flexibility, taking into account future augmentation schemes and the impact on the end user.
- Annual adjustment to the charge will be made according to the CPIX, changes in water demand, changes in interest cost and allocation of water to third party users. An upper and lower limit of the CPIX index will be determined after the completion of construction.

Based on the current debt curve, it is estimated that the outstanding liabilities will peak in 2009 at R1 295 million and that all debt will be repaid in 2028.

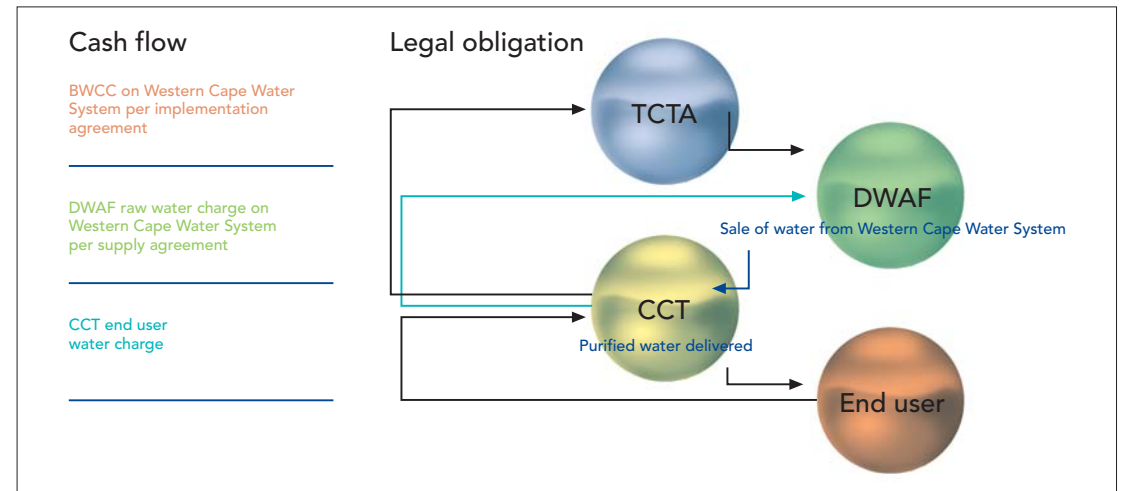
Figure 25: Annual operating surplus/(deficit) and cumulative liability curve



Payment process

Water delivery and tariff payment process (Figure 26).

Figure 26: Berg Water tariff and supply chain



Project funding

Funding sources

The long-term funding for the BWP is funded through Development Bank of Southern Africa (DBSA) (R500 million), European Investment Bank (EIB) (R800 million) and ABSA (R300 million). The loan signed with the EIB is the single biggest loan signed between EIB and a South African entity to date.

Funding activities for the year

A net amount of R219 million was borrowed during the year under review to meet the project’s funding requirement. The project is funded through a fixed to floating ratio of 32:68. The table below indicates the composition of funding:

	March 2006
Funding requirements	R million
Incremental	219
Refinancing	-
Redemption	-
Total	219

Funding source	R million	%
Money market	(11)	(5)
Local loans	230	105
Redemption	-	-
Total	219	100

- The liability arising from the long-term funding has been matched with “free cash” generated from the project.
- The long-term funding for BWP is 100% asset/liability matched by virtue of amortising loans and a flexible loan with no specified repayment profile.
- Determination of projected “free cash” is ongoing as part of the funding strategy to determine where funding would best suit the asset/liability matching objective.

TCTA aims for an optimal financing structure currently estimated at 70:30 fixed:floating. During construction, that ratio will vary between 50:50 and the target ratio, due to drawdown induced funding variability. This target will be revised by testing the debt curve sensitivity for changes in interest rates, inflation, water demand and capital structures.

Funding performance

The project funded at a weighted average rate of 7,63% (2005: 8,12%).

Medium-term funding

Below are the details of the project’s forecast funding requirement for the 2006/07 financial year:

Funding requirement	R million
Incremental	465
Refinancing	-
Total	465



VRESAP

Background

On 6 October 2004, Cabinet approved the implementation of VRESAP, a 124km pipeline designed to deliver water from the Vaal Dam into the Vaal River Eastern Sub-System (VRESS). On 26 November 2004, the Minister of Water Affairs and Forestry directed TCTA in terms of section 103(2) of the National Water Act 1998, to fund and implement VRESAP.

The implementation agreement with DWAF was signed on 11 October 2005.

VRESAP is termed a sustainable, bankable bulk raw water infrastructure project in that it will be fully paid for by water users.

Project cost

Based on current information, the estimated construction cost of VRESAP is R2 238 million in March 2006 terms (including Bosjesspruit).

Capital cost allocation

The capital cost allocation between the main users is based on the incremental requirement by each user over the period to 2030. Incremental demand is expected to rise from 40,32 million m³ to 132,09 million m³.

Outstanding debt

Based on the current debt curve, it is estimated that the outstanding liabilities will peak in 2012 at R2 771 million and that all debt will be repaid in 2028.

The debt curve is illustrated in Figure 27.

Debt servicing

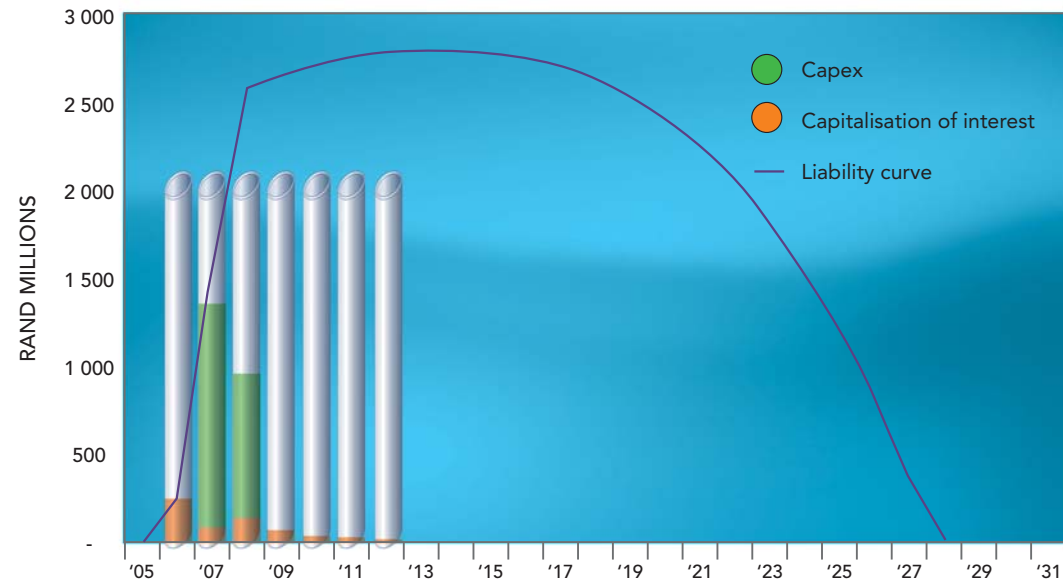
In terms of DWAF's National Water Policy (1997), water development projects should be funded by users, if possible. The water users, Eskom and Sasol, will repay this economically viable scheme through a VRESAP user tariff to be added to the tariff charged by DWAF on water supplied from VRESS.

TCTA has an implementation agreement with DWAF whereby the water is delivered to DWAF by TCTA. The water supply chain illustrated in Figure 28 outlines the arrangements put in place for the revenue streams.

Each user is deemed to be purchasing yield in the pipeline in the agreed ratios. If a user exceeds its daily yield ratio, which would imply that there is surplus water available in the pipeline, a tariff will be payable to the water provider.

TCTA will receive the capital charge from DWAF to cover the costs and repay the loans obtained to fund VRESAP.

Figure 27: VRESAP – Forecast liability curve



Water tariff

Below is a broad outline of the principles applied to tariff determination:

- The income to VRESAP is based on sales taken from the entire VRESS which consists of various sub-systems, of which VRESAP will form part, and not on the volume of water delivered from VRESAP in isolation.
- The required tariff will be supplied to DWAF, and will be included in the tariff calculation for raw water from the VRESS.

- The bulk raw water tariff is determined within a pricing policy that strives to peg the price of raw water to present levels in real terms.

Following these principles the basis for tariff determination is:

- The tariff is based on water used by consumers, not on water delivered into the system.
- The project cost will be repaid within a reasonable period, which should not be longer than the economic life of the asset, determined on the basis of:

- anticipated funding requirements of the augmentation of VRESS
- the debt profile and acceptable growth and level of debt of the project
- being within an affordable structure to the off-takers.

It is assumed for current calculations that costs relating to the implementation and funding of VRESAP need to be repaid 20 years after completion of construction.

- The tariff payable by DWAF to TCTA is to redeem development costs and excludes operations and maintenance costs.
- The tariff applies from October 2007 to October 2027.
- The tariff is based on the projected water demand growth of Eskom and Sasol over a 20-year period.
- Annual adjustment to the charge will be made according to the CPIX, changes in water demand, interest cost and allocation of water to

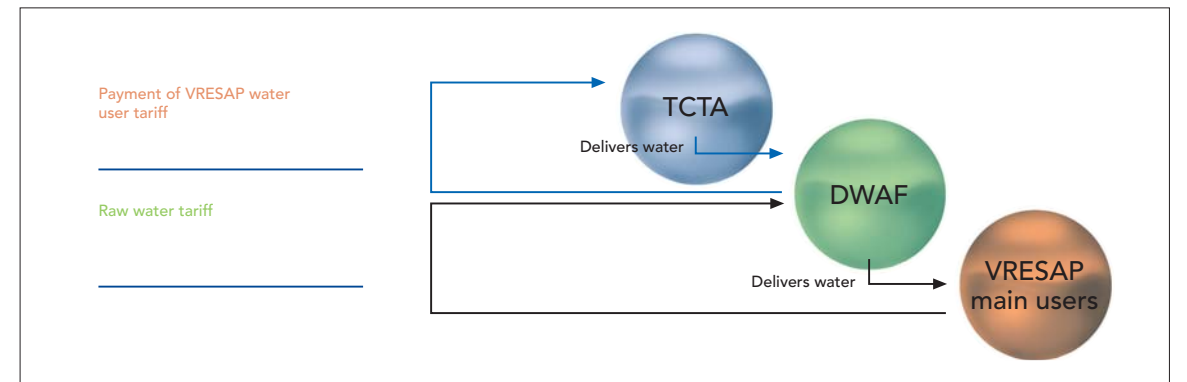
third-party users. An upper and lower limit of the CPIX index will be determined after the completion of construction.

The VRESAP tariffs are based on the total water required by Sasol and Eskom from VRESS and not on water taken from VRESAP. The systems approach, however, does not imply a system tariff. Rather there will be differentiated tariffs for each user, levied on existing infrastructure usage and an augmentation tariff levied on the total usage per user out of VRESS. The systems approach implies that water resources will be managed on an integrated basis.

Provision for other users

In addition to the VRESAP user tariff, a third-party user tariff will be levied by DWAF to any user other than the off-takers for water allocated or deemed to be allocated from VRESAP, as set out in the raw water supply agreement. This charge will be calculated separately for each allocation given to each user of water from the project.

Figure 28: VRESAP water tariff and supply chain



Project funding

Funding sources

Short-term funding

As TCTA will receive income in rands from the sale of bulk raw water to DWAF, TCTA only sourced rand funding for the project.

Bridging finance

TCTA sourced R600 million bridging facilities in the domestic market to be refinanced with the long-term funding facilities put in place during the year. The bridging finance was required for short-term funding requirements such as working capital to fund costs including administrative expenses, consultancy fees and other costs relating to environmental, engineering and design surveys and studies and advance contract payments.

Long-term funding

The long-term funding process for VRESAP was finalised by the signing ceremony of the loan agreements on 24 January 2006.

Fitch Ratings credit rated the project as AA+(zaf) long-term and F1+(zaf) short-term. TCTA sourced, based on the strength of the income stream and the strong credit rating, long-term funding (22-years committed funds) of R3 300 million.

The following table is a summary of the long-term loans and CPP entered into with the various lenders:

Amount for Bank	Funding	% of Total Funding
EIB (Contract VO21 only)	R500 million	15%
Standard Bank: Term banking facility	R1 000 million	30%
Standard Bank: CPI-linked loan	R350 million	11%
ABSA: Multi-option facility	R1 000 million	30%
Investec: Inflation linked loan	R300 million	9%
Nedbank: Amortising loan in conjunction with ADB	R150 million	5%
CPP	R300 million	10%

Capital expenditure should be fully incurred by October 2007 and the tariff will be set so that the total outstanding debt by 2007 will be amortised over the period to 2027. This follows the TCTA principle of repaying the project debt 20 years after completion of construction.

A net amount of R258 million was borrowed during the year under review to meet the project's funding requirement. The table below indicates the composition of funding:

Funding requirement	R million
Incremental	208
Refinancing	50
Total	258

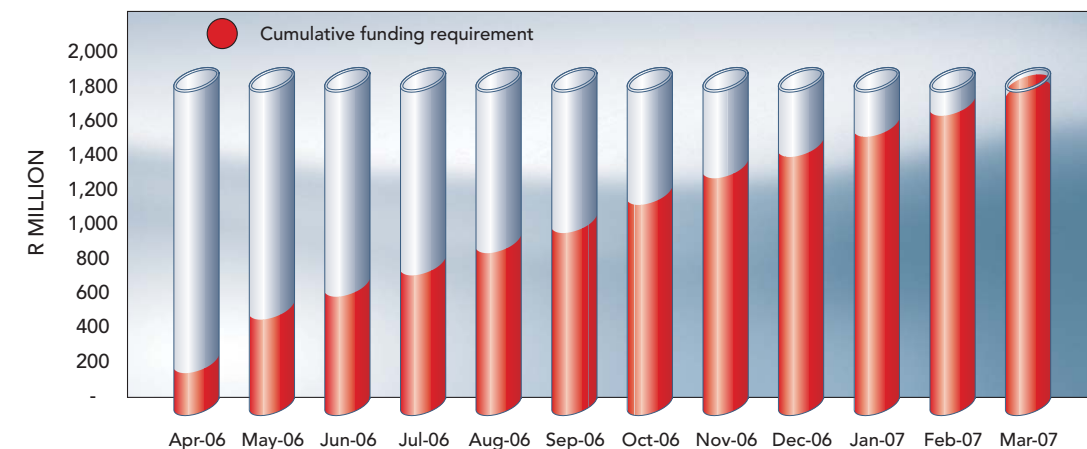
Funding source	R million	%
Money market	46	18%
Local loans	212	82%
Total	258	100%

Medium-term funding

Below are the details of the project's forecast funding requirement for the 2006/07 financial year:

Funding requirement	R million
Incremental	1 357
Refinancing	587
Total	1 944

Figure 29: Funding requirement for VRESAP for the 2006/07 financial year



Funding performance

The project funded at an average rate of 7,37%.



Environmental performance

TCTA is fully committed to complying with national environmental legislation while at the same time achieving international quality standards. TCTA's outstanding environmental performance is equal in standard to similar international organisations and projects.

Environmental policies and strategies

Through its environmental policies and strategies TCTA endeavours to ensure that:

- All project partners are regularly provided with accurate information on project impacts.
- Stakeholder engagement is an on-going process.
- Environmental Management System (EMS) frameworks are implemented with the objective of achieving continuous improvement in environmental performance.
- Operational procedures are implemented to control, reduce and avoid negative impacts.
- Environmental impacts are internalised as part of the project controls and do not become a social cost.

LHWP

Environmental Management Plan (EMP)

Although construction of Phase 1 of LHWP is complete, environmental management of the project is ongoing.

South Africa

River management plan

TCTA has continued to implement, on behalf of DWAF, a river management plan on the Ash River in the eastern Free State. The plan's aim is to monitor and evaluate the performance of the erosion protection structures constructed to mitigate the impact of the water flowing from Lesotho.

Lesotho

Instream flow requirements (IFR)

Instream flow requirements refer to the volume and release patterns of water necessary to ensure the health of downstream reaches and to promote the sustainability of aquatic systems. The IFR policy is being implemented. Downstream communities impacted by the reduced flows have been identified and LHWC has approved the compensation to be paid to them.

Biodiversity Trust

The Trust has been established and a Board of Trustees representing South Africa and Lesotho appointed. One of the programmes overseen by the Trust is the translocation of the Maloti Minnow, which are endangered. The initiative is running well and the fish are thriving.

BWP

Environmental Management Plan (EMP)

At the heart of the BWP compliance strategy is the EMP as approved by the Department of Environmental Affairs and Tourism (DEAT). This plan provides the framework and scope for the socio-economic strategies, environmental design guidelines, contractual specifications, as well as programmes for monitoring impacts on the overall Berg River system. The implementation of the EMP has demonstrated benefits beyond merely meeting legal requirements. It has contributed to the environmental awareness of the workforce and the contractors. The key to the success of the EMP has been the commitment of TCTA's Board and Management to the process.

Environmental Control Officer (ECO)

In order to meet the conditions outlined in the EMP, TCTA appointed an independent ECO to monitor and audit compliance by TCTA and all contractors. The ECO has been monitoring activities on site and in local communities since June 2004. Achievements against the EMP are documented in monthly reports and an audit of TCTA and all its contractors conducted on a 6-monthly basis.

Two audits (viz. March 2005 and November 2005) have been completed and reports submitted during the period under review. Since the start of the construction there has been significant

improvement with compliance which increased from 82% in the first audit to 96% in the second audit. The independent ECO has stated that there are no observable significant negative impacts associated with the project.

Environmental Monitoring Committee (EMC)

TCTA established the BWP EMC to encourage participative monitoring of the:

- conditions specified in the Record of Decision (RoD) for project approval
- performance and implementation of the EMP.

VRESAP

Environmental authorisation

In order to obtain the requisite environmental authorisation for the implementation of VRESAP, TCTA procured the services of independent consulting environmentalists and public involvement specialists to conduct the Environmental Impact Assessment (EIA) and public involvement process in March 2005. The EIA report was submitted to DEAT in July 2005. Having reviewed and accepted the report, the department issued a RoD in September 2005, authorising the project. Completing the EIA process and obtaining the RoD in this relatively short time is a major achievement for TCTA.

Aware of the immense time constraints, the VRESAP team decided to prepare an EMP as part of

the EIA process. This approach achieved the desired outcome and with the issuing of the RoD, the EMP was also approved. The requirements of the EMP have been translated into detailed environmental specifications in the various contracts to ensure that construction impacts are contained and mitigated as far as possible.

Environmental Monitoring Committee (EMC)

The EMC has been constituted and held its inaugural meeting in March 2006. An independent chairperson for the EMC will be elected, and all is set for this Committee to continue with its work as environmental "watchdog" for the project.

Nurseries for indigenous plants

One of the requirements of the EMP is the rescue of indigenous rare and endangered plants from construction areas. The plants were identified prior to construction and removed to a nursery established to care for the plants until completion of construction activities, when the plants will be used in the rehabilitation of the project area. It is envisaged that this nursery will also provide employment and develop skills in the project area.



SUSTAINABILITY REPORT CONTINUED



Social performance

Social sustainability is central to how TCTA projects are implemented and managed. A socio-economic strategy, tailored to the needs of the community, is contained in the EMP of each project. The efficiency and effectiveness of the socio-economic strategy is constantly tested and adjustments made to ensure continued success. All stakeholders in TCTA projects are encouraged to get involved in planning and review meetings to ensure that the needs identified are relevant and adequately addressed.

Policies and strategies

- To partner with and support existing local initiatives relevant to the project.
- To contribute to the development of local communities through job creation and capacity building.
- To monitor, evaluate and mitigate the social impacts of all projects.

Broad-based black economic empowerment

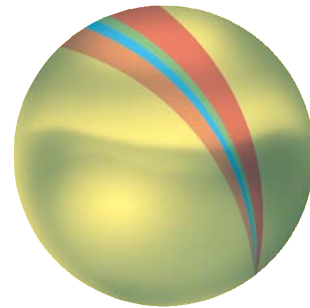
We embrace our responsibility to further government's economic empowerment agenda, and apply broad-based black economic empowerment principles to employment, training and procurement both at an organisational and project level.

Procurement at organisational level

TCTA's direct procurement spend for the year was R782 million, of which R731 million is BEE spend.

Employment, training and procurement at project level are reported in the relevant section below.

Figure 30: TCTA procurement spend



- Black companies
7% (R52 million)
- Black empowered companies
87% (R679 million)
- Black influenced companies
1% (R6 million)
- Not black empowered
1% (R9 million)
- No information on vendor
4% (R37 million)

LHWP

Phase 1 of LHWP was completed in accordance with international and World Bank recommendations on the requirements of social development.

Community development

Compensation

During the year under review the total compensation paid in Phase 1A of the LHWP was M4 million and M16 million for Phase 1B (1 maluti = 1 rand).

Resettlement

In total, 317 households have been resettled in Phase 1B. Four households were identified and approved for resettlement because they had no access to the main village rangeland and were also dangerously located. Construction of replacement houses for these four households is nearing completion and will be ready for occupation by June 2006. Thirty-five graves (of 435 in the area) were exhumed and reburied in the winter season (2005). Another 18 graves at four households will be exhumed and reburied during the winter of 2006.

Community participation

Funds for communal assets lost due to project construction are paid to communities once the community has been trained and registered as a local legal entity (LLE). In the Phase 1A area, 27 LLEs were established and received compensation totalling M11 million. A further 23 LLEs downstream of Katse dam were established and received M27 million which they invested in various financial institutions and developmental projects.

In the Phase 1B area, LHDA has mobilised 48 LLEs for training and registration in order for them to receive annual communal compensation. So far 37 have been trained, 17 of these have registered. Thirteen of the 17 registered LLEs have received M3 million, while 20 LLEs are in the process of registration. Many have invested in various financial institutions while two have started village electrification projects, four hammer mills, one farm input store and one poultry project.

Currently mobilisation for 12 villages downstream of Mohale dam is continuing through training to ensure compliance with registration. Once LLEs have registered and are in compliance they will receive their funding.

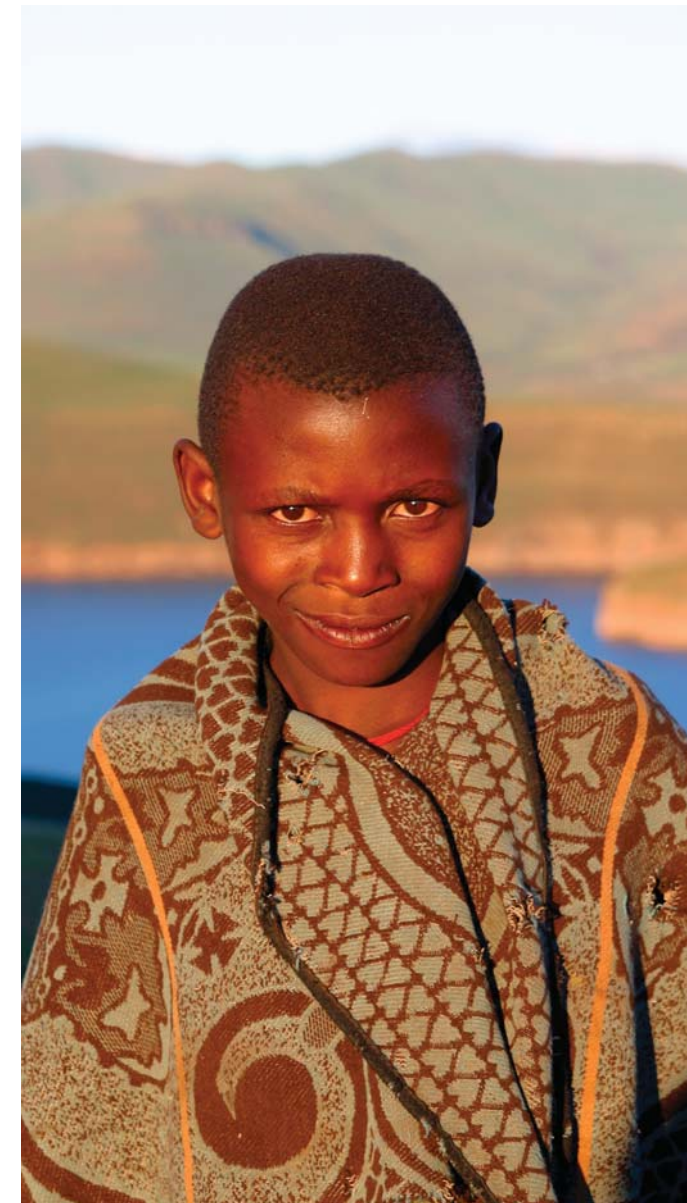
Ombudsman's hearings

The ombudsman has signed off 54 of 58 actions raised in his report.

The hearings in Mohale (Phase 1B) catchment villages were conducted and ended in May 2005. The ombudsman's report on the hearings will be issued on the 8th June 2006 in Mohale. However, LHDA has proactively responded to most of the queries that were raised during the hearings.

Social impact epidemiological and social survey

The LHDA commissioned the Human Sciences Research Council (HSRC) to conduct an impact study on how LHWP has economically affected communities in the project areas. This study will also include an epidemiological survey to assess the health status of the communities in the project areas. The aim is to ensure that LHDA identifies strategies to deal with health challenges that may be facing the communities.



SUSTAINABILITY REPORT CONTINUED

Integrated Catchment Management (ICM)

Integrated Catchment Management's overall objective is to establish committees that will address community development by improving the sustainability of resource use within LHWP catchments. SMEC International has been commissioned for five years to assist communities to achieve this objective. Currently three pilot projects have started in Katse, Lejone and Mohale with the aim of forming Catchment Management Authorities.

Water and sanitation

Mohale Water and Sanitation is virtually complete, with only three water systems (of a total of 101) left to complete. For Phase 1A first quarter budgets have been received from the government of Lesotho and European Investment Bank. The programme is proceeding well, with two-thirds of the latrines and soak-away pits in place.

BWP

The BWP is the largest infrastructure project currently being implemented in the Western Cape. It has a direct impact on the communities in the Franschhoek and Dwars River valleys.

TCTA is implementing a policy formulated to maximise job and business opportunities in the project community, known as the Franschhoek First Policy. The Policy ensures that employment, procurement and training opportunities created by project role players benefit the local communities.

Capacity building

Training

To date the Dam contract has provided training for 5 020 local people, amounting to 7 562 person days of training.

SMME training

TCTA facilitated local SMME training to ensure that contractors are able to take maximum advantage of the business opportunities available at BWP. This training support was specifically provided in preparation for the La Motte housing contract. Two of the candidates, both women, went on to win tenders and were each awarded a contract to build 20 houses.

Job creation

Socio-economic achievements

To give effect to the Franschhoek First Policy, each contract awarded on the BWP stipulates employment and procurement targets. The performance of the contractor against the targets is monitored on a monthly basis.

On average the project provides jobs for 650 locals. Below is an illustration of the contractors performance against targets.

Employment statistics

Contractors	Local labour		
	Target	Achieved	HDI
BRPJV – Dam construction	75%	49,38%	92,71%
DWAF – Supplement Scheme	65%	66,93%	91,10%
Cycad – Pipeline	40%	42,05%	89,29%

Employment provided by the Working for Water programme

The Working for Water alien vegetation clearing programme provides employment for 636 people.

Procurement

Black economic empowerment

The procurement of goods and services by all contractors is gauged against contractual procurement targets contained in the contract.

All percentages are expressed as a percentage of 25% of the total contract value.

Figure 31: Percentage spend on black and BEE companies

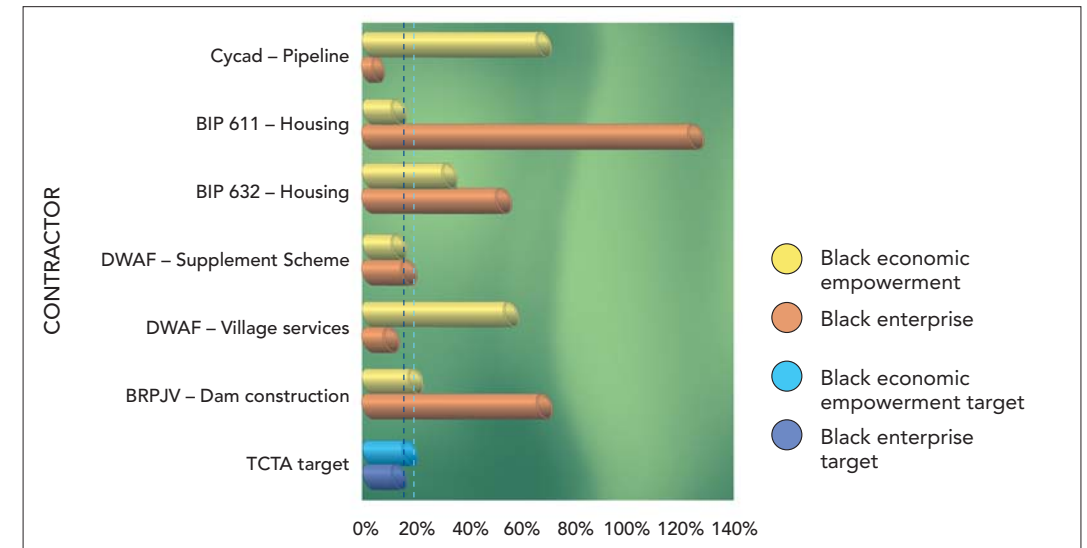
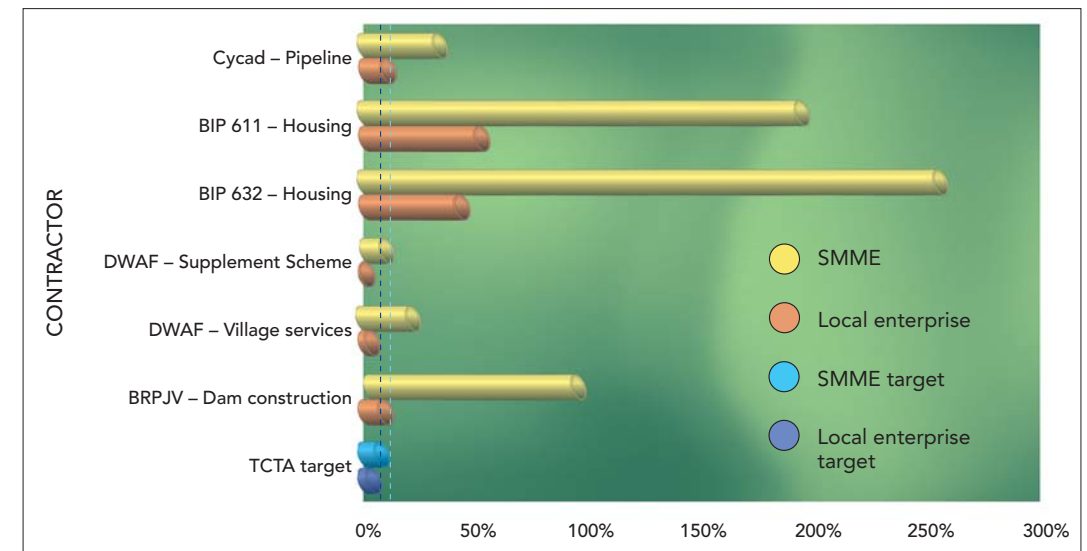


Figure 32: Percentage spend on local enterprises and SMMEs



<i>Empowerment focus of BWP contracts</i>		
Infrastructure project	Contractor	Type of empowerment instituted
Access road	DWAF construction division	Government
Housing		
• 40 houses	Power Building/Donico Joint Venture	BEE joint venture; 80% local HDI participation
• 20 houses	Bright Idea Projects 632 cc	Black-owned SMME, Franschhoek
• 20 houses	Bright Idea Projects 611 cc	Black-owned SMME, Dwars River valley
Housing services (water, sewage, road infrastructure)	DWAF construction division	Government
Main construction		
Berg River Dam	Berg River Project Joint Venture (BRPJV): • Grinaker-LTA • Group Five • Wilson Bayley Holmes Ovcon (WBHO) • Western Cape Empowerment Contractors (WCEC)	BEE joint venture; 20% black participation
Supplement Scheme		
Pump Stations and Balancing dam	DWAF construction division	Government
Pipelines	Cycad Pipelines	25.1% Black empowered
Electrical and mechanical components	Sulzer Pumps	25% Black influenced

Community development

Social monitoring strategy

A social monitoring strategy on the BWP is being implemented to ensure that all project benefits are maximised and negative social impacts mitigated. The social monitoring team completed a comprehensive survey of 600 households and health, education, safety and security institutions in the project area. Monthly qualitative monitoring is being conducted to gain in-depth insights into the views, opinions and perceptions of households, community leaders, business people, administrators, and professionals in key sectors.

Sustainable Utilisation Plan (SUP)

Plans for the sustainable use of the land surrounding the Berg River Dam and the water-body are being developed. The public consultation process for the development of a SUP began formally with two public meetings held in February 2005. Baseline information on the possible constraints and opportunities against which the proposed development activities will be evaluated was researched and presented in the Opportunities and Constraints report published in December 2005. The findings contained in the report were presented to local stakeholder groups and communities through a series of meetings held in March 2006.

Land acquisition

TCTA expropriated two privately owned farms and a business (conducted on one of the farms) to secure the land required for the construction of the Berg River Dam in 2003.

TCTA paid these entities compensation in terms of the Expropriation Act in 2004. One of the landowners has disputed the compensation amounts and submitted claims for additional compensation in terms of the Act. The compensation amounts are at present subject to negotiation and due legal process.

In July 2006 settlement was concluded on compensation for the business operated on one of the farms.

Towards the end of 2005 notices of expropriation were issued in relation to the Supplement Scheme. These included notices to expropriate privately owned land required for the construction of the abstraction works below the confluence of the Dwars and Berg rivers, and the irrigation release works. Notices to expropriate servitudes of aqueduct where the pipeline, from the Supplement Scheme to the Berg River Dam, crosses private land were also issued. TCTA is awaiting claims for compensation from the land owners.

Public participation on BWP

The involvement and participation of the public and stakeholders in the BWP has occurred through various forums, communication media and events. For example, non-governmental organisations, community-based organisations and community representatives in the Franschhoek and Dwarsrivier valleys are involved in the monthly monitoring of employment and training issues and processes through the Integrated Employment and Training Committee (IETC) established by TCTA. The IETC

was established in October 2004 and has held bi-monthly meetings since.

Project communications

An integrated communications plan was developed to involve stakeholders in various aspects of the project. The communications plan is implemented in a targeted manner, ensuring that the medium and messages used are appropriate for the audience. The plan includes:

- A **media strategy** that involves a combination of media releases, advertisements and media visits.
- **Public awareness campaigns** through the use of marketing material such as newspaper inserts and newsletters, participation in exhibitions and sponsorship of local events.
- The **BWP Information Centre** is being upgraded to provide visitors with comprehensive information on BWP.
- A **schools outreach programme** aims to maximise the learning opportunities provided by the project. These include subject areas such as environmental issues, the importance of water, construction and engineering as career options and the history of the area.
- **Empowering SMMEs** by enabling them to participate in events such as Small Business Week.
- **Community events** to celebrate milestones on the project and create awareness of the project.

SUSTAINABILITY REPORT CONTINUED

VRESAP

Capacity building Training

Target percentages have been defined for the various contracts to ensure employment and procurement preference to the project area.

Induction training is being conducted for all new employees. Training for job-related skills is being implemented through a variety of in-house and external programmes. To date 135 employees of MPC have undergone job-related training and 304 have received life-skills training.

Over 30 residents from the local community of Mameloo are undergoing training in steel fixing, concrete batching and land surveying in preparation for work on the COVEC contract.

Job creation

To date 611 jobs have been created of which 289 were recruited from the local project area.

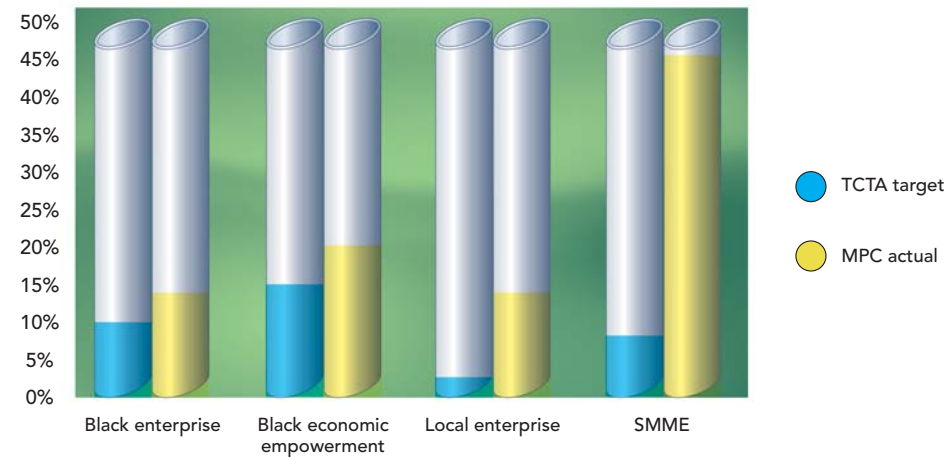
Procurement

Black economic empowerment (BEE)

To support BEE the appointed contractors were required to establish a joint venture with a black enterprise as a member to a level of at least 25%. The black enterprise equity ownership in the joint venture must continue for the duration of the contract period.

The procurement of goods and services by all contractors is gauged against contractual targets.

Figure 33: Procurement to date (MPC)



Empowerment focus of VRESAP contracts

Infrastructure project	Contractor	Type of empowerment instituted
Construction of civil structures and mechanical, electrical instrumentation and piping components	COVEC-MC Joint Venture	25% black enterprise ownership
	– Chinese National Overseas Engineering Corporation – Mathe's Construction (100% black-owned)	
Pipeline supply and install	Mpumalanga Pipeline Contractors Joint Venture (MPC)	25% black enterprise ownership
	– Murray and Roberts Construction	
	– Group Five Construction	
	– WK Construction	
	– J & J Group	

Community development

Women in construction initiative

Six women-owned companies have been appointed to install air valve chambers on the project. The companies appointed are from Mpumalanga, Rustenburg, Pretoria and Johannesburg (East Rand and Soweto). The South African Federation of Civil Engineering Contractors (SAFCEC) will provide business training in the form of a micro MBA course, in addition MPC will provide practical training and mentoring. Capitol Outsourcing Group has been retained to assist the companies with labour related issues.

Land acquisition

During the latter part of 2005 TCTA successfully negotiated agreements with 127 of the 134 land owners along the pipeline route. The remaining seven owners had to be expropriated in order to commence construction.

A total of 25 borrow pits were expropriated during the reporting period from 20 owners, along the pipeline route.

Portions of three private farms were also expropriated at Vaal Dam to construct the abstraction works, desilting-works and pump station, a second portion near Greylingstad for the construction of the surge tank and a small portion for the enlargement of the existing Knoppiesfontein distribution works.

In all cases of expropriation compensation was offered and paid at the same time. Some claims for further compensation were received, but generally the compensation has been accepted.

The process for payment of compensation in terms of the servitude of aqueduct agreements was also started and is well advanced.

Relocation of graves

The task of relocating the graves was awarded through a contract worth R470 000 to Professional Grave Solutions.

Socio-Economic impact assessment

An assessment of the socio-economic impact of the project identified the following as potentially positive developments:

- Stimulation of the economy through increased financial spending brought about directly and indirectly by the project.
- Increased infrastructure investment.
- Increased employment levels. During the construction phase an estimated 600 persons will be employed for the construction of the pipeline and 350 persons for the construction of the abstraction works. During the operation phase 20 permanent staff are expected to be employed.
- Increased standards in living as a result of new jobs.
- Skills transfer.



Human capital

TCTA's ability to sustain the consistently high levels of performance it has achieved to date is due to the calibre and resilience of its staff. The creative talent of this diverse pool of technical, professional and support staff has been leveraged through:

- team alignment
- harnessing the power of diversity
- creating a shared passion
- an integrated approach to training and development
- a commitment to exceed expectations in service delivery.

TCTA's commitment to valuing diversity and accessing the diverse skills and experience of its employees is reflected in strategic and operational tools, including the strategic plan, performance management and transformation programmes.

SUSTAINABILITY REPORT CONTINUED



TCTA's human capital strategy is based on the principles of asset management – recognising the value within and providing an enabling environment in which to unlock and develop that value. The three pillars underpinning the strategy to manage staff as an asset are:

- an enabling work environment
- training and development
- culture and behaviour.



The workplace environment

TCTA's flat management structure increases individual responsibility and relies on the individual's abilities, skills and expertise to provide a high level of service within the organisation.

Commitment is ensured via strong retention, succession and back-up policies as well as continual alignment of our core competencies to the growth, specialisation and stakeholder expectations of the organisation. Where focused, dedicated, non-core specialisation is required, this candidate is sourced on a contractual basis, to ensure that service delivery of the highest standard is attained.

Organisation development and transformation

The transformation agenda in TCTA has been declared a priority. In response the Transformation Committee was established. To ensure efficiency and effectiveness in application of policies, the transformation outcomes are aligned to all business plans and follow the TCTA strategy formulation and implementation methodology.

The transformation programme of action rests on agreed focus areas. Progress is monitored by Exco and the HR Committee.

Human resources alignment study

In August 2005 a Human Resources Alignment Project was commissioned by TCTA to:

- assess current HR service levels against stakeholder expectations
- assess the degree to which HR systems, policies and processes adhere to good practice and/or are legally compliant
- benchmark our HR systems and processes against appropriate comparator organisations.

The study showed that the procedures and policies are in line with best practice. The position of Head: Organisational Development and People Management was introduced to provide support to line managers in the recruitment and selection processes and performance management. The Head: OD&PM reports to the CEO.

Employment equity

The policy of TCTA is to offer equal employment opportunity and development to all persons without regard to race, gender, ethnic or social

origin, sexual orientation, age, disability, religion, belief, political opinion, culture, marital status or family responsibility.

It is acknowledged that TCTA has a direct responsibility to resource all levels of the business with the best skills available from all race groups in order to ensure the development of a non-racial work force and to work towards a management structure that reflects the regional and national demographics of South Africa.

It is recognised that TCTA plays an important role in developing previously disadvantaged individuals in careers applicable to TCTA's area of operation. In accordance with this, the Bursary Scheme and the Internal Trainee Programme focus on assisting previously disadvantaged individuals.

The new Employment Equity Plan (EEP), reflecting targets for 2008, has been submitted to the Department of Labour. Great success was achieved as far as the recruitment of historically disadvantaged employees is concerned. The recruitment and retention of African females as well as senior positions in the HDI category proved to be a challenge.

The increasing level of specialisation within TCTA and the addition of BWP and VRESAP have necessitated an increase in the number of employees. Select members of staff who worked in Maseru on the LHWP have been redeployed to work on these projects. The employment opportunities on these projects offer regional development opportunities for individuals trained on the LHWP.

Staff turnover and growth always presents an opportunity to increase the level of organisational diversity, not only in terms of race and gender but also in terms of professional disciplines and innovation. Recruitment and selection is implemented in terms of the targets set out in the EEP and TCTA's culture.

Number of persons

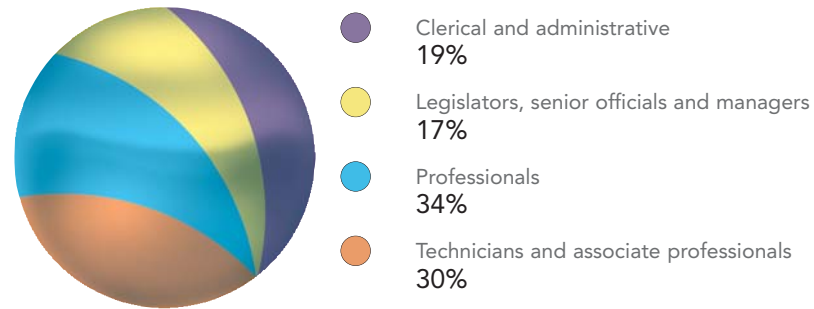
Employed	2006	2005
Full-time	73	44
Co-sourced	6	3
Seconded	1	1
Contracted	8	10
Part-time	3	1
Total	90	59

Location of staff	2006	2005
Tshwane	79	51
Franschhoek	6	4
Vaal Marina	1	-
Lesotho	4	4
Total	90	59

SUSTAINABILITY REPORT CONTINUED

The following graph shows the demographics of TCTA staff who are permanently employed. This excludes specialist services that are contracted in from time to time.

Figure 34: Employment profile excluding co-sourcing, secondments and contractors as at March 2006 (73 staff)
By occupational category



By race and gender

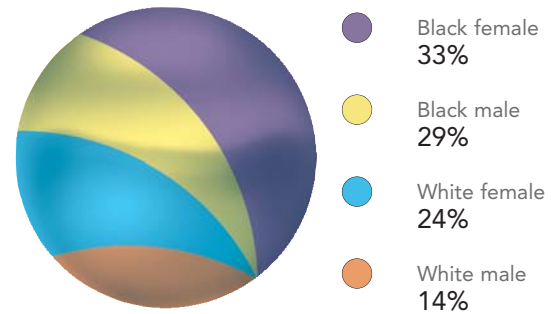
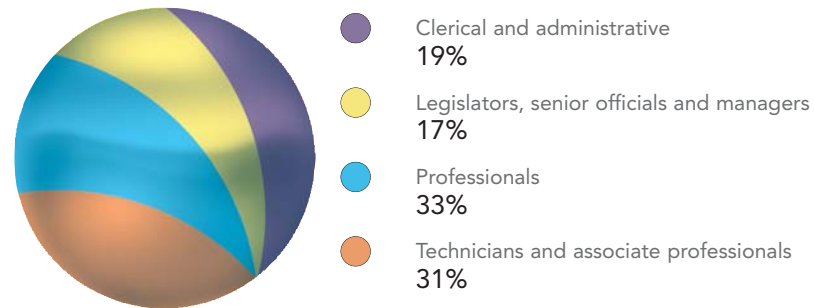
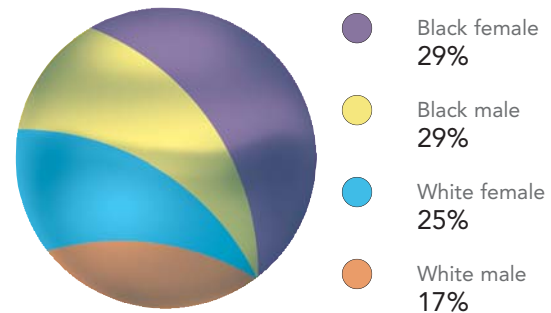


Figure 35: Employment profile including co-sourcing, secondments and contractors as at March 2006 (90 staff)
By occupational category



By race and gender



Turnover as a percentage of total staff complement

Year	Percentage turnover
2006	18%
2005	14%
2004	17%
2003	11%

Turnover per category

Occupational category	African		White		Total
	Female	Male	Female	Male	
Clerical and administrative	1				1
Legislators, senior officials and managers	2			1	3
Professionals	2		1		5
Technicians and associate professionals	2	2			4
Grand Total	7	2	1	3	13

Reasons for leaving

Occupational category	End of contract	Better career	Working conditions	Voluntary resignation	Total
Clerical and administrative		1			1
Legislators, senior officials and managers		1	2		3
Professionals	2	1	2		5
Technicians and associate professionals		2	1	1	4
Grand Total	2	5	5	1	13

Employee Wellness Programme

Studies over the years have shown that employee absenteeism is reduced when wellness programmes are implemented. These studies document tangible economic benefit from wellness programmes. Intangible benefits may be even more important to an organisation's overall health, such as increased productivity and employee morale.

However, the most significant benefit from our programme has been its value in assisting our organisation recruit and retain our best talent.

The aim of our wellness programme is two-fold:

- to provide employees with professional assistance for resolving personal and health problems
- to enable managers to assist employees with personal problems whilst remaining focused on work performance and to reap the benefits of a healthy, balanced and high-performing workforce.

The great feature of our programme is that it is managed entirely by the staff, through a Wellness Committee that has clear terms of reference. We also contract an industrial psychologist that is able to attend to employee issues at short notice. Complex issues emanating from consultations are then referred to specialist resources.

Training and development

In taking a strategic approach to human capital planning, TCTA is in the process of developing an annual people development plan to identify learning and development priorities. The plan will identify the generic skills, development objectives, principles, responsibilities and performance measurements necessary to achieve business outcomes and commitments outlined in the corporate plan, skills development and strategic people management plan.

Already the organisation spends an amount (R1,03 million) far in excess of the investment in skills and development required by FASSET. Training completed during the year constituted:

- 138 interventions
- 260 training days
- 55 staff members (including 36 EE candidates).

Performance management

Performance appraisal is a vital component of TCTA's people management strategy. The performance management system is designed to encourage and reward high achievement, manage individual performance and provide a clear link for staff between their work and broader corporate goals. Appraisal reports feed into promotion, placement, career and succession planning.

Workplace diversity

Our workplace diversity activities promote a high level of awareness of the principles of sustainable teamwork – respect, personal courtesy, inclusion and the elimination of harassment and discrimination. TCTA's first workplace diversity programme was launched during the period under review. Although the organisation performed well against the programme's objectives there is still room for improvement in some areas. Those areas are the focus of a new diversity plan for 2006/07.

Team effectiveness

When team members build commitment, trust, and support for one another, it allows them to develop and accomplish goals. The level of commitment, trust, and self-determination demonstrated by each team member is critical in sustaining a high level of performance. This environment enables team members to appreciate their co-workers' strengths and weaknesses, and this helps to keep projects on track and within budget and deadlines.

TCTA introduced a two-day Induction programme aimed at giving new employees an overall perspective of TCTA. New employees are given a Survival Guide that contains key information on TCTA such as the organogram, key policies, performance management system and individual key functional areas.

The programme, run on a bi-monthly basis, is coordinated by the HR department with presenters from all departments sharing information on what they do and how it fits in the organisation.

Employee Retention Programme

TCTA has experienced significant change in the workplace that has radically altered the way it relates to employees. With the current shortage of skills, attracting and retaining good employees have become the primary concerns of nearly every organisation in our industry. TCTA has also understood what our employees want and need in the workplace and has made a strategic decision to proactively fulfil these needs through our retention strategy.

This year a performance based incentive plan, based on the "banking-and-rolling" philosophy, was implemented.



Culture and behaviour

“TCTA’s Formula for Success” is encapsulated within the “TCTA Way” which aims to position TCTA as the benchmark public sector entity within South Africa. The “TCTA Way” focuses on people, systems, skills, relationships, innovation and professionalism as a means to ensure the highest level of ethical standards. This is illustrated in the diagram below.

The idea to introduce “TCTA’s Formula for Success” was conceived and developed in February 2004 and duly completed in August that year. The purpose of this system was to develop a set of principles that would drive TCTA towards achieving its goal as the Liability Manager of Choice.

“TCTA’s Formula for Success” is brought to life by the employees who vote, on a bi-monthly basis, on

how well the organisation had achieved the values encapsulated in the DNA. The voting process gives employees in TCTA an opportunity to discuss issues that they believe are paramount in carrying the organisation forward.

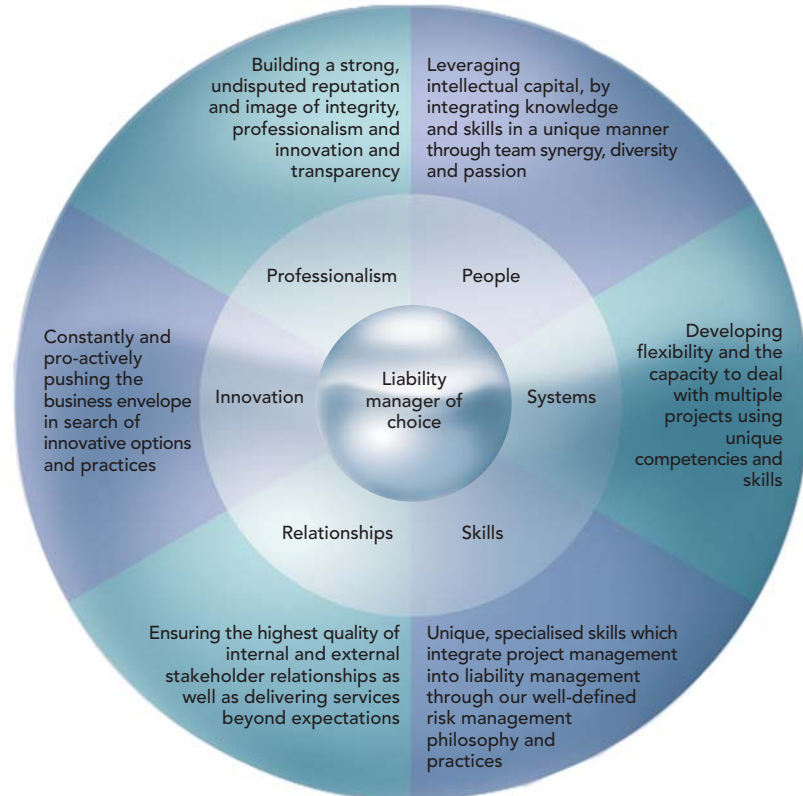
Information is categorised into two classes:

- above the line issues – positive outcomes and behaviours that should be acknowledged, promoted and duplicated
- below the line issues – matters and behaviours that have a negative impact on the work environment and the business that should be eliminated or addressed.

Feedback from the organisation revealed a need to enhance our “acknowledgement and recognition programmes” and to focus on organisational development and people development.

In response retention strategies, diversity programmes and a Human Resources re-alignment study were introduced. The learning and development programmes were adjusted to incorporate leadership development and diversity programmes.

Figure 36: TCTA’s Formula for Success





Mandate

TCTA was established in terms of Government Notice 2631 of 12 December 1986 for "the implementation, operation and maintenance of the project works within South Africa" according to the Treaty that governs the Lesotho Highlands Water Project (LHWP).

TCTA was directed by the South African government to take on the added responsibility for liability management of the LHWP. When the delivery of water started in 1998, the implementation function on Phase 1A was fulfilled. However, TCTA still performs the operations and maintenance function on the LHWP structures within South Africa as prescribed in Protocol VI.

The need for the LHWP

The LHWP is a world-class infrastructure project to divert water of the Senqu River system in Lesotho to the water-stressed Gauteng region of South Africa. It is a bi-national project implemented by TCTA within the borders of South Africa and LHDA within the borders of Lesotho, in accordance with the Treaty and overseen by the Lesotho Highlands Water Commission (LHWC). The oversight role of the LHWC is defined in protocol VI to the Treaty (Figure 40).

LESOTHO HIGHLANDS WATER PROJECT

Figure 37: LHWP governance structure



Governance

TCTA reports directly to the Minister of Water Affairs and Forestry as the executive authority on all matters concerning liability management. On operations and maintenance functions, TCTA reports to the LHWC.

Project profile

Phase 1A was completed in 1998 with the construction of Katse Dam, Muela Hydropower Station, and delivery tunnels to transfer water to the Vaal River system in South Africa.

TCTA was responsible for the implementation of the 21km Delivery Tunnel North on Phase 1A. The tunnel joins Delivery Tunnel South inside Lesotho and ends in the Ash River Outfall structure. Subsequently, TCTA implemented a series of structures on the Ash River to dissipate energy and modulate the fluctuations in flow caused by the operation of the Muela Hydropower Station.

Awards

Year	Award
1990	Northern Access road awarded "Most Outstanding Civil Engineering Achievement" by South African Institute of Civil Engineers (SAICE)
1991	Malibamatso Bridge won the Fulton National award for "Excellence in Concrete Construction"
1995	Delivery Tunnel North was runner-up in the Fulton National Awards for "Excellence in Concrete Construction"
1997	Delivery Tunnel North was runner-up in the Environmental Planning Professions Interdisciplinary Committee (EPPIC) "National Premium Award for Integrated Environmental Management"
1998	Delivery Tunnel North won the Cement Manufacturers Association award for "Excellence in Commercial and Community Paving"
1998	Katse Dam awarded "Most Outstanding Civil Engineering Achievement" by SAICE
1998	Katse Dam won the Fulton National Award for "Excellence in Concrete Construction"
1998	Delivery Tunnel North awarded "National Premium Award for Integrated Environmental Management" by EPPIC
1999	Delivery Tunnel North awarded the annual "National Award for Project Management Excellence" by the Project Management Institute (PMI)

The Phase 1B physical works, comprising Mohale Dam, Matsoku Weir and a 31km transfer tunnel from Mohale reservoir to Katse reservoir, have all been completed, bringing engineering activities on the project to a close.

TCTA is responsible for the funding of the entire LHWP, with the exclusion of the Muela Hydropower Station.

According to the World Bank supervision missions, the main project works and engineering supervision continue to be rated as highly satisfactory. The

LESOTHO HIGHLANDS WATER PROJECT CONTINUED

operation of the project is very successful and continues to deliver a sustained flow of high quality water to the industrial heartland of South Africa.

Emergency releases

The project also offers flexibility to address water shortages in the central Free State, Eastern Cape and Lesotho as was the case in October 2003 when Maseru experienced severe drought conditions. This water offers Lesotho a valuable resource for sustainable industrial growth.

Possible future phases

Although the Treaty envisages four possible phases of the project, the Treaty partners (South Africa and Lesotho), were only committed to implement Phase 1, after which possible future phases would be evaluated. Following the completion of Phase 1, the governments of South Africa and Lesotho committed to a joint feasibility study in terms of the Treaty. The tender for this study was issued at the end of 2005.

Figure 38: Lesotho map illustrating the position of the LWHP





Mandate

The Berg Water Project (BWP) is the culmination of a 14-year process by the Department of Water Affairs and Forestry (DWAF) to identify appropriate measures to address the pending water shortage in the Western Cape.

The process started with the Western Cape systems analysis in 1989, to determine the future needs and water resources available in the region, and was subjected to rigorous public participation process and debate, after which a Record of Decision was issued in 1999 by the Department of Environmental Affairs and Tourism.

In April 2002, the Cabinet approved the implementation of BWP on condition that the City of Cape Town (CCT) reduces the demand for water by 20% by the year 2020.

In May 2002, the Minister directed TCTA in terms of section 103(2) of the National Water Act, 1998, to fund and implement BWP as the agent for DWAF.

BERG WATER PROJECT

Figure 39: Integrated Western Cape Water System



An integrated approach to water supply

BWP is the first bulk water resource development project that is directly linked to water demand management. The existing components of the Western Cape Water System (WCWS), including the addition of the Berg River Dam, are depicted in Figure 39. BWP will increase the yield of the WCWS by 81 million m³ or 18% to 523 million m³ a year by 2007.

Decision-making participation

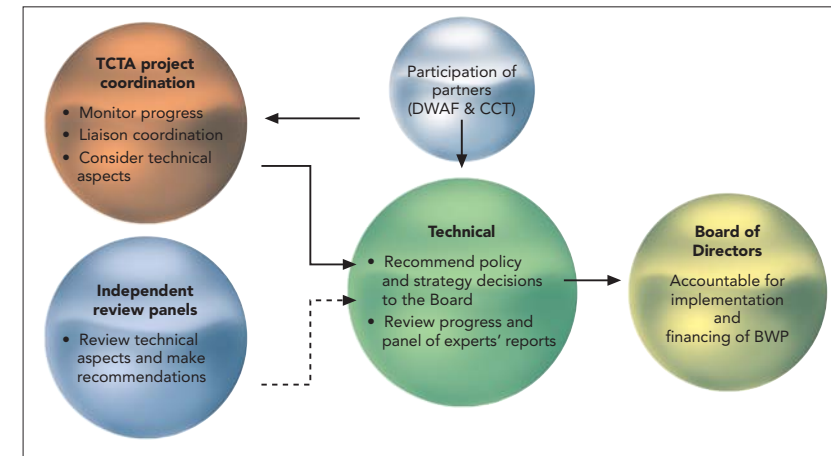
The BWP Technical Committee accommodates the participation of TCTA's partners (CCT and DWAF) in implementing the project.

An independent engineering panel reviews all technical implementation aspects of the project and makes recommendations to the Committee.

Governance

TCTA's Board is ultimately responsible to the Minister of Water Affairs and Forestry and to Cabinet for the implementation of BWP.

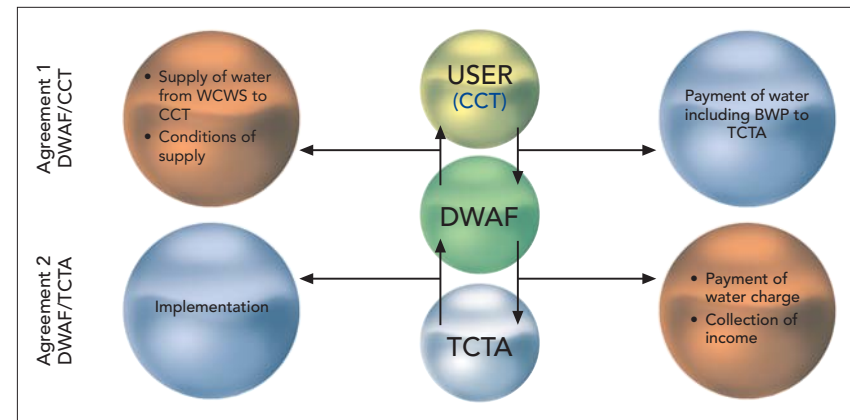
Figure 40: BWP decision-making structures



BERG WATER PROJECT CONTINUED

The BWP is governed by two agreements: an implementation agreement between DWAF and TCTA and a raw water supply agreement between DWAF and CCT. Both agreements were signed on 15 April 2003.

Figure 41: Implementation agreements



Project profile

The BWP comprises the Berg River Dam and Supplement Scheme.

Dam

The dam is located in the upper reaches of the Berg River near Franschoek.

- Full supply level 250m above sea level
- Surface area 488ha
- Type Concrete-faced rockfill dam
- Gross storage capacity 130 million m³
- Net storage capacity 129,4 million m³
- Maximum dam height 62m (70m including foundation)
- Length of dam wall 929m
- Spillway Side channel
- Volume rockfill 3,5 million m³
- Multi-level inlet tower 63m

Supplement scheme

Additional water will be abstracted from the Berg River, below the confluence with the Dwars River, at the Supplement Scheme which includes:

- Diversion weir across Berg River
- Balancing dam 4ha
- Pump station 4m³/second
- Pipelines 12km

Infrastructure

- Access road to the dam site 3,5km
- Construction housing 80 units (La Motte Village)

Budget

The anticipated final cost of BWP is well within the originally approved budget for the project.

Contracts

Engineering contract

The consultancy services contract was awarded to Berg River Consultants (BRC) which comprises Goba, Knight Piesold and Ninham Shand. BRC is responsible for the design and construction supervision of all BWP construction contracts.

Dam contract

The R550 million contract for the construction of the dam was awarded to the Berg River Project Joint Venture (BRPJV). BRPJV consists of Grinaker-LTA, Group Five, WBHO and Western Cape Empowerment Contractors (WCEC).

Dam construction progress

The Dam type, known as a concrete-faced rockfill dam (CFRD), consists of an embankment made up of rock mined from the dam basin, with an impermeable concrete face (300mm thick) on the upstream side.

The first phase of the embankment is 95% complete.

The downstream face is being re-vegetated with fynbos to ensure that it blends with and does not contrast with the surrounding landscape.

Approximately 720m (73%) of the plinth has been laid, this forms the connection between the base of the wall and the bedrock below.

Project update

The project is on schedule to impound the Berg River in June 2007 and begin with the delivery of water to Cape Town by end-2007.



River diversion mechanisms

A 25m high cofferdam was constructed upstream of the main dam to prevent the river from running into the construction activities. The cofferdam provides a 1 in 20 year flood protection.

The diversion conduit, a 150m long, 5,5m diameter tunnel built to convey the river from the upstream to the downstream side of the main works, is complete. On 24 November 2005, a major milestone was achieved when the Berg River was diverted to flow through the diversion conduit.

After completion of the project the diversion conduit will be used to undertake environmental releases, up to 200m³ per second of water will be released from the dam into the river to simulate natural floods during periods of high rainfall. Smaller releases, known as freshets, will be made to maintain the natural flow patterns of the river.

Intake tower

Water from the Berg River Dam will be extracted through the 63m high intake tower. The water extracted from the dam will be directed either to Cape Town or into the Berg River.

Concreting of the intake tower is slightly above 230m above sea level, 61% of the final height.

Spillway

The spillway is a mechanism through which water will spill if the dam reaches its full capacity. The spillway is located on the left bank of the dam. Excavation of the spillway is complete, concreting of the channel is at an advanced stage.

Dasbos Pump Station and Adit

The pump station located below the dam wall will

pump water from the Berg River Dam to Cape Town via the Riviersonderend tunnel system. Construction of the pump station is progressing well with 65% of the civil works complete.

Supplement Scheme

The Supplement Scheme, situated 10km downstream from the Berg River Dam is designed to capture additional rain water that enters the Berg River below the dam via the Dwars, Wemmershoek and Franschoek Rivers. This additional water supplements the yield of the BWP from 56 to 81 million m³ per annum. The Supplement Scheme is sub-divided into three contracts.

Supplement Scheme contracts

Construction of civil works

The R219 million contract was awarded to the construction division of DWAF in July 2005. It entails construction of the:

- weir and sedimentation traps in the river
- balancing dam
- Drakenstein and Dasbos Pump Stations
- pipe connection to the Riviersonderend tunnel system at the Dasbos Adit.

The Berg River was successfully diverted at the Supplement Scheme abstraction works site during December 2005. Foundation preparations for the construction of the weir are at an advanced stage. Excavation for the balancing dam has continued from the inlet structure working towards the pump station. To date 90% of the volume has been excavated. Construction of the embankment along the south west side has also commenced.

Construction of electrical and mechanical works

The R59 million contract was awarded to Sulzer

Pumps (South Africa) (Pty) Ltd in October 2005. The scope of services includes supply, installation and commission of pumps and other mechanical and electrical items to both the Dasbos and Drakenstein Pump Stations.

The manufacture and fabrication of the pumps are at an advanced stage. Dasbos Pump Station pumps were assembled and the factory acceptance testing conducted at ABB in Switzerland in January 2006. The pumps will be shipped to South Africa for further tests in Johannesburg prior to delivery to site.

Construction of pipelines

This contract entails the supply and construction of the 9,5km pipeline linking the Supplement Scheme to the Berg River Dam as well as the 2,5km pipeline from the Dasbos Pump Station to the Dasbos Adit. The contract was awarded to Cycad Pipelines in October 2005. The Contract price is R125 million.

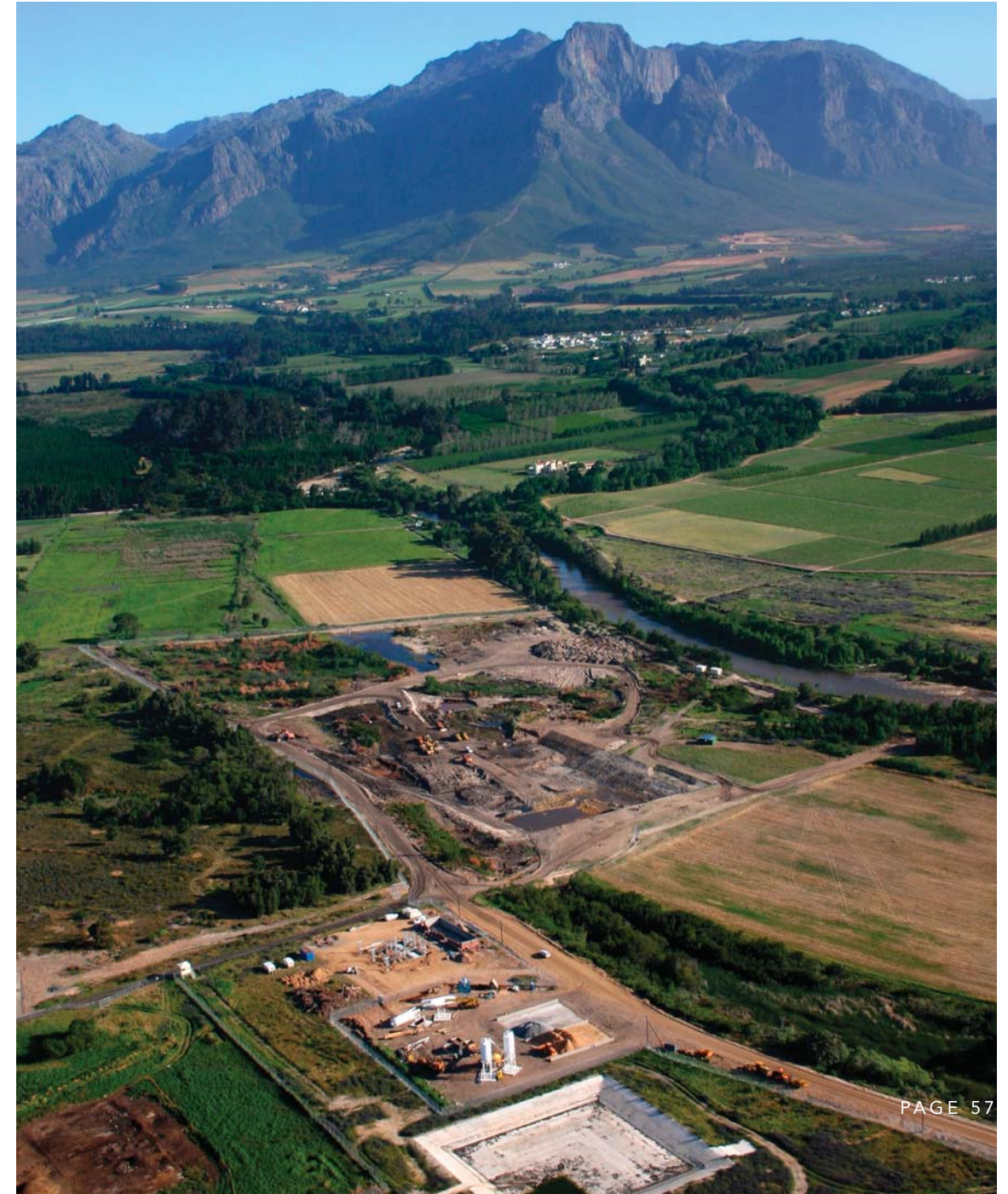
Excavation of the trench for the 2,5km Dasbos pipeline is complete and the excavation for the Drakenstein pipeline (9,5km) is underway.

Infrastructure

La Motte Village

The La Motte Village, worth some R30 million, provides 80 houses for contractors involved in the project. The first 75 houses are complete and occupied with the remaining five on schedule for completion in May 2006.

The roads, water, sewage and electricity infrastructure is complete. Landscaping will take place once construction activities are complete.



BERG WATER PROJECT CONTINUED



Ref. 4/3/1
4/28-700SWS

MINISTRY: WATER AFFAIRS AND FORESTRY
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Mr T Fowler
Chairperson
Trans-Caledon Tunnel Authority
PO Box 10335
CENTURION
0046

06 MAY 2002

Dear Mr Fowler

DIRECTIVE IN TERMS OF THE NATIONAL WATER ACT, 1998 (ACT 36 OF 1998): BERG WATER PROJECT

The Cabinet recently approved the implementation of the Berg Water Project, which will augment the water supplies in the Western Cape Water System. Cabinet has further approved that the financing shall be via an off-budget funding mechanism and specifically approved that the Trans-Caledon Tunnel Authority (TCTA) raise the funds. It is anticipated that no Government guarantee will be required as borrowing will be on the strength of the revenue from the sale of water to the City of Cape Town.

In view of this decision I hereby direct the TCTA in terms of section 103(2)(b) of the National Water Act, 1998 to finance and implement the Berg Water Project subject to the following conditions:

1. Report to me on progress on the Project every six months, as well as on an *ad hoc* basis on issues which require my attention and intervention.
2. Agreements between the Department of Water Affairs and Forestry, City of Cape Town and TCTA, who are the principal Parties for the Project, shall be prepared and signed. The issue of ownership shall be addressed in these agreements.
3. The Institutional arrangements and processes for the Project shall ensure meaningful participation of the Department of Water Affairs, City of Cape Town and the Western Cape Provincial Government at the strategic/policy level and co-ordination at the operational level of the Project.
4. The Project must be implemented in the most efficient manner with due regard to cost and timing, both of which are of great importance to the end-user.
5. The Project should start delivering water in 2006 via the pumping scheme with substantial completion of the dam prior to the wet season of 2007. Earlier completion within cost constraints will be desirable in view of the probable water situation in the Western Cape Water System over the next 5 years.

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2

6. The internal resources of the Department of Water Affairs and Forestry, especially in the technical area, should be used, subject to constraints, including but not limited to the financing mechanisms, total cost and accountability.
7. Environmental and social aspects shall be fully integrated in the implementation of the Project as well as compliance with the Record of Decision of 10 May 1999 by the Department of Environment Affairs and Tourism. Structures must also be set up to ensure adequate public and community participation in the Project.
8. During the development of the Project other benefits such as job creation, infrastructure development, housing which can be transferred to the local community, tourism and recreation should be optimised.

This Directive paves the way for a new era in the development of water resources in South Africa and I expect that all Parties will participate in the Project in a positive manner in a true spirit of partnership.


With kind regards

RONNIE KASRILS MP
MINISTER OF WATER AFFAIRS AND FORESTRY



BERG WATER PROJECT CONTINUED

BERGWATERSUPP



Ref: 4/3/1

MINISTRY: WATER AFFAIRS AND FORESTRY
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Chairperson
Trans-Caledon Tunnel Authority
P O Box 10335
CENTURION
0046

05 MAR 2003


Dear Sir

DIRECTIVE AND AUTHORIZATION IN TERMS OF THE NATIONAL WATER ACT, 1998 (ACT NO 36 OF 1998): BERG WATER PROJECT

Further to my directive with references 4/3/1 and 4/28-700SWS dated 6 May 2002, I hereby direct that the Trans-Caledon Tunnel Authority (TCTA) be authorized, with effect from 6 May 2002, in terms of section 103(2) of the said National Water Act of 1998 to finance and implement the Berg Water Project.

In terms of section 64(1) of the said National Water Act, 1998, I further authorize the TCTA to expropriate property required to implement the Berg Water Project.


With kind regards



RONNIE KASRILS, MP
MINISTER OF WATER AFFAIRS AND FORESTRY

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DW137



Ref: 4/3/1
4/28-700SWS

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4 NOV 2006

Mr L Maasdorp
Chairperson
Trans-Caledon Tunnel Authority
P O Box 10335
CENTURION
0046

Dear Mr Maasdorp

AMENDMENT TO DIRECTIVE IN TERMS OF THE NATIONAL WATER ACT, 1998 (ACT 36 OF 1998) IN RESPECT OF THE BERG WATER PROJECT ISSUED TO THE TRANS-CALEDON TUNNEL AUTHORITY (TCTA) ON 6 MAY 2002


Investigations recently undertaken by the Consultants Ninham Shand, at the request of the City of Cape Town, have indicated that the potential benefits of completing the Supplement Scheme in 2006, one year in advance of the Berg River Dam, are insufficient to justify the early expenditure required to achieve this completion date. Ninham Shand has recommended that the completion of the Supplement Scheme be deferred by at least a year. The City of Cape Town's Mayoral Committee has accepted this recommendation.

The directive dated 6 May 2002, which was issued by my predecessor Mr Ronnie Kasrils, MP, is hereby amended as follows:

Item 5 is replaced by the following:
"The Project should start delivering water from the Berg River Dam in 2007 after substantial completion of the dam prior to the wet season of 2007. The Supplement Scheme should be completed at the same time."

The impact of the above directive amendment on the existing various Agreements between the TCTA, the Department of Water Affairs and Forestry and the City of Cape Town should be assessed and the Agreements amended, if necessary.

With kind regards



(MS) B P SONJICA MP
MINISTER OF WATER AFFAIRS AND FORESTRY

cc: Ms M van Rensburg, CEO: TCTA

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BERG WATER PROJECT CONTINUED



VAAL RIVER EASTERN SUB-SYSTEM AUGMENTATION PROJECT



Mandate

On 6 October 2004, Cabinet approved the Vaal River Eastern Sub-system Augmentation Project (VRESAP).

On 26 November 2004 the Minister of Water Affairs and Forestry, in terms of section 103(2) of the National Water Act, No 36 of 1998, directed TCTA to fund and implement VRESAP.

Authorisation

In terms of clause 24 of the revised notice of establishment published in Government Notice No.21017 dated 24 March 2000, TCTA may perform any additional functions required in terms of a directive by the Minister of Water Affairs and Forestry under section 103(2) of the National Water Act.

VRESAP is a separately ring-fenced project without a government guarantee, implemented and financed by TCTA. The borrowings are in TCTA's name with recourse against the income stream from the project.

Background

The Vaal Pipeline Project, also known as VRESAP, is being implemented to meet the growing water demands of Eskom and Sasol in the Mpumalanga highveld region. The scheme will transfer water via a 115km pipeline from the Vaal Dam near Vaal Marina to the Knoppiesfontein diversion structure which discharges into either the Trichardtsfontein or Bosjesspruit dams near Secunda (see map). VRESAP will augment the yield of the Vaal River Eastern Sub-system (VRESS) by 160 million m³ per year.

Based on estimates at March 2005, VRESAP project costs are expected to be R2,3 billion. The project should be operational by October 2007. Based on the funding principle of repaying the project within 20 years of completion, the debt should be repaid by 2028.

Project description

The proposed augmentation project for the transfer of water into the VRESS, a sub-system of the integrated Vaal River system, will involve the installation of a pumping system to convey raw water from a new intake at the Vaal Dam to an upgraded Knoppiesfontein diversion structure. The abstraction point at the Vaal Dam is approximately

1000m upstream from Vaal Marina. The upgraded diversion structure at Knoppiesfontein will be able to convey and divert raw water pumped from the existing Grootfontein Pump Station.

Project components

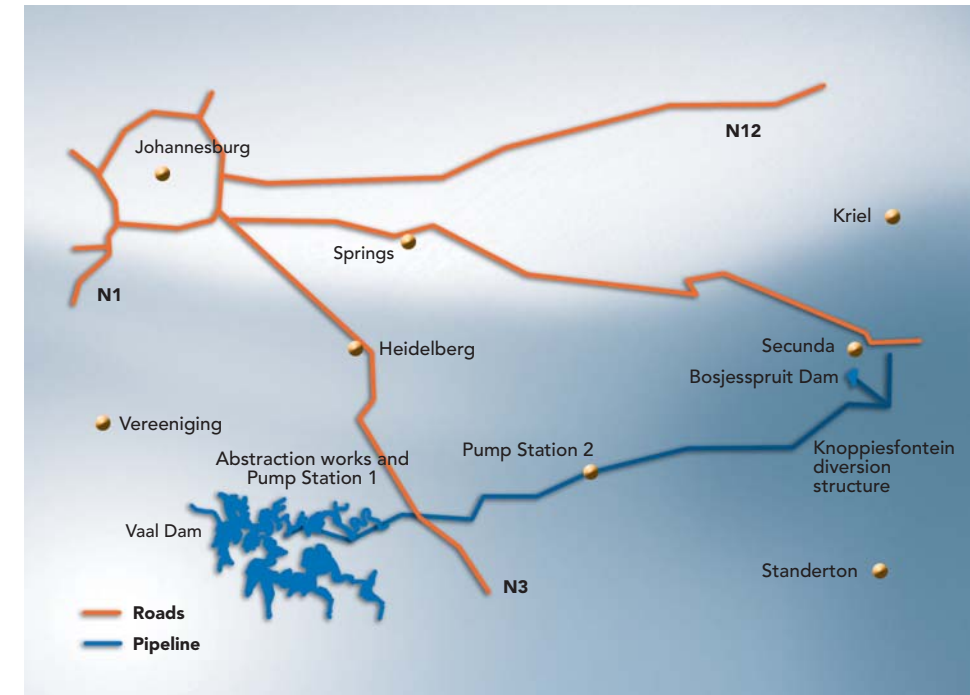
The components of the project include:

- an abstraction works, including desilting facilities, at Vaal Dam
- a high-lift pump station, capable of delivering 5,4m³/s
- an upgraded Knoppiesfontein diversion structure
- 115km of 1 900mm nominal diameter (sub-surface) steel pipeline
- 6km of 1 200mm nominal diameter steel pipeline to Bosjesspruit Dam
- air ventilation valves and scour chambers (above surface) at intervals along the pipeline route.

Yield ratio

The total yield of the pipeline is 160 million m³ per annum.

Figure 42: The location of VRESAP



VAAL RIVER EASTERN SUB-SYSTEM AUGMENTATION PROJECT CONTINUED

Project governance structure

Figure 43 sets out the institutional arrangements between DWAF and the main users (agreement 1) and DWAF and TCTA (agreement 2). These agreements were signed in October 2005.

Agreement 1 sets out the terms and conditions of supply from DWAF to the users as well as the terms and conditions of payment by the users of all raw water delivered where the payment of water from VRESAP forms part of the bulk raw water tariff.

Agreement 2 sets out the terms and conditions relating to the implementation of the project and the payment by DWAF to TCTA for bulk raw water delivered. TCTA's credit exposure is therefore to DWAF and not to the users.

To support a consultative approach to project implementation, TCTA has developed institutional and governance structures which include stakeholder participation. These structures are depicted in Figure 44.

Figure 43: VRESAP institutional agreements

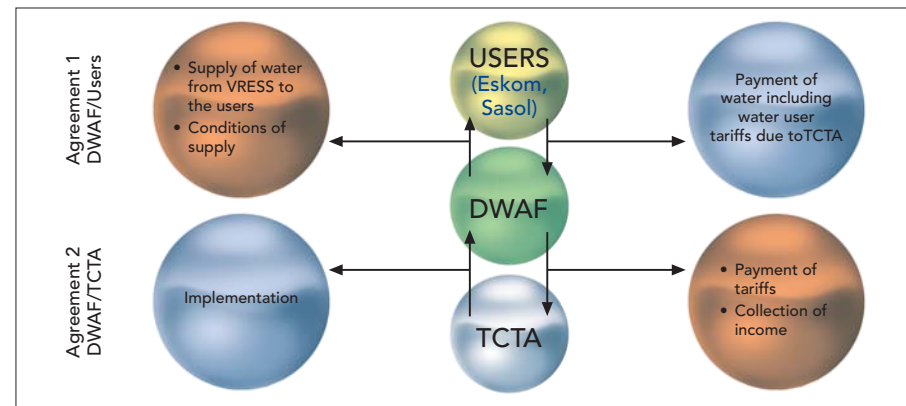
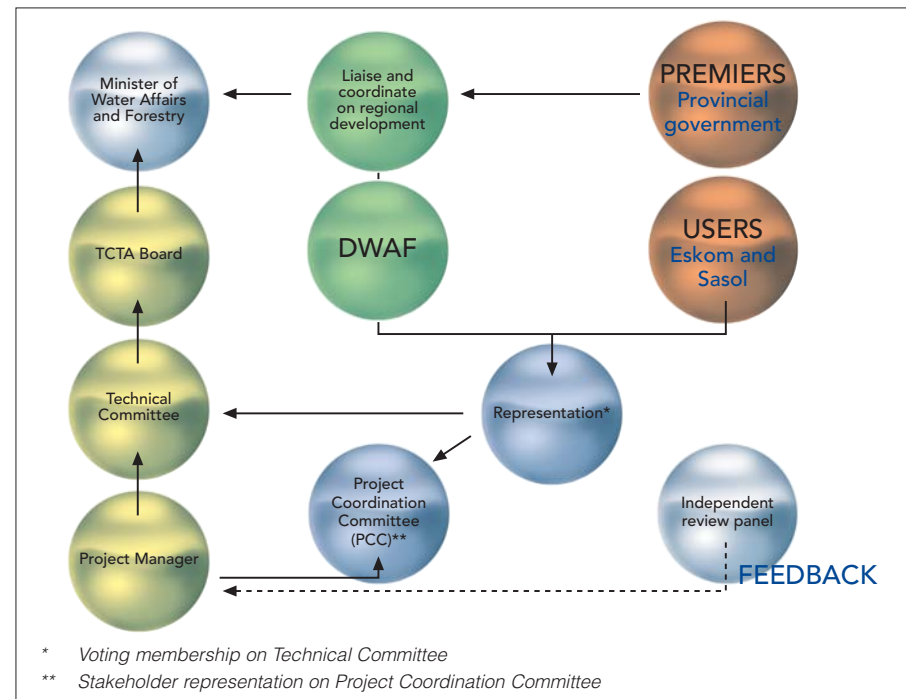
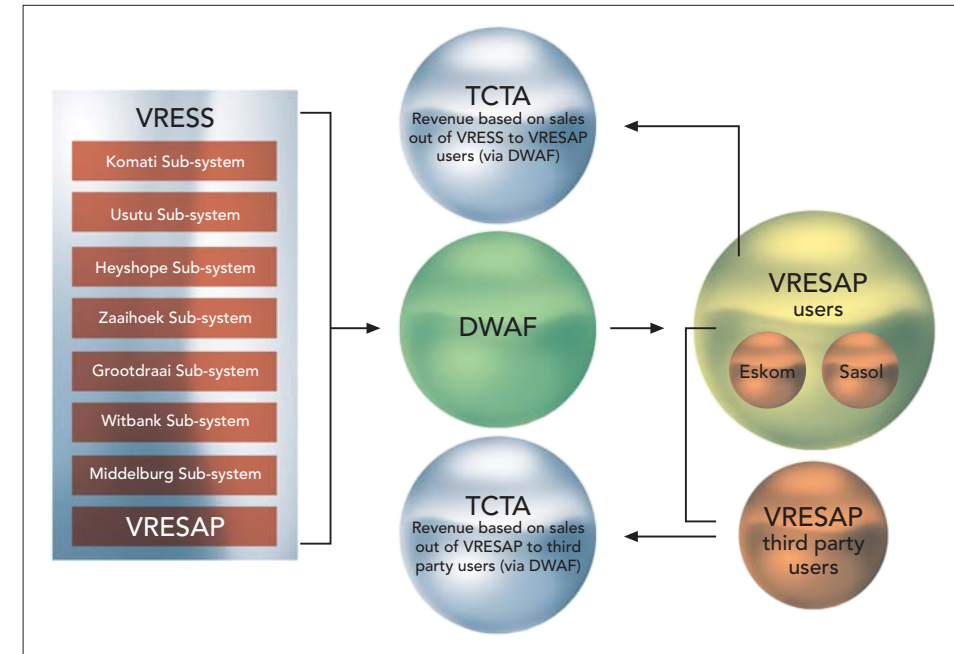


Figure 44: VRESAP institutional and governance structure



The components of VRESS and the VRESAP water delivery model are depicted in the figure below.

Figure 45: Water delivery and payment model



VAAL RIVER EASTERN SUB-SYSTEM AUGMENTATION PROJECT CONTINUED

Project update

In March 2006 a sod-turning event was held to mark the official beginning of construction activities on the project.

Schedule

The project is on schedule as detailed below:

- project start-up phase – November 2004 to June 2005
- environmental assessment phase – March 2005 to August 2005
- construction phase – November 2005 to October 2007
- operations and maintenance – August 2007 onwards.

Contracts

Consultants

Vaal Pipeline Consultants (Goba, Ninham Shand and PD Naidoo) was appointed for the design and supervision components of the project. The contract, worth R100 million, began in December 2004.

With a view to build capacity within DWAF in preparation for the NWRIA, TCTA appointed DWAF: Mechanical and Electrical Engineering as consultants to provide technical expertise.

Contractors

In November 2005 the contract for the supply and installation of the pipeline, worth R1,39 billion, was awarded to the Mpumalanga Pipeline Contractors Joint Venture. A contract for an independent inspection authority of the pipeline was awarded to Pipetech a month later in December 2005.

The second construction contract was awarded to Covec-MC Joint Venture during November 2005 for the construction of the civil works and the supply and installation of the mechanical and electrical components. The value of this contract was R417,9 million.

Progress update

Pipeline supply and installation (MPC)

- site establishment by the contractor is about 65% complete
- 796 pipes (each 18m long) were manufactured and 192 delivered to site
- approximately 3 400m of trench has been excavated.

Construction of civil structures and mechanical, electrical instrumentation and piping components (COVEC-MC)

- site establishment by the contractor started during March 2006
- pumps and motors were ordered during December 2005
- the pump system design drawings are expected to be approved soon. This will allow for the manufacturing to start.



VAAL RIVER EASTERN SUB-SYSTEM AUGMENTATION PROJECT CONTINUED



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Ref. 4/0/3/1

26 NOV 2004

Mr L. Maasdorp
Chairperson
Trans-Caledon Tunnel Authority
P.O. Box 10335
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0046

Dear Leslie

VAAL RIVER EASTERN SUB-SYSTEM AUGMENTATION PROJECT: DIRECTIVE IN TERMS OF THE NATIONAL WATER ACT, 1998 (ACT NO 36 OF 1998)

The Cabinet on 6 October 2004 approved that the Department of Water Affairs and Forestry proceeds with activities to ensure the earliest possible implementation of new national infrastructure to augment the water supply to the Eastern Sub-system of the Vaal River. Cabinet further approved that the Trans-Caledon Tunnel Authority (TCTA) procures funding for the project subject to the concurrence of the National Treasury. Lastly Cabinet approved that the TCTA and DWAF pool their organizational resources for the implementation of the project.

In view of this decision I hereby direct the TCTA in terms of section 103(2) of the National Water Act, 1998, to finance and implement the Vaal River Eastern Sub-system Augmentation Project subject to the following conditions:

1. TCTA shall raise the off-budget portion of the funds required for the Project using the model previously approved by Cabinet for the Berg Water Project in the Western Cape.
2. National Treasury's concurrence with the model for raising of project funding by the TCTA shall be obtained in addition to the processes prescribed by the Public Finance Management Act.
3. The works must be constructed as Government Waterworks.
4. Current best practices, and where applicable, international standards, shall be applied for the design, construction, supervision and operation of the works.

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5. Whereas the Project has been classified as an "emergency project" in accordance with Section 110 2(a) of the NWA, all steps should be taken to ensure compliance with environmental legislation by the completion date of the Project.
6. In order to meet the projected demand for water all reasonable steps shall be taken to ensure that the Project is completed to commence delivery of water by 31 July 2007.
7. An implementation Agreement for the Project must be concluded between the Department of Water Affairs and Forestry (DWAF) and the TCTA setting out clear lines of responsibility and accountability.
8. The pooling of available DWAF and TCTA organizational resources in a manner that will build capacity for the management and development of the national water resources infrastructure.
9. The establishment of Institutional arrangements and processes to ensure meaningful participation by DWAF, Eskom and Sasol at the strategic and policy level and co-ordination at the operational level of the Project.
10. The reasonable needs of other water users in the project area must be considered and provided for.
11. Water supply agreements must be concluded between DWAF and Eskom, Sasol and other water users. The financing for the Project must be addressed in terms of these agreements which must also take into account the provisions of the National Water Pricing Strategy.
12. The project must be implemented in the most efficient manner with due regard to cost, timing, and reliability, all of which are important to Eskom, Sasol and other end users.
13. Progress reports on the Project shall be submitted to me every six months as well as on an ad hoc basis on issues that require my attention and intervention.

I wish you success with this important assignment.

With kind regards

(MS) BP SONJICA MP
MINISTER OF WATER AFFAIRS AND FORESTRY

Cc CEO





Background

On 4 July 2001, the Minister of Water Affairs and Forestry directed TCTA to fulfill the treasury management services of Umgeni Water. The relationship between TCTA and Umgeni Water was formalised in a two-year service level agreement on 11 July 2001. During July 2003 this agreement was extended for two years or until TCTA instituted the interventions necessary for Umgeni Water to function independently.

On 17 May 2004, the Minister confirmed that TCTA had completed its intervention role and indicated that following a capacity-building and handover programme, TCTA and Umgeni Water should negotiate a commercial contract. The capacity-building and handover programme was completed in January 2005.

UMGENI WATER

The new service level agreement

In June 2005 TCTA and Umgeni Water signed a new service level agreement according to which TCTA provides assistance on:

- tariffs
- funding and debt management
- risk and ALCO management
- reviewing treasury operational issues
- formulating interest rate views
- ad-hoc services.

TCTA's advisory and oversight role is fulfilled through its participation on the Umgeni Water Audit and Risk Committee.



UMGENI WATER CONTINUED



MINISTRY: WATER AFFAIRS AND FORESTRY
REPUBLIC OF SOUTH AFRICA
Private Bag 2313, Pretoria, 0001, Tel: (012) 336 8733, Fax: (012) 328 4254
Private Bag 29052, Cape Town, 8009, Tel: (021) 464 1500, Fax: (021) 465 3362

Ref. 4/8/4

04 JUL 2001

Chairperson
Trans Caledon Tunnel Authority
P O Box 10335
CENTURION
0046

Dear Mr T Fowler

DIRECTIVE IN TERMS OF THE NATIONAL WATER ACT, 1998 (ACT No 36 of 1998)

On 14 June 2001 I gave a directive to the Board of Umgeni Water (Umgeni) in terms of the Water Services Act, 1997 (Act No 108 of 1997) relating to the management of Umgeni's Treasury. One aspect of the directive requested Umgeni to take immediate action to bring the treasury management under control and report back to me by 29 June 2001 why I should not direct the Trans Caledon Tunnel Authority (TCTA) to undertake the treasury management of Umgeni as an interim measure on a cost-recovery basis until an acceptable permanent arrangement can be established.

I understand that a communication has been addressed to my department whereby Umgeni and the TCTA have proposed a joint undertaking to address this aspect. This undertaking sets out how the scope and extent of the treasury management of Umgeni will be undertaken and deals with such aspects as strategic, tactical and operational activities.

The above meets with my approval and therefore, I, direct, as I hereby do, that in terms of section 103(2)(b) of the National Water Act, 1998 that TCTA performs the treasury management activities of Umgeni on a cost-recovery basis until a more permanent arrangement can be established. Further, that a Service Level Agreement be entered into with TCTA that is approved of by myself within fourteen days of this directive. I further expect to be kept well informed on the progress being made on a regular basis including the risk positions and action to be taken within an agreed time period. I am satisfied that these additional functions will not prejudice the capacity of TCTA to perform the functions for which it was established.

Sincerely
Ronnie Kasrils
Ronnie Kasrils, MP
Minister of Water Affairs and Forestry

Viva water pure and clean! • Viva forests rich and green!



Ref. 4/8/4
4/9/3/1
4/3/1

MINISTRY: WATER AFFAIRS AND FORESTRY
REPUBLIC OF SOUTH AFRICA
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BY FAX: (012) 663-5054

17 MAY 2004

Mr L Maasdorp
Chairperson
Trans-Caledon Tunnel Authority
PO Box 10335
CENTURION
0046

Dear Mr Maasdorp

TRANS-CALEDON TUNNEL AUTHORITY: REVISED MANDATE TO PROVIDE TREASURY MANAGEMENT SERVICES TO UMGENI WATER, OTHER WATER BOARDS, WATER MANAGEMENT INSTITUTIONS AND THE DEPARTMENT OF WATER AFFAIRS AND FORESTRY

I am aware that the Trans-Caledon Tunnel Authority (TCTA) has completed its mandate in terms of earlier authorisation that my predecessor had issued to allow the TCTA to assist Umgeni Water in its treasury management and that I accept that this has now been concluded to the satisfaction of all parties.

In terms of section 103(2) of the National Water Act, 1998 (Act 36 of 1998) I now hereby authorise the Trans-Caledon Tunnel Authority (TCTA) to deliver financial and treasury management services to water management institutions as defined in the National Water Act, 1998 and to water boards as defined in the Water Services Act, 1997 (Act 108 of 1997) and the Department of Water Affairs and Forestry upon request.

All such services should be formalised by agreements to cover the scope of services, time frame, delivery of outputs and fees and must be reported in the TCTA's Annual Report. Interim reports must be submitted to myself and my Department, on a six monthly basis, setting out the following:

- Scope of services and timeframe;
- Risks identified and managed;
- Progress in capacity transfer; and
- Impact on the TCTA resources and capability to perform its functions for which it was established.

This directive paves the way for a new era in public sector partnerships.

With kind regards

MS B Sonjica 09/05/2004
MS B SONJICA MP
MINISTER OF WATER AFFAIRS AND FORESTRY

Viva water pure and clean! • Viva forests rich and green!



STAFF



Abdul Moses



Abe January



Alicia Keyser



Amanda Green



Barend Smit



Belinda Hogan



Anita Saunders



Anna Vinger



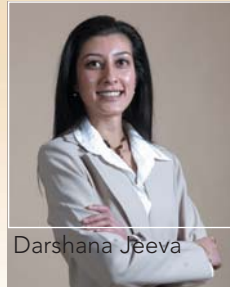
Anneke Kukuk



Azwianewi Nelwamondo



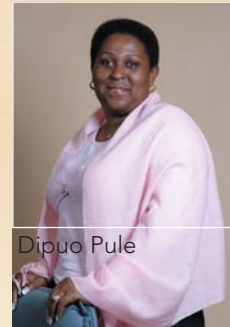
Catherine Varner



Darshana Jeeva



David Keyser



Dipuo Pule



Dustine Barnard



Eric van der Merwe



Brenda Groenewald



Carina Bleeker



Faizal Amod



Fritz Jordaan



Gerda Swaneveldt



Gijimani Vezi



Gina Kyriazis



Gloria Nomvula Mhlambi



Eunice Chimbalanga



Grant Anderson

STAFF CONTINUED



Halima Nazeer



Julie Khan



Hanje Botha



Isaac Diaho



Jabulane Singane



Jacqui Sikhwivhilu



Johann Claassens



John Ntsane



Juliet du Preez



Karen Marais



Kervin Ali



Kuventhrie Naicker



Lebogang Mokgalagadi



Liza van der Merwe



Lorna Andrews



Lynette Milne



Martie van Rensburg



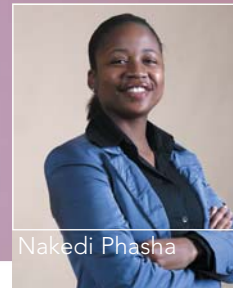
Melanie Toy



Mildred Frederiks



Minal Sheonundan



Nakedi Phasha



Natascha Cronje



Nigel Rossouw



Nikesh Maharaj



Nobuhle Jara



Nombasa Mcuba



Nthangeni Nwenda

STAFF CONTINUED



Ntšoli Maiketso



Ntombi Buthelezi



Obakeng Moloabi



Philemon Mahlangu



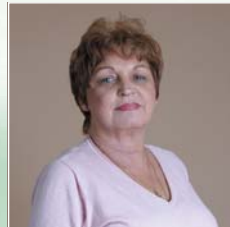
Priscilla van Wyk



Pritesh Lakha



Rathata Matabane



Rita Lotter



Rochelle Nichols



Ronelle Singh



Sindisiwe Zibane



Shemine Erasmus



Siobhan McCarthy



Solly Mabandla



Sophie Mabogwane



Stella Khoza



Sumaya Ismail



Sunet Grobler



Sunita Takhu



Sylvia Mohale



Tebogo Molefe



Tente Tente



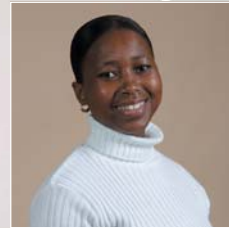
Tiaan du Plooy



Tim Staples



Vernon Naidoo



Wilhemina Mabaso



Wynand Maartens



Yugen Moodley



Yeshmin Jugdiswar



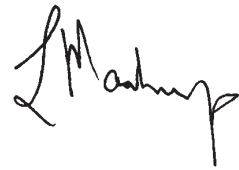
Responsibility of directors for the annual financial statements

The directors of TCTA are responsible for the preparation and reliability of the financial statements, the underlying accounting policies and the integrity of all information included in this report.

The principal accounting policies are prepared in accordance with International Financing Reporting Standards.

The controls throughout TCTA concentrate on focused critical risk areas. These areas are identified by operational management and confirmed by executive management. All controls relating to these critical risk areas are closely monitored and subject to audit.

The financial statements were approved by the Board of Directors on 6 June 2006 and are signed on its behalf by the Chairperson and Chief Executive Officer.



Leslie Maasdorp
Chairperson



Martie Janse van Rensburg
Chief Executive Officer

Health, safety and environmental policy

Health and safety

TCTA aims to provide and maintain a safe and healthy work environment for its employees.

It is TCTA's policy to provide the resources necessary to:

- Maintain health and safety systems.
- Protect individuals against risks to their health and safety arising from TCTA's business.
- Protect TCTA's property from damage or loss.
- Minimise risks to the environment arising from TCTA's activities.

We subscribe to the principle that no operating condition or urgency of service can ever justify endangering the life of anyone.

Environmental policy

TCTA aims to:

- Promote open communication on environmental issues between employees and stakeholders.
- Establish an Environmental Management System with a view to ensuring continuous improvement of the appropriate business activities, including prevention of pollution and the responsible use of water, energy and other resources.
- Educate, train and motivate its employees about environmental issues.



Martie Janse van Rensburg
Chief Executive Officer

The Audit and Risk Committee's report to stakeholders and other users of the financial statements

The Audit and Risk Committee comprises non-executive directors, an independent audit expert and the executive director.

Chaired by a non-executive director, it meets no less than three times a year and assists the Board in observing its responsibility to ensure that TCTA's financial and accounting systems provide accurate, up-to-date information on its current financial position and that TCTA's published annual financial statements present a fair reflection of this position. The Audit and Risk Committee ensures implementation of the appropriate accounting policies, controls and compliance procedures, as well as an enterprise-wide risk management governance framework. The internal and independent auditors attend the Audit and Risk Committee meetings and both have unrestricted access to its members.

The Audit and Risk Committee has adopted formal terms of reference.

The objectives of the Audit and Risk Committee are:

- To assist the Board of Directors in its evaluation of the adequacy and efficiency of the internal control systems, accounting practices, information systems and auditing processes applied in the day-to-day management of the business.
- To provide a forum for communication between the Board of Directors, management and the internal and independent external auditors.
- To introduce such measures that in the Committee's opinion, may serve to enhance the credibility and objectivity of the annual financial statements and affairs of TCTA.
- To monitor enterprise-wide risk management and mitigatory controls.
- To review the effectiveness of internal audit.
- To review the risk areas of TCTA's operations to be covered in the scope of internal and external audits and any accounting and auditing concerns identified as a result of internal and external audits.
- To review TCTA's compliance with legal and regulatory provisions.
- To review the activities of the internal audit function, including its annual work programme, co-ordination with the external auditors, the reports of significant investigations and the responses of management to specific recommendations.

The Audit and Risk Committee has met its objectives in compliance with its terms of reference and is satisfied with the level of disclosure to it and to the stakeholders.



Omar Latif
Chairperson

Independent Auditor's Report to the Minister of Water Affairs and Forestry of the Republic of South Africa on TCTA

We have audited the annual financial statements of TCTA set out on pages 75 to 111 for the year ended 31 March 2006. These financial statements are the responsibility of the Board. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The audit was also planned and performed to obtain reasonable assurance that our duties in terms of section 60 and 61 of the Public Finance Management Act, 1999, have been complied with.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of TCTA at 31 March 2006, and the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Public Finance Management Act, 1999.

The performance information of TCTA in terms of section 55(2)(a) of the Public Finance Management Act, 1 of 1999, as amended, fairly presents in all material respects TCTA's performance for the year ended 31 March 2006 against predetermined objectives and is, where applicable, consistent with that of the preceding year.

The transactions of TCTA which were examined during the course of our audit were in all material respects in accordance with the mandatory functions of TCTA, as determined by law or otherwise.



Deloitte & Touche

Per Kevin Black
Partner
23 June 2006

• REJUVENATION • REVIVAL • RENAISSANCE • TRANSFORMATION •



Contents to the Annual Financial Statements

For the year ended 31 March 2006

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BALANCE SHEET

as at 31 March 2006

	Notes	2006 R million	2005 R million
Assets			
Non-current assets			
		16 036	15 732
Property, plant and equipment	2	2 625	2 174
Intangible asset	3	13 264	13 349
Investment property	4	4	4
Long-term financial market investments	5	1	12
Trade and other receivables	6	142	193
Current assets			
		710	2 878
Trade and other receivables	6	560	623
Short-term financial market investments	5	149	2 254
Cash and cash equivalents		1	1
Total assets			
		16 746	18 610
Equity and liabilities			
Reserves and deficit			
		(3 357)	(2 810)
Non-distributable reserves	7	41	1
Cumulative deficit	8	(3 398)	(2 811)
Non-current liabilities			
		17 194	14 475
Long-term financial market liabilities	5	16 971	14 234
Long-term liabilities		223	241
Current liabilities			
		2 909	6 945
Payables	9	759	764
Provisions	10	2	2
Short-term financial market liabilities	5	2 148	6 179
Total equity and liabilities			
		16 746	18 610



SEGMENTAL BALANCE SHEET

as at 31 March 2006



	Notes	LHWP ⁽¹⁾ 2006 R million	BWP ⁽²⁾ 2006 R million	VRESAP ⁽³⁾ 2006 R million	Total 2006 R million	Total 2005 R million
Assets						
Non-current assets						
		15 401	491	144	16 036	15 732
Property, plant and equipment	2	1 990	491	144	2 625	2 174
Intangible asset	3	13 264	-	-	13 264	13 349
Investment property	4	4	-	-	4	4
Long-term financial market investments	5	1	-	-	1	12
Trade and other receivables	6	142	-	-	142	193
Current assets						
		479	24	207	710	2 878
Trade and other receivables	6	334	23	203	560	623
Short-term financial market investments	5	145	-	4	149	2 254
Cash and cash equivalents		-	1	-	1	1
Total assets						
		15 880	515	351	16 746	18 610
Equity and liabilities						
Reserves and deficit						
		(3 328)	(22)	(7)	(3 357)	(2 810)
Non-distributable reserves	7	41	-	-	41	1
Cumulative deficit	8	(3 369)	(22)	(7)	(3 398)	(2 811)
Non current liabilities						
		16 864	330	-	17 194	14 475
Long-term financial market liabilities	5	16 641	330	-	16 971	14 234
Long-term liabilities		223	-	-	223	241
Current liabilities						
		2 344	207	358	2 909	6 945
Payables	9	591	71	97	759	764
Provisions	10	2	-	-	2	2
Short-term financial market liabilities	5	1 751	136	261	2 148	6 179
Total equity and liabilities						
		15 880	515	351	16 746	18 610

⁽¹⁾ LHWP - Lesotho Highlands Water Project

⁽²⁾ BWP - Berg Water Project

⁽³⁾ VRESAP - Vaal River Eastern Sub-system Augmentation Project



INCOME STATEMENT

for the year ended 31 March 2006

	Notes	2006 R million	2005 R million
Revenue	11	1 776	1 655
Other income	12	226	229
Royalties paid	13	(251)	(228)
Operating expenses	14	(175)	(88)
Operating surplus		1 576	1 568
Finance costs	15	(2 164)	(2 206)
Net deficit for the year	16	(588)	(638)



SEGMENTAL INCOME STATEMENT

for the year ended 31 March 2006

	Notes	LHWP 2006 R million	BWP 2006 R million	VRESAP 2006 R million	Advisory services ⁽⁴⁾ R million	Total 2006 R million	Total 2005 R million
Revenue	11	1 775	-	-	1	1 776	1 655
Other income	12	226	-	-	-	226	229
Royalties paid	13	(251)	-	-	-	(251)	(228)
Operating expenses	14	(145)	(22)	(7)	(1)	(175)	(88)
Operating surplus		1 605	(22)	(7)	-	1 576	1 568
Finance costs	15	(2 164)	-	-	-	(2 164)	(2 206)
Net deficit for the year	16	(559)	(22)	(7)	-	(588)	(638)

⁽⁴⁾ Advisory services comprise Umgeni Water, Olifants River Water Resource Development Project, Spring Grove Dam and the National Water Resource Infrastructure Agency

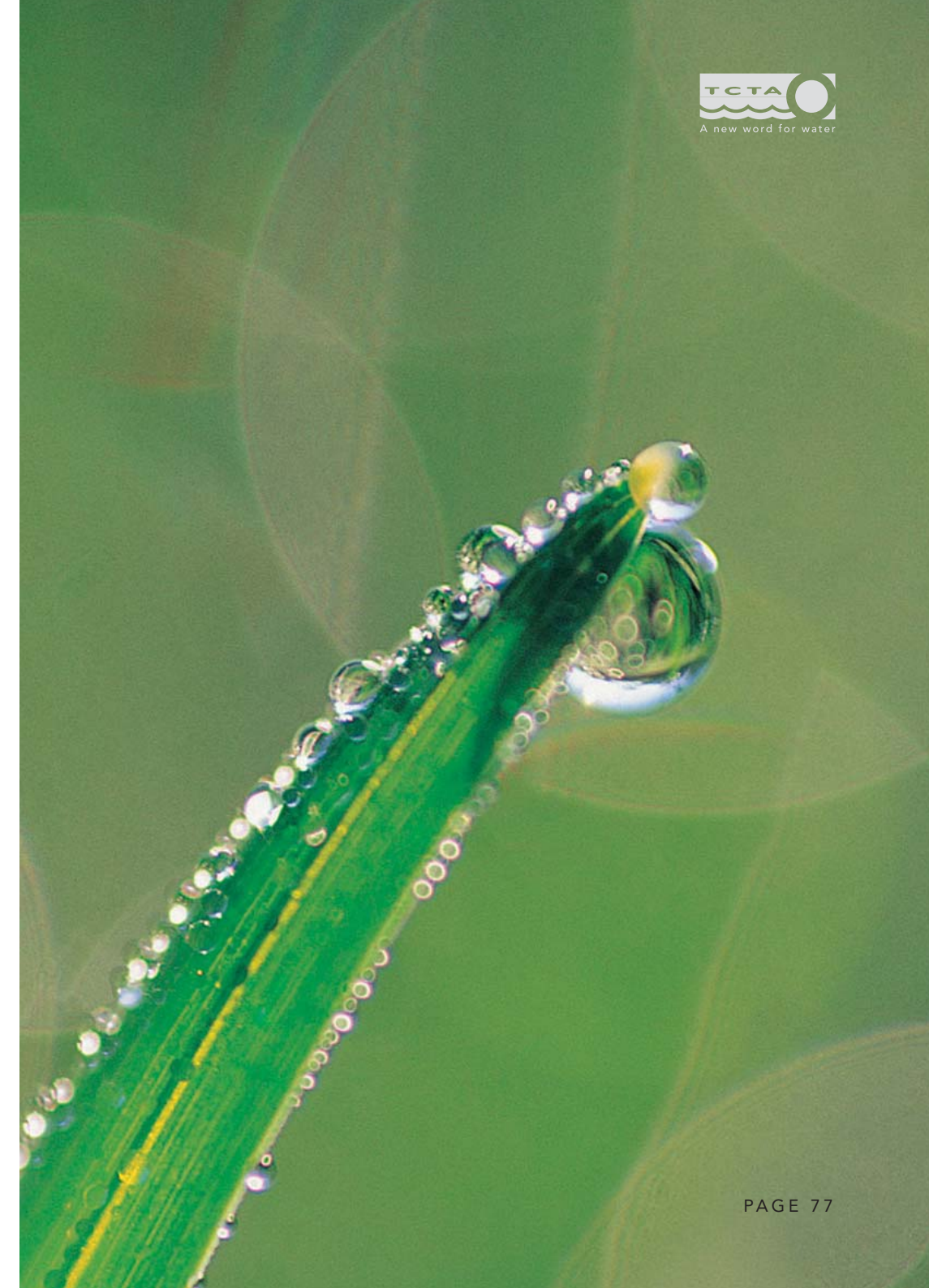


STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2006



	Non-distributable reserves			Cumulative deficit R million	Total recognised income and expense for the year ⁽¹⁾ R million
	Revaluation reserve	Hedging reserve	Total reserves		
	R million	R million	R million		
Balance at 31 March 2004	135	(51)	84	(2 257)	(2 173)
Restated opening balance at 31 March 2004	19	(51)	(32)	(2 174)	(2 206)
Prior year adjustment				64	64
Prior year adjustment – change in accounting policy	(116)		(116)		(116)
Prior year adjustment – cost allocation	-		-	21	21
Prior year adjustment – Katse claim	-		-	(5)	(5)
Reversal of realised revaluation reserve	-		-	(3)	(3)
Restatement of current year realisation of reserve	-		-	6	6
Total income and expenses recognised during the year	2	32	34	(638)	(604)
Revaluation losses relating to hedges of future anticipated transactions	-	32	32	-	32
Revaluation of depreciable portion of construction works in South Africa	2	-	2	-	2
Net deficit for the year				(638)	(638)
Realisation of revaluation surplus	(1)	-	(1)	1	-
Balance at 31 March 2005	20	(19)	1	(2 811)	(2 810)



Opening balance at 31 March 2005	20	(19)	1	(2 811)	(2 810)
Revaluation losses relating to hedges of future anticipated transactions	-	-	-	-	-
Amounts released to deficit during the year	-	19	19	-	19
Total income and expenses recognised during the year	27	-	27	(588)	(561)
Revaluation of depreciable portion of construction works in South Africa	27	-	27	-	27
Net deficit for the year	-	-	-	(588)	(588)
Accumulated depreciation adjusted against non-distributable reserve	(5)	-	(5)	-	(5)
Realisation of revaluation surplus	(1)	-	(1)	1	-
Balance at 31 March 2006	41	-	41	(3 398)	(3 357)

⁽¹⁾ This relates to the income and expenses recognised in both the income statement as well as equity.





CASH FLOW STATEMENT

for the year ended 31 March 2006



	Notes	Total 2006 R million	Total 2005 R million
Cash flow from operating activities			
Cash receipts from customers		1 898	1 558
Cash paid to suppliers and employees		(546)	(223)
Cash generated from project activities	A	1 352	1 335
Interest received	B	402	44
Interest paid	C	(2 158)	(1 929)
		(404)	(550)
Protocol V refund of previously paid taxes		-	4
Net cash outflow from operating activities		(404)	(546)
Cash flow from investing activities			
Amounts matured/(invested)		2 069	(1 139)
Capitalised to works in RSA		(402)	(169)
Removed from/(capitalised to) enduring benefit		33	(410)
Addition of other assets		(2)	(4)
Net cash inflow/(outflow) from investing activities		1 698	(1 722)
Cash flow from financing activities			
Proceeds from long-term borrowings		3 329	2 683
Repayments on long-term borrowings		(4 567)	(295)
Proceeds from short-term borrowings		929	977
Repayments on short-term borrowings		(985)	(1 103)
Net cash (outflow)/inflow from financing activities	D	(1 294)	2 262
Net increase/(decrease) in cash and cash equivalents		-	(6)
Cash and cash equivalents at beginning of period		1	7
Cash and cash equivalents at end of period	E	1	1





NOTES TO THE CASH FLOW STATEMENT

for the year ended 31 March 2006

Notes	Total 2006 R million	Total 2005 R million
A. Cash generated from project activities		
Net deficit for the year	(588)	(638)
Adjustments for non-cash flow items and amounts separately disclosed:		
Depreciation and amortisation	25	19
Net finance costs	1 857	1 848
Net foreign exchange gains	(77)	(134)
Net foreign exchange losses	158	263
Litigation fees on Katse claim	16	-
Changes in working capital:		
Decrease/(increase) in receivables	37	(97)
(Increase) in prepayments	(193)	-
Increase in payables (excluding interest payable)	118	85
Non-cash flow item in accounts receivable	-	13
Non-cash flow item in accounts payable	(1)	(24)
Cash generated from project activities	1 352	1 335
B. Interest received		
Amount due at beginning of the year	219	92
Income during the year adjusted for non-cash items	183	171
Amount received	227	229
Non-cash interest on asset swaps	(2)	(14)
Loan premium amortised	(42)	(19)
Interest on GOL cost allocation liability	-	(25)
Amount due at the end of the year	-	(219)
Interest received	402	44

Notes	Total 2006 R million	Total 2005 R million
C. Interest paid		
Amount not paid at beginning of the year	(521)	(436)
Expensed during the year adjusted for non-cash items	(2 038)	(2 014)
Amount expensed	(2 117)	(2 077)
Less: Loan discount amortised	59	71
Foreign loan payments	(5)	-
Loss on cancellation of FECs (provision)	-	(29)
Non-cash interest on asset swaps	44	39
WS03 option	-	2
Interest on Katse claim	4	-
Capital adjustment to inflation-linked liability	19	4
Concessionary portion – on EIB loan	6	7
Non-distributable reserve portion on TCTA foreign loans	-	(2)
Cash flow in cum/ex div reflected under cash flow from financing activities	(48)	(29)
Amount not paid at the end of the year	401	521
Interest paid	(2 158)	(1 929)
D. Reconciliation of cash flow on financing activities to note 5 on financial instruments		
Net movement in financial instruments	822	1 074
Non-cash (outflow)/inflow movements due to IAS 39	(15)	88
Non-cash flow items in liabilities	(124)	(66)
Items included in liabilities but not reflected under financing activities	(6)	-
Items not included in liabilities but reflected under financing activities	98	27
Amounts (matured)/invested reflected separately in cash flow	(2 069)	1 139
Net cash (outflow)/inflow from financing activities	(1 294)	2 262
E. Cash and cash equivalents at end of period		
Cash and cash equivalents consist of cash on hand and balances with banks.		



SEGMENTAL CASH FLOW STATEMENT

for the year ended 31 March 2006



	Notes	LHWP 2006 R million	BWP 2006 R million	VRESAP 2006 R million	Total 2006 R million	Total 2005 R million
Cash flow from operating activities						
Cash receipts from customers		1 807	91	-	1 898	1 558
Cash paid to suppliers and employees		(380)	(45)	(121)	(546)	(223)
Cash generated from project activities	A	1 427	46	(121)	1 352	1 335
Interest received	B	401	-	1	402	44
Interest paid	C	(2 127)	(26)	(5)	(2 158)	(1 929)
		(299)	20	(125)	(404)	(550)
Protocol V refund of previously paid taxes		-	-	-	-	4
Net cash outflow from operating activities		(299)	20	(125)	(404)	(546)
Cash flow from investing activities						
Amounts matured/(invested)		2 073	-	(4)	2 069	(1 139)
Capitalised to works in RSA		-	(270)	(132)	(402)	(169)
Removed from/(capitalised to) enduring benefit		33	-	-	33	(410)
Addition of other assets		(2)	-	-	(2)	(4)
Net cash inflow/(outflow) from investing activities		2 104	(270)	(136)	1 698	(1 722)
Cash flow from financing activities						
Proceeds from long-term borrowings		3 099	230	-	3 329	2 683
Repayments on long-term borrowings		(4 567)	-	-	(4 567)	(295)
Proceeds from short-term borrowings		588	80	261	929	977
Repayments on short-term borrowings		(925)	(60)	-	(985)	(1 103)
Net cash (outflow)/inflow from financing activities	D	(1 805)	250	261	(1 294)	2 262
Net increase/(decrease) in cash and cash equivalents		-	-	-	-	(6)
Cash and cash equivalents at beginning of period		-	1	-	1	7
Cash and cash equivalents at end of period	E	-	1	-	1	1





NOTES TO THE SEGMENTAL CASH FLOW STATEMENT

for the year ended 31 March 2006

	LHWP 2006 R million	BWP 2006 R million	VRESAP 2006 R million	Total 2006 R million	Total 2005 R million
A. Cash generated from project activities					
Net deficit for the year	(559)	(22)	(7)	(588)	(638)
Adjustments for non-cash flow items and amounts separately disclosed:					
Depreciation and amortisation	25	-	-	25	19
Net finance costs	1 857	-	-	1 857	1 848
Net foreign exchange gains	(77)	-	-	(77)	(134)
Net foreign exchange losses	158	-	-	158	263
Add: Forex gain on Katse claim	-	-	-	-	-
Litigation fees on Katse claim	16	-	-	16	-
Changes in working capital:					
Decrease/(increase) in receivables	30	7	-	37	(97)
(Increase)/decrease in prepayments	(26)	34	(201)	(193)	
Increase in payables (excluding interest payable)	4	27	87	118	85
Non-cash flow item in accounts receivable	-	-	-	-	13
Non-cash flow item in accounts payable	(1)	-	-	(1)	(24)
Cash generated from project activities	1 427	46	(121)	1 352	1 335
B. Interest received					
Amount due at beginning of the year	219	-	-	219	92
Income during the year adjusted for non-cash items	182	-	1	183	171
Amount received	226	-	1	227	229
Non-cash interest on asset swaps	(2)	-	-	(2)	(14)
Loan premium amortised	(42)	-	-	(42)	(19)
Interest on GOL cost allocation liability	-	-	-	-	(25)
Amount due at the end of the year	-	-	-	-	(219)
Interest received	401	-	1	402	44

	LHWP 2006 R million	BWP 2006 R million	VRESAP 2006 R million	Total 2006 R million	Total 2005 R million
C. Interest paid					
Amount not paid at beginning of the year	(521)	0	-	(521)	(436)
Expensed during the year adjusted for non-cash items	(2 004)	(27)	(7)	(2 038)	(2 014)
Amount expensed	(2 083)	(27)	(7)	(2 117)	(2 077)
Less: Loan discount amortised	59	-	-	59	71
Foreign loan payments	(5)	-	-	(5)	-
Loss on cancellation of FECs (provision)	-	-	-	-	(29)
Non-cash interest on asset swaps	44	-	-	44	39
WS03 option	-	-	-	-	2
Interest on Katse claim	4	-	-	4	-
Capital adjustment to inflation-linked liability	19	-	-	19	4
Concessionary portion – on EIB loan	6	-	-	6	7
NDR portion on TCTA foreign loans	-	-	-	-	(2)
Cash flow in cum/ex div reflected under cash flow from financing activities	(48)	-	-	(48)	(29)
Amount not paid at the end of the year	398	1	2	401	521
Interest paid	(2 127)	(26)	(5)	(2 158)	(1 929)
D. Reconciliation of cash flow on financing activities to note 5 on financial instruments					
Net movement in financial instruments	315	250	257	822	1 074
Non-cash (outflow)/inflow movements due to IAS 39	(15)	-	-	(15)	88
Non-cash flow items in liabilities	(124)	-	-	(124)	(66)
Items included in liabilities but not reflected under financing activities	(6)	-	-	(6)	-
Items not included in liabilities but reflected under financing activities	98	-	-	98	27
Amounts (matured)/invested reflected separately in cash flow	(2 073)	-	4	(2 069)	1 139
Net cash (outflow)/inflow from financing activities	(1 805)	250	261	(1 294)	2 262
E. Cash and cash equivalents at end of period					
Cash and cash equivalents consist of cash on hand and balances with banks.					

1. Significant accounting policies

The principal accounting policies applied in the preparation of these annual financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

Basis of preparation

The annual financial statements have been prepared under the historical cost convention, except for the revaluation of the Works in South Africa as well as certain financial instruments which are stated at fair value.

The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS), requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying TCTA's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in note 1.16.

1.1 Property, plant and equipment

Land

Land is not depreciated as it is deemed to have an unlimited useful life.

Water delivery system: Works in South Africa

Works in South Africa are stated at the revalued amount less any subsequent accumulated depreciation and accumulated impairment. Costs incurred on works and

all other direct attributable costs are capitalised until such time as the construction is completed. Thereafter the depreciable portion will be amortised over the estimated useful life.

During construction

- Contract costs and directly attributable overheads are only capitalised when certified progress reports or reasonable estimates of work performed are received in accordance with IAS 16: *Property, Plant and Equipment*.
- Interest and finance charges, which are a result of funding works in connection with the project, are capitalised to works during the period of construction in accordance with IAS 23: *Borrowing Costs*.
- All income received during the construction period, is offset against works. Revenue from water levies is allocated to works and the enduring benefit on a proportional cost basis. Water levies are received during the construction phase before saleable water is delivered.

Once construction is complete

LHWP

- The depreciable portion is estimated at 10% of the construction costs, which is amortised over an estimated useful life of 45 years, based on deliverable volumes of water per annum, in accordance with the Treaty⁽¹⁾.
- Full technical revaluations are carried out every five years. The remaining useful lives of assets and

the depreciable portion will also be reassessed during the revaluations. In the intervening years, revaluations will be carried out annually on the depreciable portion, based on the average Producer Price Index.

BWP and VRESAP

- The depreciable portion is estimated at 10% of the construction costs, which is amortised over an estimated useful life of 45 years.
- Full technical revaluations are carried out every five years. The remaining useful lives of assets and the depreciable portion will also be reassessed during the revaluations. In the intervening years, revaluations will be carried out annually on the depreciable portion, based on the average Producer Price Index.

Furniture, vehicles, computer and office equipment

These assets are stated at cost less accumulated depreciation and accumulated impairment. Depreciation is calculated on the straight-line basis over the estimated useful lives of the assets as follows:

• Furniture	25%
• Vehicles	25%
• Computer hardware, software and office equipment	50%

Leasehold improvements

These assets are stated at cost less accumulated depreciation and accumulated impairment. Depreciation is calculated on the straight-line basis over the remaining period of the lease.

Disposals of property, plant and equipment

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the income statement. When revalued assets are sold, the amounts included in the revaluation reserves are transferred to retained earnings.

1.2 Intangible asset

Enduring benefit

In terms of the Treaty⁽¹⁾, South Africa is responsible by way of cost-related payments, as defined in the Treaty, for the liabilities incurred by the Lesotho Highlands Development Authority in respect of the water delivery component of the LHWP. TCTA is responsible for making these cost-related payments on the South African Government's behalf. By paying for these liabilities, South Africa, as represented by TCTA, acquires the right to receive water.

Cost-related payments do not confer rights of ownership or equity. The right to receive water is of a perpetual nature and is capitalised as an enduring benefit. The amortisation of the enduring benefit, which commenced upon completion of construction, is directly related to the depreciable component of the underlying assets.

During construction

- Costs are only accrued when certified progress reports or reasonable estimates of work performed are received.
- Interest and finance charges, which are a result

⁽¹⁾ The Treaty refers to the Treaty signed between the South African Government and Government of Lesotho dated 24 October 1986.

1. Significant accounting policies (continued)

of funding works and overheads in connection with the project, are capitalised to works during the period of construction.

- Revenue from water levies is allocated to works and the enduring benefit on a proportional cost basis. Water levies are received during the construction phase before saleable water is delivered.

Once construction is complete

LHWP

- The depreciable portion is estimated at 10% of the construction costs, which is amortised over an estimated useful life of 45 years (in terms of the National Water Pricing Strategy), based on deliverable volumes of water per annum, in accordance with the Treaty.

Intangible assets are tested for impairment annually by comparing its carrying amount with its recoverable amount, irrespective of whether there is any indication that it may or may not be impaired.

1.3 Investment property

Investment properties are carried at cost less accumulated depreciation and accumulated impairment. Depreciation is calculated at 2% per annum.

1.4 Impairment of assets

At each balance sheet date, TCTA reviews the carrying amounts of its assets to determine whether there is any indication that those assets may be impaired.

Impairment losses are recognised when an asset's carrying value exceeds its estimated recoverable amount.

A reversal of an impairment loss for an asset is recognised immediately in surplus or deficit, unless the asset is carried at a revalued amount. Any reversal of a revalued asset shall be credited directly to equity.

1.5 Borrowing costs

LHWP

Interest and finance charges, which are a result of funding works and overheads in connection with the project, are capitalised to works during the period of construction. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use.

Capitalisation of borrowing costs on BWP and VRESAP

Interest and finance charges incurred and income received on works and all other costs are capitalised until such time as the construction is completed.

1.6 Foreign currency translation

Functional and presentation currency

The functional currency of TCTA is the currency of the primary economic environment in which the entity operates. The annual financial statements are presented in South African Rand, which is TCTA's functional and presentation currency.

Transactions and balances

Transactions in foreign currencies are accounted for at the rates of exchange ruling on the date of the transactions. Foreign exchange gains and losses arising from the settlement of such transactions and from translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges under IAS 39: *Financial Instruments*. Unrealised differences on monetary assets and liabilities are recognised in the income statement in the year in which they occur.

1.7 Financial instruments

Definition

Financial instruments recognised on the balance sheet include:

- Derivative instruments
- Bonds
- Cash and cash equivalents
- Trade and other receivables
- Trade and other payables
- Investments
- Loans

Measurement

Financial instruments measured at amortised cost are initially recognised at cost including transaction costs. Financial instruments that are measured at fair value are initially recognised at fair value excluding transaction costs.

Recognition

Financial assets and liabilities are recognised on the balance sheet when TCTA becomes a party to the contractual provisions of the instruments. Regular way transactions are accounted for at trade date.

Long-term financial market investments

Long-term financial market investments consist of promissory notes and investments which are included in the redemption portfolio. The redemption portfolio is established to implement a planned redemption strategy for liquidity risk-management purposes. The instruments are held-to-maturity and are stated at amortised cost, applying the yield to maturity-method. TCTA has both the intention and ability to hold financial market investments to maturity.

Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments and are initially measured at cost, which includes transaction costs, and are accounted for at trade date. These receivables are classified as "loans and receivables" in terms of IAS 39: *Financial Instruments*.

Trade and other receivables are subsequently stated at amortised cost.

Short-term financial market investments

TCTA engages in repurchase agreements (repos) in TCTA registered bonds, within limits, with the panel of market makers to enhance the marketability of the bonds in issue. The repurchase agreements are subsequently recognised at amortised cost.



1. Significant accounting policies (continued)

Long-term financial market liabilities

Funding portfolio

The funding portfolio comprises the long-term funding for the project.

Locally registered bonds in issue are classified as "other liabilities" in terms of IAS 39: *Financial Instruments* and are hence stated at amortised cost, applying the yield to maturity method.

Local loans are stated at amortised cost and classified as "other liabilities" in terms of IAS 39: *Financial Instruments*. At balance sheet date, foreign loans are stated at amortised cost and restated at the rates of exchange ruling at financial year-end. Gains or losses are recognised in the net surplus or deficit.

Long-term commercial paper (more than twelve months to maturity), classified as "other liabilities", is held at amortised cost.

Asset swaps, classified as "liability at fair value through profit or loss", are measured at fair value and gains and losses are recognised directly in net surplus or deficit.

Trade and other payables

Payables are classified as "other liabilities" in terms of IAS 39: *Financial Instruments* and are hence stated at amortised cost.

Short-term financial market liabilities

Funding portfolio

The short-term funding portfolio comprises short-term commercial paper classified as "other liabilities" and held at amortised cost.

Strategic portfolio

The strategic portfolio is a trading portfolio established for interest rate risk management purposes. At present no such instruments are held by TCTA.

Locally registered bonds held for trading purposes are carried at fair value, which is determined with reference to exchange quoted prices at the close of business on the balance sheet date. Resultant gains or losses on the subsequent measurement are included in the net surplus or deficit for the year in which they arise. At present no such instruments are held by TCTA.

TCTA engages in repurchase agreements in locally registered bonds, within limits, with the panel of market makers to enhance the marketability of the bonds in issue. The repurchase agreements are recognised at transaction value and are classified as "other liabilities" in terms of IAS 39.

Derivative instruments

Derivative assets and liabilities are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value.

Hedge accounting

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. For the purposes of hedge accounting, hedges are classified into two categories:

- (a) Fair value hedges, which hedge the exposure to changes in fair value of a recognised asset or liability. In relation to fair value hedges that meet the conditions for hedge accounting, any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in surplus or deficit. Changes in fair value of these hedging instruments are recognised in the income statement as they arise.
- (b) Cash flow hedges, which hedge exposure to variability in cash flows attributable either to a particular risk associated with a recognised asset or liability, or to a forecasted transaction. In relation to cash flow hedges that meet the conditions of hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in surplus or deficit for the year.

For cash flow hedges affecting future transactions, the gains or losses recognised in equity are transferred to income statement in the

same year in which the hedge transaction affects net surplus or deficit. Where the hedge transaction results in the recognition of an asset or liability, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability.

In instances where derivative instruments would not qualify for hedge accounting, changes in the fair value are recognised immediately in the income statement.

Gains and losses on subsequent measurement

Gains and losses on subsequent measurement are recognised as follows:

Gains and losses arising from a change in the fair value of financial instruments that are not part of a hedging relationship are included in net surplus or deficit for the year in which they arise. Where the gains and losses that are recognised directly in equity relate to a financial asset that has now been disposed of, those gains and losses are included in net surplus or deficit for the year.

Offsetting

Where a legally enforceable right of set-off exists for recognised financial assets and financial liabilities, and there is an intention to settle the liability and realise the asset simultaneously, or to settle on a net basis, all related financial effects are offset. No financial assets and financial liabilities have been settled on a net basis by TCTA during the current financial year.

1. Significant accounting policies (continued)

Impairment of financial assets

Due to the high credit quality of the money market instruments and the fact that the assets are short dated, management believes that the value of these assets will not be impaired.

Derecognition

Financial assets (or a portion thereof) are derecognised only when the contractual rights to the cash flows from the financial asset expire; or the entity transfers the contractual rights to receive the cash flows of the financial asset or the entity retains the contractual rights to receive the cash flows of the financial asset but assumes a contractual obligation to pay the cash flows to one or more recipients.

TCTA only removes financial liabilities (or a part of a financial liability) from its balance sheet when it is extinguished – i.e. when the obligation specified in the contract is discharged, cancelled or expires.

Fair value estimation

The fair values of the listed bonds are the BESA closing rate as at the balance sheet date. Unlisted financial instruments are fair valued using rates as determined by the industry.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. TCTA uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to TCTA for similar financial instruments.

1.8 Employee benefits

Leave benefits

Annual leave is granted pro-rata in accordance with the number of full calendar months worked and is subject to a cap. An employee shall be granted 36 working days sick leave for each three-year cycle, on full pay.

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement age or when an employee accepts voluntary redundancy in exchange for benefits. Termination benefits are recognised when it is probable that the expenses will be incurred.

1.9 Provisions

Provisions are recognised when TCTA has a legal or constructive present obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources will be required to settle the obligation, the provision is reversed.

Provisions are only used for those expenditures for which the provision was originally recognised.

1.10 Liabilities of the water-delivery component of the project in Lesotho

The borrowings incurred by the Lesotho Highlands Development Authority (LHDA) in respect of the water delivery component of the project, for which South Africa is responsible, are termed cost-related payments in terms of Article 10 of the Treaty and are included as a liability under the respective liability items. TCTA is responsible for making these cost-related payments to the LHDA and its lenders on the South African Government's behalf.

1.11 Revenue recognition

Bulk raw water tariff

LHWP

Revenue, which excludes value-added tax, comprises a portion of the bulk raw water tariff charged by the Department of Water Affairs and Forestry (DWAF) to the Vaal River System water consumer. The portion of this tariff due to TCTA is recognised when DWAF invoices the water consumer.

BWP

Revenue, which excludes value-added tax, comprises a portion of the Berg Water Capital Charge levied by DWAF on City of Cape Town (CCT).

Financial advisory services

Umgeni Water

TCTA currently acts in an advisory capacity on this project. Revenue, which excludes value-added tax, comprises the recovery of costs incurred in acting in an advisory capacity.

Olifants River Water Resource Development Project

TCTA currently acts in an advisory capacity on this project. Revenue, which excludes value-added tax, comprises the recovery of costs incurred in acting in an advisory capacity.

1. Significant accounting policies (continued)

1.12 Other income

Rental income is generated from the properties that were acquired during the construction of the project.

Interest income comprises interest receivable on loans, advances, trade receivables and income from financial market investments. Interest is only recognised where it is probable that the economic benefits associated with the transaction will flow to TCTA.

1.13 Operating leases

Leases of assets to TCTA under which all the risks and benefits of ownership are effectively retained by the lessor, are classified as operating leases. Payments made under operating leases are charged against income on a straight-line basis over the period of the lease.

1.14 Segmental reporting

TCTA is managed in four business segments, which forms the primary segment reporting basis:

- Lesotho Highlands Water Project (LHWP)
- Berg Water Project (BWP)
- Vaal River Eastern Sub-system Augmentation Project (VRESAP)
- Advisory services

These four segments consist of the different projects that TCTA have been mandated with. TCTA provides various services to its' customers such as liability management, treasury management services as well as project implementation. The advisory services include Umgeni Water, Olifants River Water Resource

Development Project (ORWRDP), Spring Grove Dam and the costs incurred in the set up of the National Water Resource Infrastructure Agency.

Based on the fact that there are no defined geographical segments for TCTA's products and services, TCTA has not disclosed financial information on a geographical segmental basis.

1.15 Related party transactions

In terms of IAS 24: *Related Party Disclosure*, TCTA is exempt from related party disclosure on its transactions with other state-controlled entities. The introduction to IAS 24 makes it clear that the intention is to include those state-controlled entities that are profit-orientated. TCTA is a non-profit organisation with the purpose of developing bulk raw water infrastructure in the most cost-effective manner for the benefit of the water consumer.

1.16 Critical judgements/Key sources of estimation uncertainty

In the process of applying TCTA's accounting policies, management makes various estimates and judgements based on past experience, expectations of the future and other information. The key sources of estimation uncertainty and the critical judgements that can significantly affect the amounts recognised in the financial statements are disclosed below:

1.16.1 Enduring benefit and Works in RSA

TCTA has adopted the assumptions underlying the National Water Pricing Strategy which

states that the depreciable portion for dams and tunnels is 10% based on the proportion of the mechanical components which are subject to replacement. The useful life of the civil components are therefore deemed to have an indefinite life.

The estimated useful life of the enduring benefit is 45 years which is also based on the National Water Pricing Strategy.

1.16.2 Impairment testing on intangible asset

TCTA obtains the macro economic forecasts from Bureau of Economic Research (BER) from the University of Stellenbosch. Every three to four years TCTA will require an update of these long-term forecasts which are then used in the determination of the forecast debt curve as well as the required tariff to be able to repay the outstanding debt book within 20 years after completion of construction. The latest 20-year inflation forecast was an average of 4,8% which is then applied as the discount rate for future revenue streams as the tariff is constant in real terms and therefore inflates with inflation annually.

Based on TCTA's business model and revenue profile linked to BER's projected long-term inflation, this rate is also used for any discounting of future cash streams used for impairment testing.

The use of BER's forecast has been agreed as the acceptable input assumption for tariff determination purposes, with the major stakeholders such as DWAF, National Treasury, South African Reserve Bank and major Vaal River users such as Rand Water.

2. Property, plant and equipment

	Works in RSA R million	Other R million	2006 Total R million	2005 Total R million
LHWP				
Cost as previously stated	1 976	13	1 989	1 986
Accumulated depreciation	(11)	(7)	(18)	(14)
Carrying amount at the beginning of the year	1 965	6	1 971	1 972
During the year:				
• Additions	-	2	2	2
• Revaluation of depreciable portion	27 ⁽¹⁾	-	27	1
• Accumulated depreciation adjusted against NDR	(5)	-	(5)	-
• Depreciation	(1)	(4)	(5)	(4)
Carrying amount at the end of the year	1 986	4	1 990	1 971
Cost/depreciated replacement value	2 003	15	2 018	1 989
Accumulated depreciation	(17)	(11)	(28)	(18)
Carrying amount at the end of the year	1 986	4	1 990	1 971

⁽¹⁾ The model, on which the revaluation is based, was revised in the current year.

A register of land and buildings is available for inspection at TCTA's registered office.

	Works capitalised 2006 R million	Works capitalised 2005 R million
BWP		
Carrying amount at the beginning of the year	195	34
Additions during the year	296	161
Carrying amount at the end of the year	491	195
VRESAP		
Carrying amount at the beginning of the year	8	-
Additions during the year	136	8
Carrying amount at the end of the year	144	8
TOTAL		
LHWP	1 990	1 971
BWP	491	195
VRESAP	144	8
Carrying amount at the end of the year	2 625	2 174

2.1 Works in RSA

LHWP

The works in South Africa comprise the Delivery Tunnel North and appurtenances. Construction on Phase 1B was completed in October 2003, hence no further capital costs have been incurred in the current financial year.

In terms of the accounting policy, TCTA has undertaken a full technical revaluation of the enduring benefit during 2003. The revaluation was performed by Peter Ramsden, an independent civil engineer. The results indicated that TCTA's annual revaluation based on Producer Price Index (PPI) was conservative and that no further adjustment was required to works in South Africa other than the annual PPI adjustment. At the end of the year a revaluation of the depreciable portion of the construction works in South Africa was calculated using year-on-year PPI.

2.2 Works capitalised

BWP and VRESAP

The works capitalised comprise costs incurred to date on the implementation of the project.



2. Property, plant and equipment (continued)

	LHWP		BWP		VRESAP	
	2006	2005	2006	2005	2006	2005
	R million	R million	R million	R million	R million	R million
2.3 Works in RSA/ Works capitalised						
The carrying amount consists of:						
• Costs capitalised	2 207	2 207	665	259	144	8
• Levies/Income received	(253)	(253)	(174)	(64)	-	-
• Depreciation	(17)	(11)	-	-	-	-
• Revaluation of depreciable portion	49	22	-	-	-	-
	1 986	1 965	491	195	144	8

	BWP		VRESAP	
	2006	2005	2006	2005
	R million	R million	R million	R million
2.4 Costs capitalised				
Costs Capitalised comprise:				
• Engineering and construction	598	231	133	6
• Fixed assets	1	1	-	-
• Finance costs	41	12	6	-
• Directly attributable costs	25	15	5	2
	665	259	144	8

2.5 Change in estimate

LHWP

The national annual yield for royalty volumes, which is used as a basis for the amortisation of the enduring benefit, was revised in the current year retrospective to 2005. This has resulted in a change in the amortisation for prior years of R4 million which was adjusted against the current year deficit.

3. Intangible asset

	2006	2005
	Total	Total
	R million	R million
Enduring benefit		
<i>LHWP</i>		
Cost as previously stated	13 395	12 847
Accumulated amortisation	(46)	(34)
Carrying amount at the beginning of the year	13 349	12 813
Additions	-	548
Recoveries from GOL	(60)	-
Katse Claim adjustment	(5)	-
Amortisation	(20)	(12)
Carrying amount at the end of the year	13 264	13 349
Cost/depreciated replacement value	13 330	13 395
Accumulated amortisation	(66)	(46)
Carrying amount at the end of the year	13 264	13 349

The enduring benefit comprises water storage and the conveyance system and appurtenances in Lesotho.

3. Intangible asset (continued)

	Carrying amount		Capitalised/(recovered) for the year	
	2006 R million	2005 R million	2006 R million	2005 R million
3.1 Enduring benefit				
<i>LHWP</i>				
Cost-related payments (borrowing costs)	7 367	7 391	(24)	272
Cost-related payments (capital)	3 991	4 056	(65)	276
Capital market funds utilised by the LHDA	3 639	3 639	-	-
Levies received from DWAF	(1 435)	(1 435)	-	-
Protocol V refund on previously charged taxes	(232)	(256)	24	-
Amortisation	(66)	(46)	(20)	(12)
	13 264	13 349	(85)	536

3.2 Cost-related payments

Cost-related payments made in terms of the Treaty, on behalf of the LHDA, include payments made directly to contractors and consultants, interest and fees on foreign loans, costs relating to foreign-exchange payments, interest and interest subsidies on certain local loans and the refinancing of loans at the time when they become redeemable.

3.3 Future cost-related payments

LHWP

Future cost-related payments to be made in accordance with the Treaty for liabilities already incurred on project expenditure are included in the amount capitalised as enduring benefit.

3.4 Cost control

LHWP

In accordance with the Treaty, costs incurred by the LHDA with respect to the water delivery component of the project are under their control, but are subject to the monitoring and approval powers of the LHWC.

3.5 Change in estimate

LHWP

The national annual yield for royalty volumes, which is used as a basis for the amortisation of the enduring benefit, was revised in the current year prospectively. This has resulted in a change in the amortisation for prior years of R7 million which was adjusted against the current year deficit.

4. Investment property

	2006 Total R million	2005 Total R million
Land and buildings		
<i>LHWP</i>		
Carrying amount at the beginning of the year	4	4
Reclassifications	-	-
Depreciation	-(1)	-(1)
Carrying amount at the end of the year	4	4
Cost/depreciated replacement value	4	4
Accumulated depreciation	-(2)	-(2)
Carrying amount at the end of the year	4	4

⁽¹⁾ Depreciation for the current year is R104 872 (2005: R525 700)

⁽²⁾ Accumulated depreciation is R630 572 (2005: R525 700)

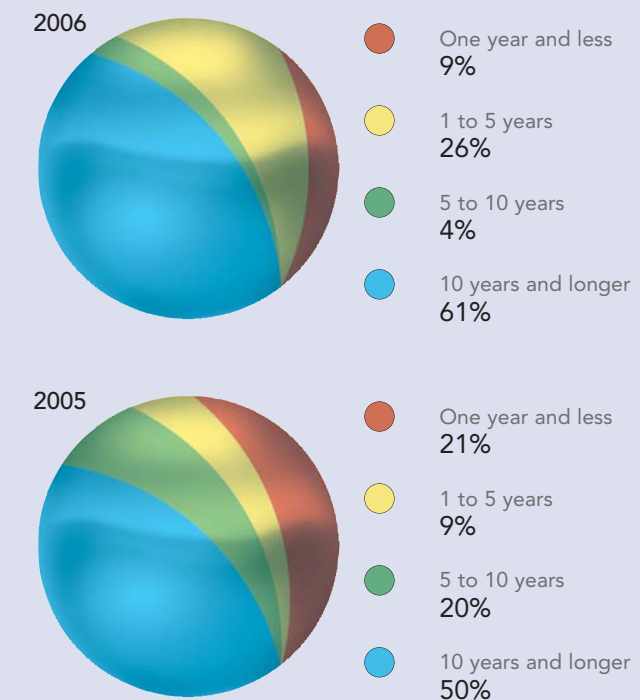
Investment property, comprising houses at Kgubetswana and a building in Pietersdal were initially acquired for use during construction. Post-construction, the houses at Kgubetswana have been rented out to the local community and will continue as such until a disposal strategy has been finalised. The Pietersdal property was in the process of being transferred to the Free State Department of Education however this donation was subsequently turned down by the Department.

5. Financial instruments

	Short-term (One year & less) 2006 R million	Short-term (One year & less) 2005 R million	Long-term (1 to 5 years) R million	Long-term (5 to 10 years) R million	Long-term (10 years & longer) R million	Long-term 2006 R million	Long-term 2005 R million	Total 2006 R million	Total 2005 R million
5.1 Financial market investments									
<i>LHWP</i>									
Foreign-currency hedges are held-to-maturity and are matched to underlying firm commitments									
Derivative asset	22	5	1	-	-	1	12	23	17
Other financial assets	-	2 073	-	-	-	-	-	-	2 073
Repos borrows	101	176	-	-	-	-	-	101	176
Due for settlement – Repos	22	-	-	-	-	-	-	22	-
	145	2 254	1	-	-	1	12	146	2 266
<i>BWP</i>									
Other financial assets	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
<i>VRESAP</i>									
Other financial assets	4	-	-	-	-	-	-	4	-
	4	-	-	-	-	-	-	4	-
	149	2 254	1	-	-	1	12	150	2 266
5.2 Financial market liabilities									
<i>LHWP</i>									
Derivative liability	66	33	244	6	-	250	214	316	247
Local debt	1 633	5 987	4 400	702	11 034	16 136	13 585	17 769	19 572
Issued bonds	-	4 322	3 919	397	10 878	15 194	12 197	15 194	16 519
Other loans	1 567	1 634	481	305	156	942	1 388	2 509	3 022
Repo carries	66	31	-	-	-	-	-	66	31

Below are the graphs reflecting the different maturity periods for the net financial market liabilities and investments.

Figure 46: LHWP Net financial liabilities



Foreign debt									
Debt translated at spot rates	52	43	150	92	13	255	335	307	378
	1 751	6 063	4 794	800	11 047	16 641	14 134	18 392	20 197
BWP									
Local debt	136	116	43	93	194	330	100	466	216
Other loans	136	116	43	93	194	330	100	466	216
VRESAP									
Local debt	261	-	-	-	-	-	-	261	-
Other loans	261	-	-	-	-	-	-	261	-
Total liabilities	2 148	6 179	4 837	893	11 241	16 971	14 234	19 119	20 413
Net financial market liabilities and investments	1 999	3 925	4 836	893	11 241	16 970	14 222	18 969	18 147
5.3 Split: TCTA and LHDA									
LHWP									
TCTA	1 673	3 981	3 400	600	10 957	14 957	12 353	16 630	16 334
LHDA	78	2 082	1 394	200	90	1 684	1 781	1 762	3 863
Total	1 751	6 063	4 794	800	11 047	16 641	14 134	18 392	20 197
BWP									
TCTA	136	116	43	93	194	330	100	466	216
VRESAP									
TCTA	261	-	-	-	-	-	-	261	-
Total	2 148	6 179	4 837	893	11 241	16 971	14 234	19 119	20 413

* Of the R15 194 million bonds in issue with TCTA being the legal issuer, R938 million has been allocated to the LHDA to meet their funding requirements.

A register of loans is available for inspection at TCTA's offices.

Figure 47: BWP Net financial liabilities

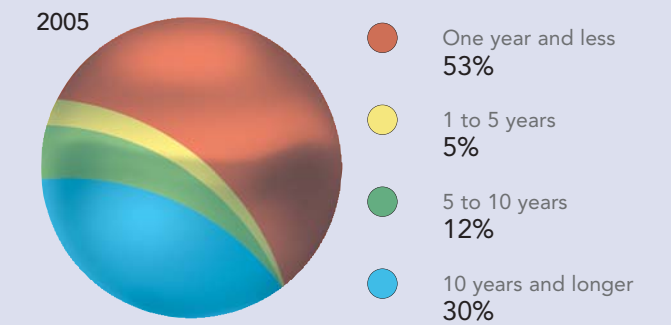
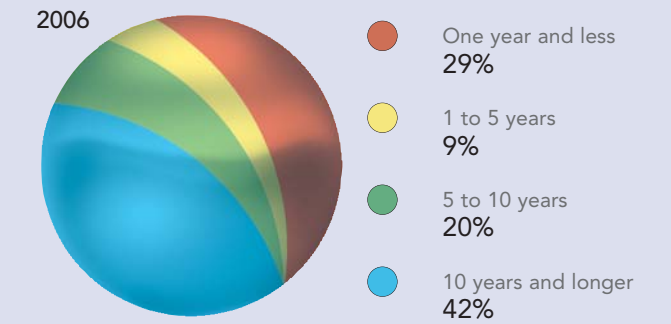
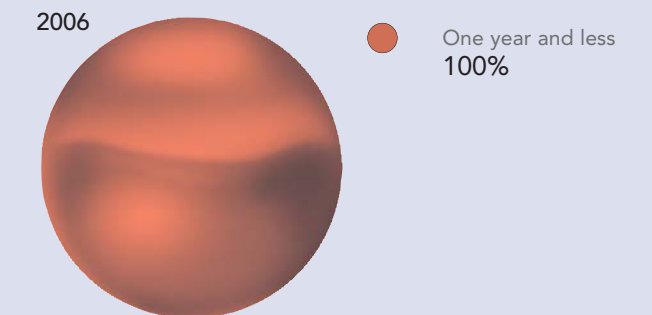


Figure 48: VRESAP Net financial liabilities



The graphs above reflect the liabilities net of the assets.

A register of loans is available for inspection at TCTA's offices.



NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 March 2006



5. Financial instruments (continued)

	2006	2005
5.4 Interest rates		
<i>LHWP</i>		
Loans bear effective interest at rates ranging from	4,7% to 21,6%	5,4% to 21,6%*
TCTA funded at a weighted average rate of	10,65%	11,17%
Project funded at a weighted average rate of	10,80%	11,31%

* The interest rate applicable to one of the development funding foreign loans is 4,7%. This is a Euro loan facility drawn as ZAR funding. The 21,6% relates to an EIB loan for Matsuko Diversion, valued at spot at R69 million (2005: R68 million). The interest rate applicable to this loan is 3% however, due to Forward Exchange Contract costs, the overall effective interest rate on this loan amounts to 21,6% (2005: 21,6%)

The proportional interest-rate exposures on total outstanding debt of the project can be summarised as follows:

	Fixed rate 2006	Fixed rate 2005	Variable rate 2006	Variable rate 2005
	%	%	%	%
EURO	1	1	1	1
USD	-	-	1	1
RAND	67	72	30	25
Total liabilities	68	73	32	27

	2006	2005
<i>BWP</i>		
The project funded at a weighted average rate of	7,63%	8,12%
	2006	2005
<i>VRESAP</i>		
The project funded at a weighted average rate of	7,37%	-

5.5 Bonds

TCTA is the legal issuer of the following LHWP local registered bonds:

Loan no	Type	Redemption date	Interest rate	Authorised nominal/Principal value R million	Nominal/Capital indexed issued R million
WS03	Nominal	15 September 2010	13,0%	8 000	3 185
WS04	Nominal	30 May 2016	12,5%	7 000	5 576
WS05	Inflation indexed	1 August 2018	5,0%	4 000	3 177*
WS06	Nominal	30 April 2008	8,0%	2 500	800
WSP01	Nominal	28 May 2015	9,0%	1 000	400
WSP02	Nominal	28 May 2017	9,0%	1 000	400
WSP03	Nominal	28 May 2019	9,0%	1 000	400
WSP04	Nominal	28 May 2020	9,0%	1 000	400
WSP05	Nominal	28 May 2021	9,0%	1 000	400

* Inflation indexed bond reflected at CPI value.

Value of bonds	2006 R million		2005 R million	
	Fair value	Nominal value	Fair value	Nominal value
Authorised		26 500		27 000
Issued	18 627*	14 738**	19 204*	16 470**
Unrealised premium to be amortised over the life of the loan		963		555
Unrealised discount to be amortised over the life of the loan		(217)		(299)
Unrealised amortisation of CPI upliftment for WS05		(290)		(209)

* The fair value of the locally registered bonds issued is measured at the market price at financial year-end.

** The amounts in issue may not exceed the consolidated capital market guarantee of R21 000 million.

5. Financial instruments (continued)

5.6 Guarantees

LHWP

In terms of the Treaty, the South African Government has agreed to provide, on request, guarantees for loans, credit facilities or other borrowings entered into by the LHDA and TCTA for financing the water-delivery component of the project.

Particulars of the guarantees issued and the amounts utilised (including short-term loans but excluding accrued interest) are set out on the right. The amounts are stated in the currency of the issued guarantee to indicate the utilisation.

Currency	Amount guaranteed million 2006	Amount utilised million 2006	Amount guaranteed million 2005	Amount utilised million 2005
TCTA loans:				
EURO	101	36*	101	39*
RAND	26 100	16 278	26 100	18 438
LHDA loans:				
USD	51	13	51	16
EURO	94	69**	94	74
RAND	600	144	673	188

* Included in the Euro amount is the European Investment Bank facility which was drawn in Rands, R291 million (2005: R315 million) and will be repaid in Rands.

** Included in the Euro amount is the European Investment Bank facility which was drawn in Rands, R281 million (2005: R 276 million) and will be repaid in Rands.

BWP

On the Berg Water Project, guarantees have been provided by TCTA as follows:

In Favour Of	Nature	Amount guaranteed R million 2006	Amount guaranteed R million 2005
Eskom	Temporary power supply for construction	.*	.*
Eskom	Permanent power supply for construction of the dam as well as the Dasbos Tunnel	2	2
Drakenstein Municipality	For electricity consumption on the Supplement Scheme.	.**	-
Stellenbosch Municipality	Cost of new sewer pipeline to be replaced by contractor at TCTA's cost.	4	-
Stellenbosch Municipality	Costs to be borne by TCTA should electrical works not be in terms of the Municipality's standards.	1	-

* The amount of the guarantee is R408 500.

** The amount of the guarantee is R24 800.



5. Financial instruments (continued)

5.7 Financial market investments

LHWP

The fair value of the investments in the redemption portfolio are measured at the prevailing market rate at the financial year-end.

	2006 R million	2005 R million
Carrying value	-	2 073
Fair value	-	2 304

VRESAP

The fair value of the investments are measured at the prevailing market rate at the financial year-end.

	2006 R million	2005 R million
Carrying value	4	-
Fair value	4	-

5.8 Derivative exposures

LHWP

The table below details derivative values, which are included in financial market assets and liabilities:

	2006 Nominal values R million	2006 Fair value R million	2005 Nominal values R million	2005 Fair value R million
Forward exchange contracts	860	(293)	969	(231)

Derivatives are used to hedge currency exposures.

Fair value is the current mark-to-market value of all the derivatives outstanding.

5.9 Financial risk management

The various types of financial, treasury and operational risks pertaining to the project are identified, assessed, managed and monitored in a prudent manner, within a Board-approved risk tolerance framework. Appropriate treasury and accounting policies and procedures have been established to identify and monitor risks.

The overall financial risk of the project is managed using asset/ liability management principles. The aim, within certain defined risk parameters, is to match the duration of the liabilities to the duration of the free cash flow ⁽¹⁾ in any given year.

A Finance Committee comprising of at least two non-executive directors, an independent treasury specialist and the CEO assists management and the Board in this regard, and in reviewing TCTA's funding and risk management strategies and to maintain the optimal capital structure.

5.10 Liquidity risk management

Liquidity risk is the risk of defaulting on financial obligations as a result of insufficient funding capacity. It is managed by ensuring that sufficient funding is available to fulfil South Africa's obligations, in terms of the Treaty, for the LHWP. TCTA operates in the local money and capital markets as well as in the offshore loan markets. In order to meet the above obligations and future funding requirements efficiently, sufficient facilities in the required currencies are maintained.

Furthermore, the WS bonds are listed on the bond exchange and a panel of six market makers is used to facilitate liquidity in these bonds.

⁽¹⁾ The free cash flows refer to the excess cash generated by the projects.

5. Financial instruments (continued)

5.11 Interest rate risk management

Interest rate risk is the risk of adverse interest rate fluctuations impacting negatively on debt exposures, including the repricing of TCTA's floating rate debt obligations and the short-term rollover of maturing debt. A key focus area of the risk management policy is therefore to monitor and manage interest rate risk proactively.

To do this, TCTA not only hedges interest-rate exposure using approved derivative instruments, but also actively works towards achieving an optimal capital structure given the nature of the project. Part of this risk evaluation deals with appropriate fixed to floating ratios as well as the evaluation of foreign versus local funding and matching the duration of liabilities with that of free cash flow. Currently TCTA does not have any derivatives hedging interest rate risk.

Figure 49: Interest rate exposure – LHWP

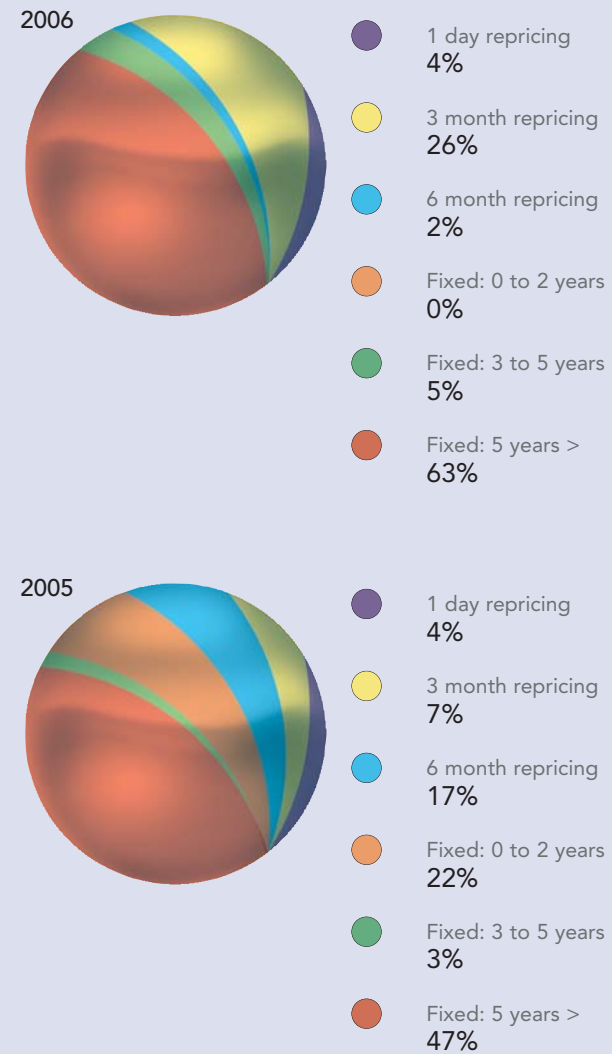
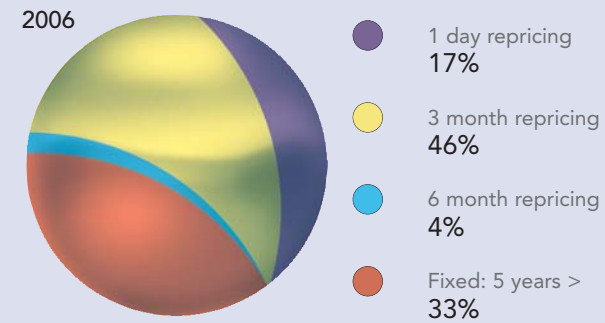


Figure 50: Interest rate exposure – BWP



Composition of exposure – BWP

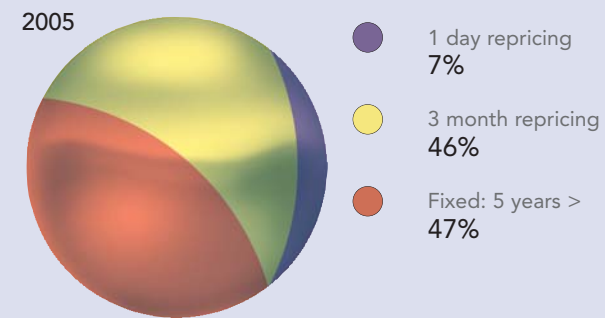
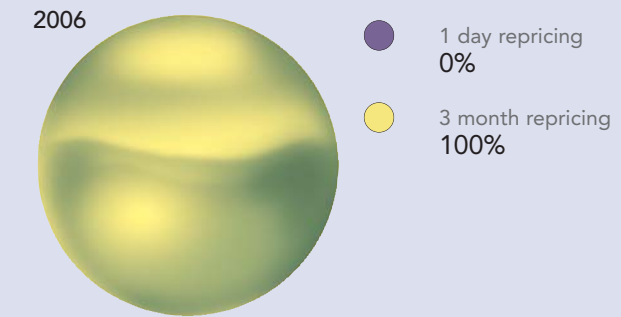


Figure 51: Interest rate exposure – VRESAP





NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 March 2006



5. Financial instruments (continued)

Maturity periods: Interest exposure

	LHWP		BWP		VRESAP	
	2006	2005	2006	2005	2006	2005
	R million	R million	R million	R million	R million	R million
Liabilities						
<i>Floating</i>						
< 1 month	883	988	121	66	-	-
1 to 3 months	277	462	15	50	49	-
3 to 12 months	159	244	-	-	212	-
1 to 2 years	125	144	5	-	-	-
2 to 3 years	122	119	11	-	-	-
3 to 4 years	125	110	11	-	-	-
4 to 5 years	125	113	153	-	-	-
> 5 years	3 447	2 637	-	-	-	-
	5 263	4 817	316	116	261	-
<i>Fixed</i>						
< 1 year	161	4 383	-	-	-	-
1 to 2 years	362	169	-	-	-	-
2 to 3 years	858	256	-	-	-	-
3 to 4 years	62	666	5	5	-	-
4 to 5 years	3 287	65	7	5	-	-
> 5 years	8 399	9 841	138	90	-	-
	13 129	15 380	150	100	-	-

	LHWP		BWP		VRESAP	
	2006	2005	2006	2005	2006	2005
	R million	R million	R million	R million	R million	R million
Assets						
<i>Floating</i>						
< 1 month	123	176	-	-	4	-
1 to 3 months	-	-	-	-	-	-
3 to 12 months	22	5	-	-	-	-
1 to 2 years	1	11	-	-	-	-
2 to 3 years	-	1	-	-	-	-
3 to 4 years	-	-	-	-	-	-
4 to 5 years	-	-	-	-	-	-
> 5 years	-	-	-	-	-	-
	146	193	-	-	4	-
<i>Fixed</i>						
< 1 year	-	2 073	-	-	-	-
1 to 2 years	-	-	-	-	-	-
2 to 3 years	-	-	-	-	-	-
3 to 4 years	-	-	-	-	-	-
4 to 5 years	-	-	-	-	-	-
> 5 years	-	-	-	-	-	-
	-	2 073	-	-	-	-

5. Financial instruments (continued)

5.12 Counterparty risk management

The risk of counterparties failing to deliver on their obligations is managed by the allocation of appropriate credit limits for each counterparty. TCTA deals only with reputable institutions and within the limits set for these institutions. Risk is proactively managed through liaison with credit-rating agencies and the continuous monitoring of the financial standing of all counterparties. Credit limits are reviewed regularly and adjusted when deemed necessary.

In addition to ensuring strict compliance with approved credit limits, credit risk associated with derivative instruments is further mitigated by the use of master netting agreements as well as collateralisation arrangements.

The counterparty exposure is set out below:

	2006 %	2005 %
LHWP		
Short-term rating		
Other	19	23
A1	-	10
A1+	81	67
RSA Government guaranteed	-	-
	100	100
BWP		
Short-term rating		
A1+	100	100
	100	100
VRESAP		
A1+	100	-
	100	-

5.13 Foreign currency risk management

LHWP

Foreign currency risk arises from the impact of exchange-rate fluctuations on the project's foreign currency loan liabilities.

TCTA is currently exposed to Euro and United States Dollar exchange rate fluctuations but has been exposed to Pound Sterling and Japanese Yen in the past. The currency hedging policy is conservative and the various exposures are monitored on an ongoing basis.

TCTA has a policy to cover 100% of its foreign capital commitments and 75% on interest and fees.

Forward exchange contracts – recognised transactions

Net foreign exchange contracts are stated at fair value and match specific underlying commitments recorded on the balance sheet at year end.

Foreign currency	Foreign amount million	Rand amount R million	Fair value Rand R million
2006			
US Dollars	16	129	(15)
Euros	47	731	(278)
GBP *	-	-	-
2005			
US Dollars	16	125	(5)
Euros	46	704	(208)
GBP	-	-	1

* The fair value of GBP relates to FEC's that have been cancelled, but not yet settled.

Forward exchange contracts – anticipated transactions

These net forward exchange contracts do not relate to specific items on the balance sheet, but were entered into to cover foreign commitments not yet due. These are measured at fair value, with the resultant gains or losses recognised in the income statement.

The maturity dates of the current forward exchange contracts range up to 2013, and will be applied in the hedging of expected future loan capital and interest commitments due up to 2018.



5. Financial instruments (continued)

Foreign currency	Foreign amount million	Rand amount R million	Fair value Rand R million
2006			
US Dollars	-	-	-
Euros	-	-	-
2005			
US Dollars	4	31	(1)
Euros	7	109	(18)

The split of the fair value on FEC's between long and short positions has been disclosed in note 5.1 and 5.2.

	2006		2005	
	EUR million	USD million	EUR million	USD million
Foreign exchange contracts maturity profile				
< 1 year	6	3	7	2
1 to 2 years	11	1	6	3
2 to 3 years	10	3	11	3
3 to 4 years	10	2	10	3
4 to 5 years	10	2	10	2
> 5 years	-	5	9	7
	47	16	53	20

5.14 Exchange rates (Closing rates)

The following are exchange rates utilised by TCTA as at 31 March:

Foreign currency	2006		2005
	Bid Rand	Offer Rand	Mid Rand
US Dollars	6,146	6,185	6,226
Euros	7,446	7,496	8,083
GBP	10,674	10,744	11,746

5.15 Operational risk management

Operational risk is the potential for loss caused by fraud, error, systems failure or other occurrences. Risks of this nature are guarded against by means of comprehensive systems of internal control, regular internal and independent audits, risk-management programmes and external insurance policies. The primary objective in managing operational risks is to identify and strengthen possible weak links.

International pronouncements on risk management are evaluated on an ongoing basis and, where appropriate, used to provide benchmarks so as to ensure continued compliance with international best practice.

To date the G30* recommendation, the COSO** framework, Turnbull Internal Control Requirements of the Combined Code and the ACTSA*** Charter of Best Practice in Treasury Management have been evaluated and implemented where deemed appropriate.

* Group of 30 leading international banks.

** Committee of Sponsoring Organisation of the Treadway Commission.

*** Association of Corporate Treasurers of South Africa.

6. Trade and other receivables

	LHWP		BWP		VRESAP	
	2006 R million	2005 R million	2006 R million	2005 R million	2006 R million	2005 R million
Current						
Water income receivables ⁽¹⁾	305	315	1	9	-	-
Prepayments	26	-	18	52	203	2
Other debtors	1	2	4	3	-	-
Loan account: BWP	1	-	-	-	-	-
Loan account: VRESAP	1	3	-	-	-	-
Interest receivable WS01 redemption	-	219	-	-	-	-
Amount owing by Government of Lesotho (GOL)	-	18	-	-	-	-
	334	557	23	64	203	2

⁽¹⁾ Water income receivable for LHWP is 60 days and BWP is 30 days.

	LHWP		BWP		VRESAP	
	2006 R million	2005 R million	2006 R million	2005 R million	2006 R million	2005 R million
Non-current						
Government of Lesotho (GOL) ⁽²⁾	142	193	-	-	-	-
	142	193	-	-	-	-

⁽²⁾ Amounts owing by the GOL relate to the cost allocation backlog. The calculation has been finalised by the LHWC and amounts to R454 million (including cumulative interest of R425 million). The full amount has not been reflected above but shown as a contingent asset in note 18. Once this amount has been agreed by the respective parties, it will be raised in the annual financial statements.

	2006 R million	2005 R million
Total		
Current		
LHWP	334	557
BWP	23	64
VRESAP	203	2
	560	623
Non-current		
LHWP	142	193
BWP	-	-
VRESAP	-	-
	142	193

7. Non-distributable reserves

	2006 R million	2005 R million
Balance at the beginning of the year	1	(32)
Movement during the year	40	33
• Revaluation gains relating to hedges of future anticipated transactions	-	(21)
• Revaluation losses relating to hedges of future anticipated transactions	-	-
• Amounts released to deficit during the year	19	53
• Revaluation of depreciable portion of construction works in South Africa	27	1
• Accumulated depreciation adjusted against NDR	(5)	-
• Realisation of revaluation surplus	(1)	-
The balance comprises	41	1
Revaluation reserve	41	20
Hedging reserve	-	(19)

Revaluation reserve

Revaluation surpluses that arise are taken directly to the revaluation reserve except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the surplus is credited to the income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of an asset is charged as an expense to the extent that it exceeds the balance, if any, held in the asset's revaluation reserve relating to a previous revaluation of that asset.

8. Cumulative deficit

	2006 R million	2005 R million
Balance at the beginning of the year	(2 811)	(2 174)
Movement during the year	(587)	(637)
• Net deficit for the year	(588)	(638)
• Realisation of revaluation surplus	1	1
Balance at the end of the year	(3 398)	(2 811)

9. Payables

	LHWP		BWP		VRESAP	
	2006 R million	2005 R million	2006 R million	2005 R million	2006 R million	2005 R million
Interest payable						
• TCTA	373	483	-	-	-	-
• LHDA	25	38	-	-	-	-
Loan Account: LHWP	-	-	1	-	1	3
Other creditors	59	71	70	44	96	7
Royalties (see note 13)	39	36	-	-	-	-
Katse Claim ⁽¹⁾	95	82	-	-	-	-
	591	710	71	44	97	10

⁽¹⁾ Katse claim

A claim was awarded by the Tribunal on contract 123 relating to construction of the Katse dam and this had been provided for at 31 March 2005. The claim was submitted to various courts of appeal and has now been finalised in the contractors favour.

	2006 R million	2005 R million
Total		
LHWP	591	710
BWP	71	44
VRESAP	97	10
	759	764

10. Provisions

	LHWP 2006 R 000	BWP 2006 R 000	VRESAP 2006 R 000	TOTAL 2006 R 000
10.1 Provision for leave pay				
Balance at the beginning of the year	1 574	355	-	1 929
Leave accrued during the year	1 830	322	97	2 249
Leave utilised or paid	(1 877)	(254)	(63)	(2 194)
	1 527	423	34	1 984

In terms of TCTA's policy, employees are entitled to accumulate annual leave not taken to a maximum of 40 working days. Accumulated annual leave exceeding the maximum of 40 working days is forfeited on 30 June of the succeeding year.



11. Revenue

	Note	LHWP		UW		ORWRDP	
		2006 R million	2005 R million	2006 R million	2005 R million	2006 R million	2005 R million
Bulk raw water tariff	11.1	1 775	1 654	-	-	-	-
UW recoveries	11.2	-	-	-	1	-	-
ORWRDP recoveries	11.3	-	-	-	-	1 ⁽¹⁾	-(1)
		1 775	1 654	-	1	1	-

	2006 R million	2005 R million
LHWP	1 775	1 654
UW recoveries	-	1
ORWRDP recoveries	1 ⁽¹⁾	-(1)
	1 776	1 655

⁽¹⁾ Revenue from ORWRDP is R426 887 (2005: R400 089)

11.1 Bulk raw water tariff

Income is based on the part of the bulk raw water tariff due to TCTA at 131,6 cents per m³ (2005 : 122,4 cents per m³), based on 1 349 million m³ (2005 : 1 351 million m³) of water sales from the Vaal River system.

11.2 Umgeni Water recoveries

TCTA currently acts in an advisory capacity on this project.

11.3 Olifants River recoveries

TCTA currently acts in an advisory capacity on this project.

12. Other income

	2006 R million	2005 R million
Interest income	226	229
Rental income	-(1)	-(1)
	226	229

Interest income

Interest income is mainly comprised of interest received from the WS01 redemption investments, repurchase agreements (repos), income and premium on WS bonds amortised.

Rental income

Income is generated from the properties that were acquired during the construction of the project. These properties are in the process of being disposed of.

⁽¹⁾ The rental income is less than R500 000 for both years.

13. Royalties paid

Royalties are paid to the Government of Lesotho in accordance with the Treaty for the benefit of receiving water from the LHWP. The variable royalties are based on 788,1 million m³ (2005: 692,9 million m³) of water delivered.

	2006 R million	2005 R million
Fixed royalties	116	111
Variable royalties	135	117
	251	228

14. Operating expenses

	2006 R million	2005 R million
Operating expenses comprise:		
Operating costs for work in Lesotho	62	30
Lesotho Highlands Water Commission (LHWC) costs	8	8
Depreciation and amortisation	25	16
Operating lease payments	2	1
Staff costs	20	17
Directors' emoluments (refer below)	4	3
Litigation fees	16	-
Other operating expenditure	38	13
Total operating expenditure	175	88

Notes: Included in operating expenses are the following:-

- Audit fee R824 000 (2005: R546 575)
- BWP cost allocation R 5 192 295 * (2005: R 4 367 992)
- VRESAP cost allocation R 5 169 439 * (2005: R 956 830)

The reciprocal income is reflected under LHWP resulting in a net effect to deficit of zero.

Costs incurred by LHWP staff on BWP and VRESAP are charged to the project as follows:

- Allocated project hours are billed at the actual staff rates.
- A standard 21,6% cost allocation for BWP and 27,5% for VRESAP on the following costs:

o Office overheads	o Rental of lines
o Directors' remuneration	o Strategic workshops
o Audit fees	o Internal audit and compliance
o Annual report costs	o Insurance
o Training, seminars and conferences	o Human resources
o Local Area Network development	o consulting fees
o Rental of computer systems	
- Time spent on ORWRDP is billed at 125% of actual cost.

14. Operating expenses (continued)

Directors' remuneration:

Directors	Status	2006	2005
L Maasdorp	Chairperson	264 251	218 012
O Latiff	Vice-Chairperson, Chairperson of Audit Committee	284 531	222 047
S Lushaba ⁽⁴⁾	Member	-	-
A Makwetla	Member, Chairperson of Human Resources Committee	231 831	197 225
C Maynard	Member, Chairperson of Finance Committee	240 642	204 137
R Mbwana	Member, Chairperson of BWP and VRESAP Technical Committees	341 576	240 577
P Hadebe ⁽⁴⁾	Member	-	-
M Muller	Member	142 927	-
Total non-executive directors	Note ⁽¹⁾	1 505 758	1 081 998
M J Janse van Rensburg ⁽²⁾⁽³⁾	Member, Chief Executive Officer	2 476 638	2 268 859
Total directors		3 982 396	3 350 857

⁽¹⁾ Remuneration paid to independent and non-executive directors employed outside public service. Remuneration paid is based on the following:

- R15 950 (2005: R15 200) monthly fee for the chairperson of the Board
- R13 900 (2005: R13 200) monthly fee for other Board members;
- R6 000 (2005: R5 700) attendance fee per meeting for the chairperson of the Board
- R5 200 (2005: R4 600) attendance fee per meeting for the chairperson of the Committee meetings
- R4 350 (2005: R3 850) attendance fee per meeting for Board and Committee meetings;

⁽²⁾ Remuneration paid represents the cost-to-company amount (TCTA does not have a medical, pension or insurance scheme) and a performance incentive accrued of R676 623 (2005: R554 559). Business-related expenses are reimbursed at actual cost, within an agreed policy and no allowances are paid.

⁽³⁾ The CEO is a member of the Board for Johannesburg Water, a specialist member of the Audit Committee for Airports Company South Africa (ACSA) and a member of the Governing Committee of BESA. The CEO does not receive fees for these services in her individual capacity. Such fees are received directly by TCTA and used in funding staff wellness programmes. These fees amount to R116 897 (2005: R59 650) from Johannesburg Water, R211 620 (2005: R99 000) from BESA and R15 757 (2005: nil) from ACSA for the year ended 31 March 2006.

⁽⁴⁾ TCTA does not pay remuneration to those non-executive directors that are in public service employment.



14. Operating expenses (continued)

Executive remuneration:

Name	Position	2006			2005		
		CTC	Incentive	Total	CTC	Incentive	Total
F Amod	Chief Financial Officer	1 100 000	388 878	1 488 878	366 667 ⁽¹⁾	195 422	562 089
J Claassens	Projects Manager	1 135 000	402 889	1 537 889	1 050 000	298 355	1 348 355
R Matabane	Head: Organisational Development	151 950 ⁽²⁾	-	151 950	-	-	-
L Milne	Head: Strategy and Development	1 390 000	510 831	1 900 831	1 300 000	438 715	1 738 715
P Bowes	Business Strategist	1 031 667 ⁽³⁾	-	1 031 667	1 120 000	377 485	1 497 485
Total Executive		4 808 617	1 302 598	6 111 215	3 836 667	1 309 977	5 146 644

⁽¹⁾ Commencement date 1 December 2004

⁽²⁾ Commencement date 1 January 2006. Incentives are only effective once the probation period is over.

⁽³⁾ Resigned 31 January 2006

TCTA's long-term incentive strategy became effective for the year ended 31 March 2006. Where long-term incentives are applicable, incentives are spread either over a two or three year period. The table below reflects the incentives for the next two year period. This incentive only becomes due and payable if the relevant staff members are still in the employ of TCTA at 31 March of each year.

Name	Position	Incentive	
		2007	2008
F Amod	Chief Financial Officer	233 327	155 552
J Claassens	Projects Manager	241 734	161 156
R Matabane	Head: Organisational Development	-	-
L Milne	Head: Strategy and Development *	-	-

* The Head: Strategy and Development resigned in May 2006 hence the incentives allocated for 2007 and 2008 are forfeited. The incentives allocated for the rest of the staff is R2 839 167 for 31 March 2007 and R1 164 539 for 31 March 2008.

15. Finance costs

	2006 R million	2005 R million
Interest expense and discount amortised:	2 083	2 077
• Locally issued bonds	1 833	1 756
• Other local debt	190	243
• Foreign debt	60	78
Net foreign-exchange differences	81	129
• Foreign-exchange contract gains	(4)	(87)
• Foreign-exchange contract losses	85	149
• Translation gain	(73)	(47)
• Translation loss	73	114
Total finance charges	2 164	2 206
TCTA funded at an average rate	10,65%	11,17%

Note: The interest on foreign debt above is translated at the spot rate on transaction date, and the foreign-exchange differences arising from utilisation of forward exchange contracts are included in net foreign exchange differences above.



16. Net deficit for the year

As income is first used to cover operating expenditure, depreciation and royalties, the net deficit of R588 million (2005: R638 million) relates to the shortfall in covering interest costs. The project financing approach adopted means that this deficit was anticipated. In tariff setting, priority was given to setting a constant tariff in real terms, and the effect is that interest will not be covered by income for the first number of years of each project.

17. Commitments

	Capital expenditure works in South Africa	
	Capital expenditure contracted by TCTA in respect of LHWP, BWP and VRESAP	
	2006 R million	2005 R million
Expenditure will be financed from borrowings and is expected to be incurred as follows:		
BWP		
2006 – 2007	530	425
2007 – 2008	115	414
2008 – 2009	9	-
Total	654	839
VRESAP		
2006 – 2007	1 032	66
2007 – 2008	332	66
2008 – 2009	5	-
Total	1 369	132

18. Contingent asset

18.1 Cost allocation (In respect of the LHWP)

In terms of the Treaty, the Government of South Africa (RSA) bears all water transfer costs and Government of Lesotho (GOL) bears all hydropower and ancillary costs. Where cost allocations are not precise, e.g., infrastructure costs, and costs are incorrectly borne by one of the parties, Protocol IV provides for recovery of such costs from the other party. Hence any costs borne by RSA which relate to hydropower are fully claimable from the GOL and vice versa.

The cost allocation between water transfer costs (TCTA) and hydropower costs (GOL) has been finalised for the period up to March 2006. An amount of R454 million has to date been calculated as owing to TCTA from the Government of Lesotho. Once this amount has been agreed by the respective parties, it will be raised as an asset in the annual financial statements.

18.2 Interest on royalties

In prior years, an error of R22 million overpayment in royalties, by TCTA to LHDA was detected and adjusted for. The interest component of R3 million is still under discussion as at the end of 31 March 2006.

19. Contingent liability

Expropriation of Dewdale

TCTA paid this entity compensation in terms of the Expropriation Act in 2004. Dewdale has disputed the compensation and submitted final claims totalling R20,6 million, (excluding R14 million already paid) for additional compensation in terms of the Expropriation Act. The claim on the Dewdale business has been finalised from TCTA's perspective and R3,3 million has been provided for at 31 March 2006. The balance of R17,3 million relates to the claim on the farm which is at present subject to negotiation and due legal process, and has not been provided for.

Expropriation of Berg Water Supplement Scheme

TCTA's Board of Directors approved an expropriation amount for the Berg Water Supplement Scheme of R4 678 550 based on TCTA appointed valuers. This was as yet unpaid at 31 March 2006 and reflected as a creditor. It is uncertain at this stage whether the proposed amounts would be acceptable by the landowners.

Franschhoek fire

A fire which allegedly started on the Berg River Dam site on 29 December 2005 raged out of control and caused damage to surrounding properties. Fire fighting services were called upon and the fire was successfully extinguished on 5 January 2006. TCTA was presented with a claim for fire fighting costs incurred by the Cape Winelands District Municipality amounting to R 1,4 million. The claim has been referred to TCTA's legal advisor to determine the basis for the claim made against TCTA.

The specific area where the fire allegedly started was the subject of a lease agreement between TCTA and a service provider to TCTA. At the time of the fire the property was under the control of the lessee.

Zebulon

TCTA disposed off the property, Larola, situated in Clarens, during the 2003 financial year end. A tax directive had been received from SARS to the effect that the transaction was zero rated for VAT. The purchaser is now claiming the VAT portion from TCTA as his claim was rejected by SARS. The total value of the claim is R1,4 million.

20. Operating leases

2006

	< 1 year R million	1 to 5 years R million	> 5 years R million	Total R million
LHWP				
Buildings	1	2	-	3
Equipment	-(1)	1	-	1
Total	1	3	-	4
BWP				
Buildings	1	1	-	2
Equipment	-(2)	-(3)	-	-
Total	1	1	-	2

(1) Equipment lease amounting to R258 998

(2) Equipment lease amounting to R76 123

(3) Equipment lease amounting to R171 454

TCTA leases certain buildings and equipment. The lease terms negotiated for the premises range from two years to an indefinite period. In some instances the leases contain an option clause entitling TCTA to renew the lease agreements for a period equal to the main agreement. In other instances, either the parties can come to a new agreement, or TCTA has the option to continue leasing the property on a

month-to-month basis where both parties have to give each other one calendar month's notice in writing to terminate the lease.

The minimum lease payments under these agreements are subject to annual escalation, which range from 5% to 11%. The rental for the building occupied in Franschhoek, escalates by the official repurchase percentage rate determined by the South African Reserve Bank.

The lease term for equipment is five years and the rental payments are linked to the prime interest rate. Should prime increase during the term of the agreement, the rentals payable will increase with effect from the date of such increase.

Future minimum lease payments under operating leases are included in the above note.



21. Operations and maintenance

Below is a statement of income and expenses relating to operations and maintenance for the works on South African soil. The amounts are included in the Income Statement on page 76. In terms of Protocol VI to the Treaty, signed on 4 June 1999, these amounts are separately identified and reported on:

Revenue
Operating Costs

	2006	2005
	R 000	R 000
Revenue	576	633
Operating Costs	576	633
	-	-

22. Retirement and medical aid benefits

TCTA does not contribute to any defined retirement or medical aid fund. It does not have a liability for the provision of retirement funding. The emoluments paid to individuals include a sum for the provision of their own medical aid and pension benefits.

23. Subsequent events

No events occurred after 31 March 2006 which materially impacts on the financial statements as at that date or that requires disclosure.

24. Going concern

The long-term solvency of TCTA is determined by its tariff methodology, income agreements and guarantees (explicit or implicit). TCTA's tariffing methodology seeks to provide a stable planning platform for the future by smoothing the tariff over the period of repayment which is significantly less than the project life and results in end user affordability. TCTA will thus show a deficit, after interest, in the first number of years after completion of an infrastructure project. However, when matched to the income stream, underwritten by government guarantees, both explicit and implicit, and the useful life of the project, it is clear that the organisation is a going concern.

25. Capitalised and expensed costs of the projects

IAS 16, *Property Plant and Equipment*, requires costs not directly attributable to the projects to be expensed and not capitalised to the cost of the asset. This has resulted in certain indirect costs (the definition within the standard has been applied) being charged against income and reflected in the deficit. The analysis below shows capitalised and expensed costs related to the projects.

	BWP		VRESAP	
	2006 R million	2005 R million	2006 R million	2005 R million
Total cost of the Project				
Capitalised				
• Engineering and construction	424	167	133	6
• Fixed assets	1	1	-	-
• Finance costs	41	12	6	-
• Directly attributable costs	25	15	5	2
	491	195	144	8
Expensed				
	22	-	7	-
	513	195	151	8

26. Additional segmental information

	LHWP R million	UW R million	ORWRDP R million	BWP R million	VRESAP R million	TOTAL R million
Business segments						
2006						
Revenue						
Revenue from external customers	1 775	-	1	-(2)	-(2)	1 776
Less: Revenue from transactions with other segments ⁽¹⁾	-	-	-	-	-	-
	1 775	-	1	-	-	1 776
Operating profit/Segment result	1 605	-	-	(22)	(7)	1 576
Finance costs	2 164	-	-	-	-	(2 164)
Deficit for the year	-	-	-	-	-	(588)
Other information						
Capital expenditure for property, plant and equipment	2	-	-	296	136	434
Capital expenditure for intangible assets	-	-	-	-	-	-
Depreciation and amortisation	25	-	-	-	-	25
Impairment losses and asset write-offs	-	-	-	-	-	-
Non-cash flow items	214	-	-	-	-	214
Assets and liabilities						
Assets	15 880	-	-	515	351	16 746
Liabilities	19 208	-	-	537	358	20 103

⁽¹⁾ There are no inter-segmental revenue

⁽²⁾ Revenue on BWP, received during construction is (set off against capital expenditure) capitalised until end of construction. The same principle would apply to VRESAP once revenue is received.

26. Additional segmental information (continued)

	LHWP R million	UMGENI R million	ORWRDP R million	BWP R million	VRESAP R million	TOTAL R million
Business segments						
2005						
Revenue						
Revenue from external customers	1 654	1	-	(2)	(2)	1 655
Revenue from transactions with other segments ⁽¹⁾	-	-	-	-	-	-
	1 654	1	-	-	-	1 655
Operating profit/Segment result						1 601
Finance costs						(2 206)
Deficit for the year						(605)
Other information						
Capital expenditure for property, plant and equipment	2	-	-	161	8	171
Capital expenditure for intangible assets	548	-	-	-	-	548
Depreciation and amortisation	17	-	-	-	-	17
Impairment losses and asset write-offs	-	-	-	-	-	-
Non-cash flow items	367	-	-	-	-	367
Assets and liabilities						
Assets	18 537	-	-	260	10	18 610
Liabilities	21 151	-	-	260	10	21 421

⁽¹⁾ There are no inter-segmental revenue

⁽²⁾ Revenue on BWP, received during construction is (set off against capital expenditure) capitalised until end of construction. The same principle would apply to VRESAP once revenue is received.

