



vision delivery future

Annual Report 2009





TCTA Annual Report 2009



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Vision, mission and values

Vision

To be a leader in the sustainable supply of water in the Southern African region

Mission

To:

- design, finance and implement bulk raw water infrastructure;
- apply an acceptable risk framework;
- employ cost-effective strategies;
- ensure pricing strategies that benefit water consumers; and
- establish efficient and sustainable smart partnerships.

Values

Corporate values

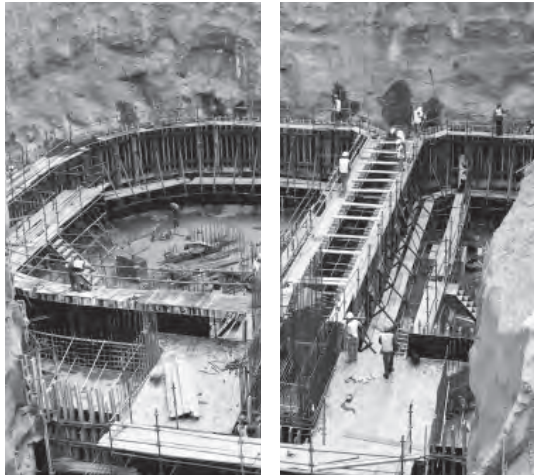
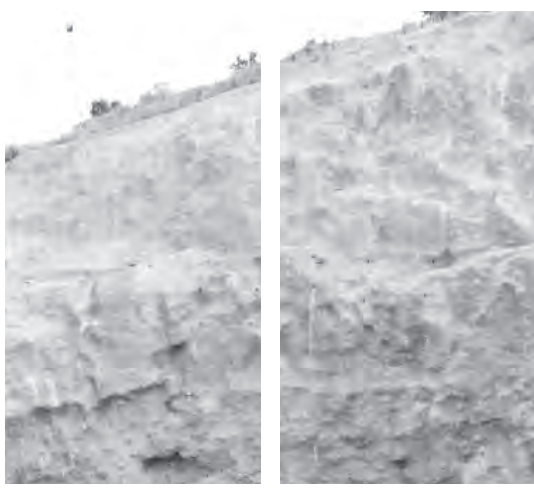
We conduct our business with professionalism, uncompromising integrity and diligence. We are committed to comply with internationally recognised standards of managerial and technical excellence. We cherish transparent and consultative relationships with all our stakeholders. We proactively align ourselves to meet the challenges of a dynamic environment. We ascribe to accountability and sound governance in executing our duties.

Basic values

Transformation agents	–	adaptability
Empowering agents	–	empowerment
Building collaborative relationships	–	partnerships
Focus on operations	–	excellence
Forward thinking	–	innovation

Products

- Bulk raw water infrastructure
- Project design
- Project management
- Debt liability management
- Structuring and raising of project finance
- Knowledge management
- Risk management
- Operation and maintenance (LHWP: Ash River outfall tunnel north)
- Local economic development
- Water tariffs



Permanent abstraction works: VRESAP

Company profile

Trans-Caledon Tunnel Authority (TCTA) is a state-owned entity, established by 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, and promulgated in terms of the National Water Act, 1998 (chapter 10).

Our business

TCTA is a specialised liability management body. It finances and implements bulk raw water infrastructure:

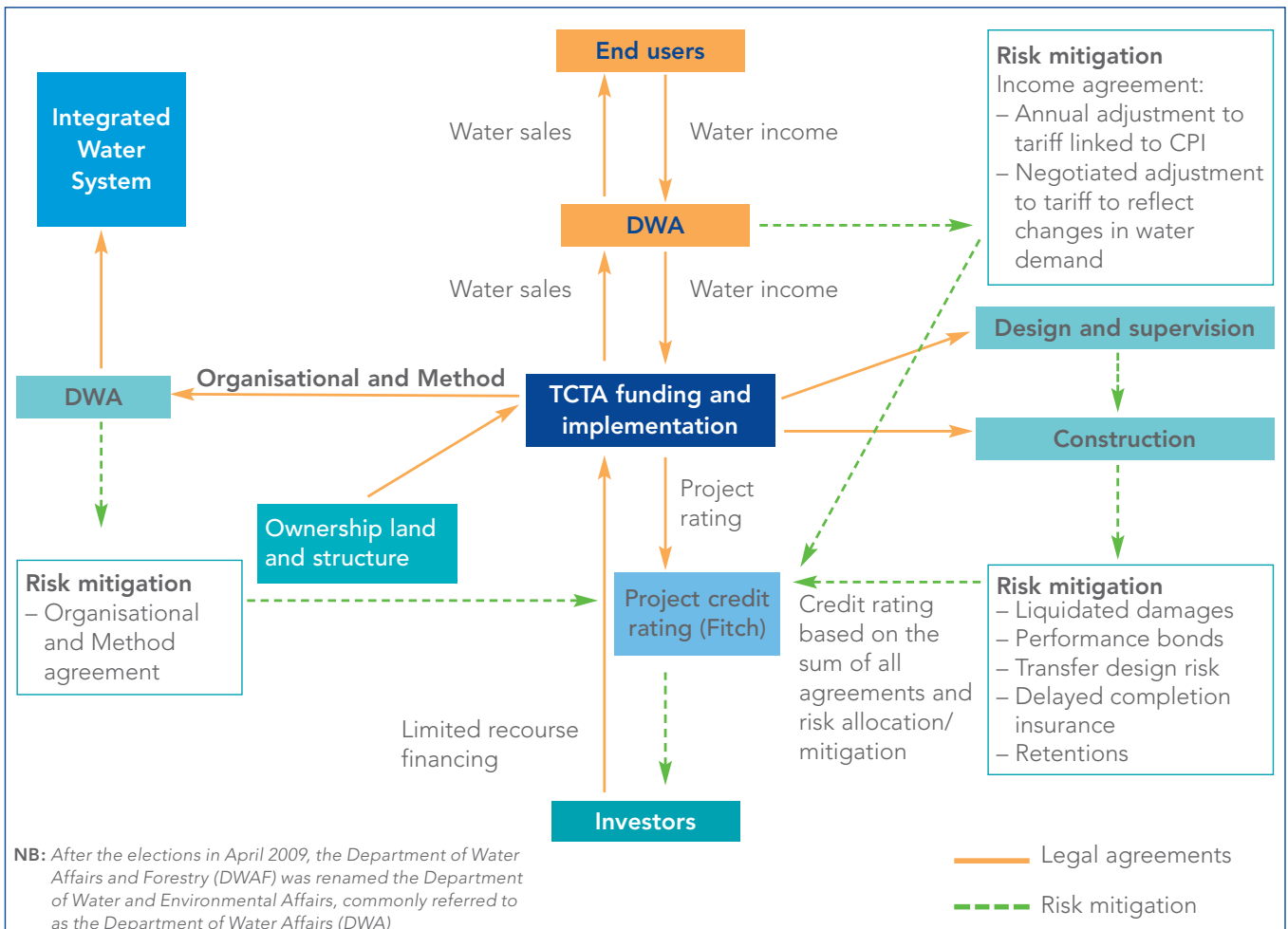
- within an acceptable risk framework; and
- in the most cost-effective manner to benefit water consumers.

The organisation considers liability management to be a multi-disciplinary function that starts with funding and risk management at the one end of the spectrum, and ends with managing the engineering, construction and environmental components of project implementation.

TCTA also plays an important role as an advisor in the water sector in the realms of project initiation, restructuring of treasury activities and the review of water tariffing methodologies.



Business model



Company profile (continued)

Currently managed and pending projects

While TCTA works on several projects simultaneously, it does so in terms of specific directives from the Minister of Water and Environmental Affairs in respect of each project.

The projects for which TCTA undertakes liability management are the:

- Lesotho Highlands Water Project (LHWP);
- Berg Water Project (BWP);
- Vaal River Eastern Subsystem Augmentation Project (VRESAP);
- Mooi-Mgeni Transfer Scheme phase 2 (MMTS2);
- Komati Water Scheme Augmentation Project (KWSAP); and
- Olifants River Water Resource Development Project phase 2 (ORWRDP2).

Advisory services

TCTA works closely with the Department of Water Affairs and other entities within the sector to offer advisory services on a variety of subject matters that are linked to bulk raw water infrastructure.

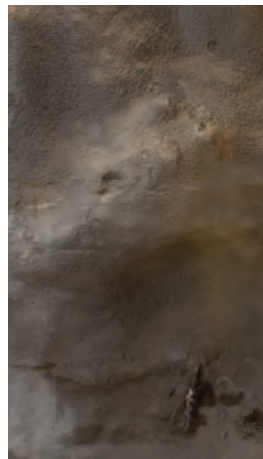
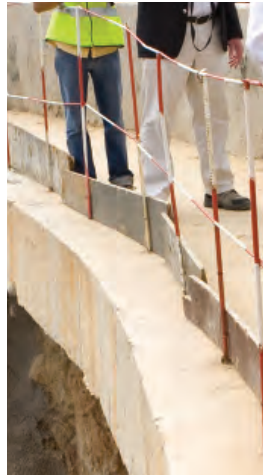
Mokolo Crocodile Water Augmentation Project (MCWAP)

During the period under review TCTA worked closely with the Director Generals of Water Affairs and Public Enterprises to commence with the procurement of the engineering service provider, pending issuance of a directive by the Minister to implement and fund MCWAP.

Water boards and municipalities

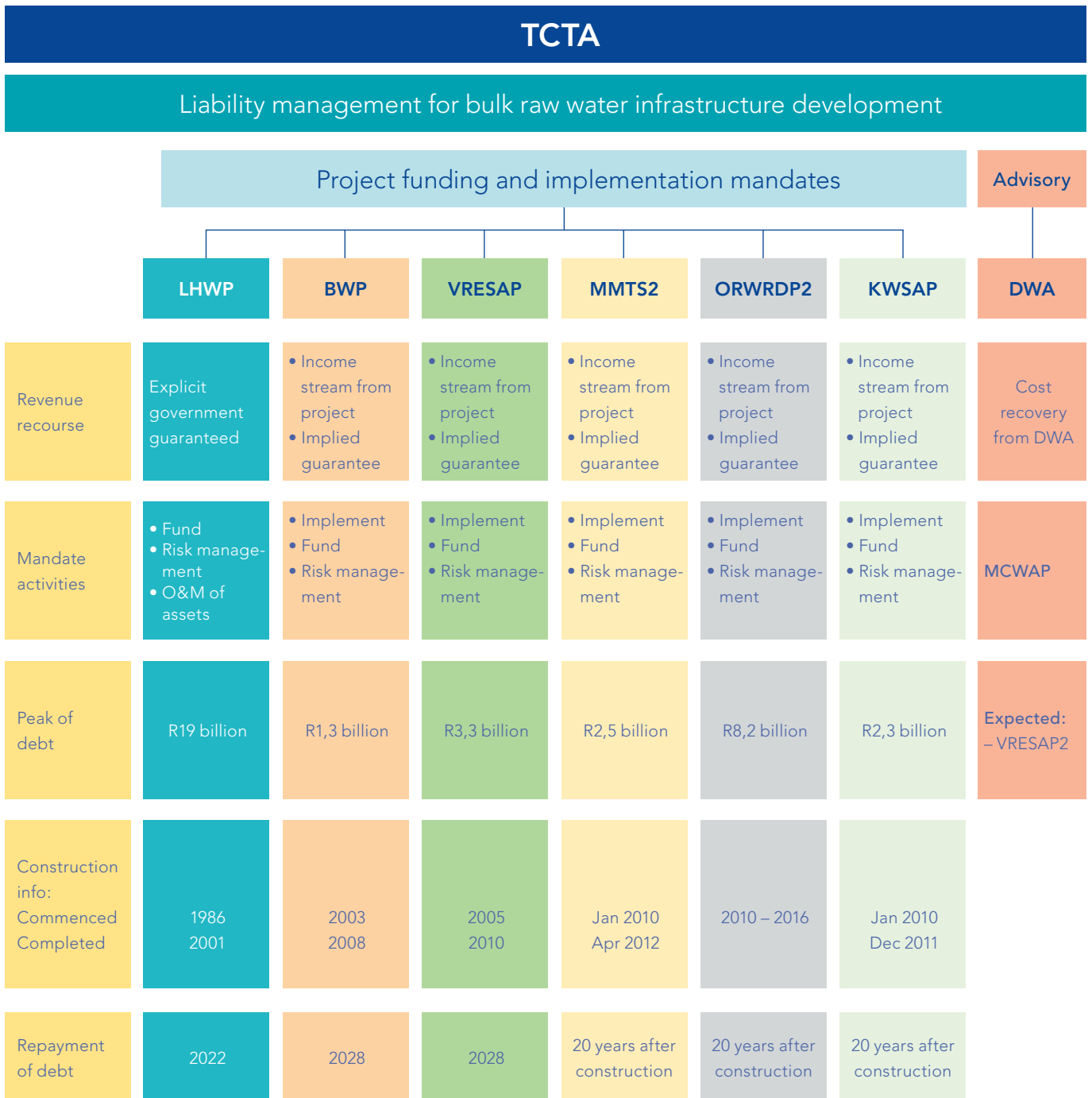
TCTA provides tariff-setting and debt management assistance to various water boards and municipalities throughout the country.





Footprint

A professional organisation of international repute, TCTA plays an important role in managing and advising the water sector in terms of project cycle, restructuring of treasury activities and the review of water tariffing methodologies.





Company highlights



The Berg Water Project received four excellence awards during the reporting period.

Environmental

The Berg Water Project in Franschhoek, officially inaugurated by former President Kgalema Motlanthe, is an international showcase of integrated planning, design and implementation, while maintaining a desired level of ecosystem function of the Berg River. Compliance with the Environmental Management Plan requirements was 96%.

It was the first major project to be implemented following the changes to the National Water Act in South Africa and the release of the decision-making guidelines of the World Commission on Dams. The Berg River Dam is internationally unique and is one of the first instream dams in Southern Africa that makes both low- and high-flow ecological reserve releases. Operations ensure that these flow releases coincide as closely as possible with natural inflows and natural flood events.

Accolades

The Berg Water Project received four excellence awards during the reporting period:

- The Consulting Engineers South Africa's Glenrand MIB Award for Engineering Excellence
- The International Association for Environmental Impact Assessment South Africa's Award for Excellence in Environmental Management in Project Execution
- The South African Institute of Civil Engineering Technical Excellence Award
- Construction World Best Project 2008 public/private partnership

Financial

Operating surplus totalled R1 888 million compared to R1 597 million in the previous year.

Revenue generated from the sale of 1 454 million m³ of raw water amounted to R2 493 million, compared to 1 413 million m³ to the value of R2 088 million in the previous year. The net higher revenue is due to a 2,90% increase in water volume.

An unqualified audit report was obtained for the reporting year.

Despite the economic meltdown, TCTA remains a preferred borrower in the domestic and international money markets.

Credit rating

Both the Berg Water Project and VRESAP maintained their excellent Fitch credit rating of AA+(zaf) at long term with Stable Outlook and short term F1+(zaf).

New mandates

During the financial year under review TCTA was mandated by the then Minister of Water and Environmental Affairs to undertake funding and implementation of the following projects:

- Mooi-Mgeni Transfer Scheme phase 2
- Komati Water Scheme Augmentation Project
- Olifants River Water Resource Development Project phase 2

In addition, TCTA continues to provide advisory and project implementation services for the Mokolo Crocodile Water Augmentation Project. The mandate to fund and implement this project has not yet been issued.

Social responsibility

TCTA is a responsible corporate citizen. During the period under review various corporate social investment projects were undertaken.

Lesotho Highlands Water Project

Office premises in Pietersdal in the Eastern Free State were donated to the Free State Provincial Government. The infrastructure will accommodate various government department offices, including the Department of Social Welfare. The donation recognises the relationship that exists between TCTA and communities around the Ash River outfall, which forms part of the Lesotho Highlands Water Project.

Vaal River Eastern Subsystem Augmentation Project

The Charl Cilliers community in Secunda is directly affected by the Vaal River Eastern Subsystem Augmentation Project. A mobile home was donated to the community of Charl Cilliers on World Aids Day in 2008. The mobile home is used as a trauma centre for victims of violence as well as for counselling for community members infected and affected by HIV/Aids.

Berg Water Project

The La Motte Village, worth some R30 million, provided 80 houses for contractors involved in the project. The construction of 40 of the houses was undertaken by emerging contractors from the project area. On completion of the project, the village was handed over to the Stellenbosch Municipality. Proceeds from the sale of the houses will be used to fund further housing development in the area.



Chairman's report



“For as long as there are communities without clean water we shall not rest, and we dare not falter in our drive to eradicate poverty.” – President Zuma’s 2009 inauguration speech – which we as TCTA support.

The Trans-Caledon Tunnel Authority’s financial reporting year 2008/09 was an excellent one, same as last year 2007/08. This year we have undoubtedly proven that we are able, capable, equipped and willing to meet and exceed our mandate of providing the South African community with bulk water infrastructure to ensure future provision of one of the earth’s most precious commodities – water. In this regard two of our flagship projects – the Berg Water Project (BWP) and Vaal River Eastern Subsystem Augmentation Project (VRESAP) – were inaugurated in this financial year.

The BWP was officially inaugurated by former President Kgalema Motlanthe. Given its complicated and complex nature, this project received four prestigious awards for pursuing excellence. These awards prove that for more than 23 years in operation, TCTA continues to excel in delivering on its mandate. This project was completed on time and within budget.

VRESAP was inaugurated by the then Minister of Water and Environmental Affairs, Ms Lindiwe Hendricks. The project supplies water to Sasol for fuel production, as well as to Eskom for coal-fired energy production. We take pride in the fact that this project, irrespective of its geographic and financial constraints, managed to provide Sasol and Eskom with water to meet their mandate obligations.

In his state of the nation address, President Zuma referred to South Africa as a dry country that requires urgent action to mitigate adverse environmental changes to ensure the provision of water to citizens. Among various programmes, the government will implement the water for growth and development strategy. The framework of this strategy explores how water can best be managed and developed to promote economic growth and alleviate poverty. It also includes actions to rectify the inequitable distribution of water and sanitation infrastructure of the past.

We as TCTA believe that the provision of water should contribute to sustainable economic and social development. Thus local economic plans and provincial and national growth and development strategies must be clear about the impact of climate change and increasing environmental degradation challenges. The experience that we as TCTA have gained in our pivotal role in the water sector for more than two decades, in particular our knowledge of water resource development funding and liability management, render us capable, able and equipped to provide turnkey solutions to the entire water value chain.

The TCTA Board congratulates Minister Buyelwa Sonjica and Deputy Minister Rejoice Mabudafhasi on their appointments to the Ministry of Water and Environmental Affairs. We assure them of TCTA’s support in the delivery of their water and environmental mandates for the country. We also congratulate Mr James Ndlovu, TCTA’s Chief Executive Officer, on his leadership in being able to ‘catch the train while on the move’ and steering this dynamic organisation to greater heights.

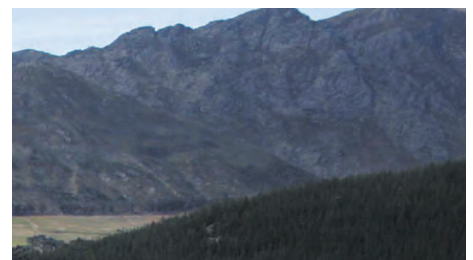
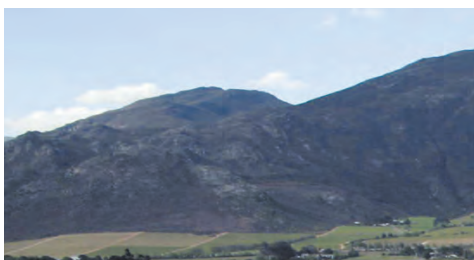
I wish to thank my deputy, Mr Lebohang Thotanyana, and my fellow directors for their support and wise counsel throughout the year in steering TCTA to continue excelling in executing its mandate. Also a special word of appreciation to the great executive team and dedicated staff family for their loyalty and commitment to this strategic organisation.

As part of the South Africa incorporated family we believe "together we can do more".



Dr Snowy Khoza
Chairman

La Motte Village, Franschhoek



CEO's report



TCTA is geared, able, well equipped and willing to be the knowledge and entrepreneurial hub for water in the country.

In the 2008/09 financial year the Trans-Caledon Tunnel Authority has undoubtedly proven its worth to water users – in the water industry in particular and to the South African community in general.

Not only have we reached milestones with two of our flagship projects, the Berg Water Project in Franschhoek and the Vaal River Eastern Subsystem Augmentation Project from the Vaal Marina to Secunda, but the government has also announced that phase two of the Lesotho Highlands Water Project worth R7,3 billion has been approved. Although TCTA has not yet been mandated to proceed with this important project, we are ready to commence with it as soon as we are officially appointed.

Economic performance

Whilst South Africa has not suffered the global economic meltdown to the same extent as many other countries, this downturn has not yet reached its turning point. However, it is reassuring to know that on national and global financial markets, TCTA is still perceived as a preferred borrower. The excellent manner in which we have been managing our financial portfolio over the past 23 years is still paying dividends.

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 timeframes and budgets. Where possible, we benchmark our funding performance against corresponding and appropriate government debt instruments.

In terms of financial results, TCTA performed well. The sale of raw water generated revenue of R2 493 million, compared to R2 088 million the previous year. The net higher revenue is due to and a 2,90% increase in water volume.

Income is sufficient to repay all water transfer costs within approximately 20 years after completion of each project subphase.

Projects

The visible part of what TCTA is known for, is designing and constructing bulk raw water infrastructure like dams, pipelines, pump stations and supplement schemes. In the review year we managed six projects. These were the Lesotho Highlands Water Project, the Berg Water Project, the Vaal River Eastern Subsystem Augmentation Project, the Mooi-Mgeni Transfer Scheme phase 2, the Olifants River Water Resource Development Project phase 2 and the Komati Water Scheme Augmentation Project.

In addition, we are providing advisory and project implementation services for the Mokolo Crocodile Water Augmentation Project. The mandate to fund and implement the project will be issued in the new financial year.

The full project update is reflected on pages 64 to 65.

Social performance

TCTA's recent growth has necessitated a revamp of labour planning strategies to align resources with the achievement of the increasing business objectives. We are also faced with the challenge of consolidating human resources and institutional arrangements to ensure competitiveness and a single point of responsibility.

We believe that the development of the core talents and specific abilities of our people is a two-way commitment between the organisation and our employees. In practical terms, good progress has been made with learning and development programmes that have been developed on various levels.

Fully supportive of black economic empowerment, TCTA's staff contingent reflected more than 87% black employees of which nearly 63% was female. Of senior management nearly 53% was black with more than 17% female.

During construction of the Vaal River Eastern Subsystem Augmentation Project, TCTA created an excellent track record of local community empowerment. Where possible, employment and training opportunities were provided to communities in Charl Cilliers, situated along the pipeline route, about 30 km south of Sasol's plant outside Secunda. Before the project started, the community of 2 200 residents relied mainly on farming and informal business opportunities.

TCTA is at pains to ensure that apart from ensuring local human capital empowerment with every project, local service providers meet and exceed the prescribed BEE requirements.

Environmental performance

The key drivers in TCTA's environmental sustainability framework include the World Commission on Dams, the Global Sustainability Reporting Initiative and South Africa's Strategic Framework for Sustainable Development, which require infrastructure development agencies to contribute to South Africa's socio-economic objectives.

I am proud to report that our environmental management record serves as an example to many. Environmental performance on the Berg Water Project, for example, consistently achieved a high level of compliance with the Environmental Management Plan requirements, with a recorded compliance of 96%.

The full environmental performance report appears on page 26.

The road ahead

I believe the record shows that TCTA has, in the 23 years of its existence, met and exceeded its mandate to design, finance and implement bulk raw water infrastructure. It has successfully combined all elements of innovation and knowledge management to be the catalyst that is so essential to ensure the sustainability of South Africa's liquid gold – water.

Although the earth is surrounded by water, it remains one of the most sought-after commodities in the world, particularly in a country like South Africa with extreme climatic conditions and a growing population much in need of water.

Being a water-scarce country, this essential infrastructure should be managed effectively to ensure future availability. TCTA's role is further enhanced by government's commitment to ensuring that every citizen enjoys the basic right of access to clean water.

TCTA is geared, able, well equipped and willing to be the knowledge and entrepreneurial hub for water in the country. Given South Africa's unique situation of a developed-world economy superimposed on a developing-world social society, this knowledge hub could extend its role beyond the country's borders to play a meaningful role in international water affairs. It should become a hub where international researchers and other role players in the water industry would strive to come and do an internship, so to speak – the jewel in the international water crown.

TCTA manages its affairs according to modern managerial models. It believes in local empowerment – hence the appointment of local knowledge and labour for each project, which ensures knowledge application, labour utilisation and wealth distribution at diverse levels. Therefore, the fact that the core team of TCTA is small in numbers, should not be misread as a small organisation – small in numbers does not equal small in execution. During any given construction phase of major TCTA projects, the person and knowledge application is of the biggest in the country.

Furthermore, while we encourage people to be entrepreneurial, we also instil the urge to transform the entrepreneurial thinking into practical application – converting entrepreneurship into projects.

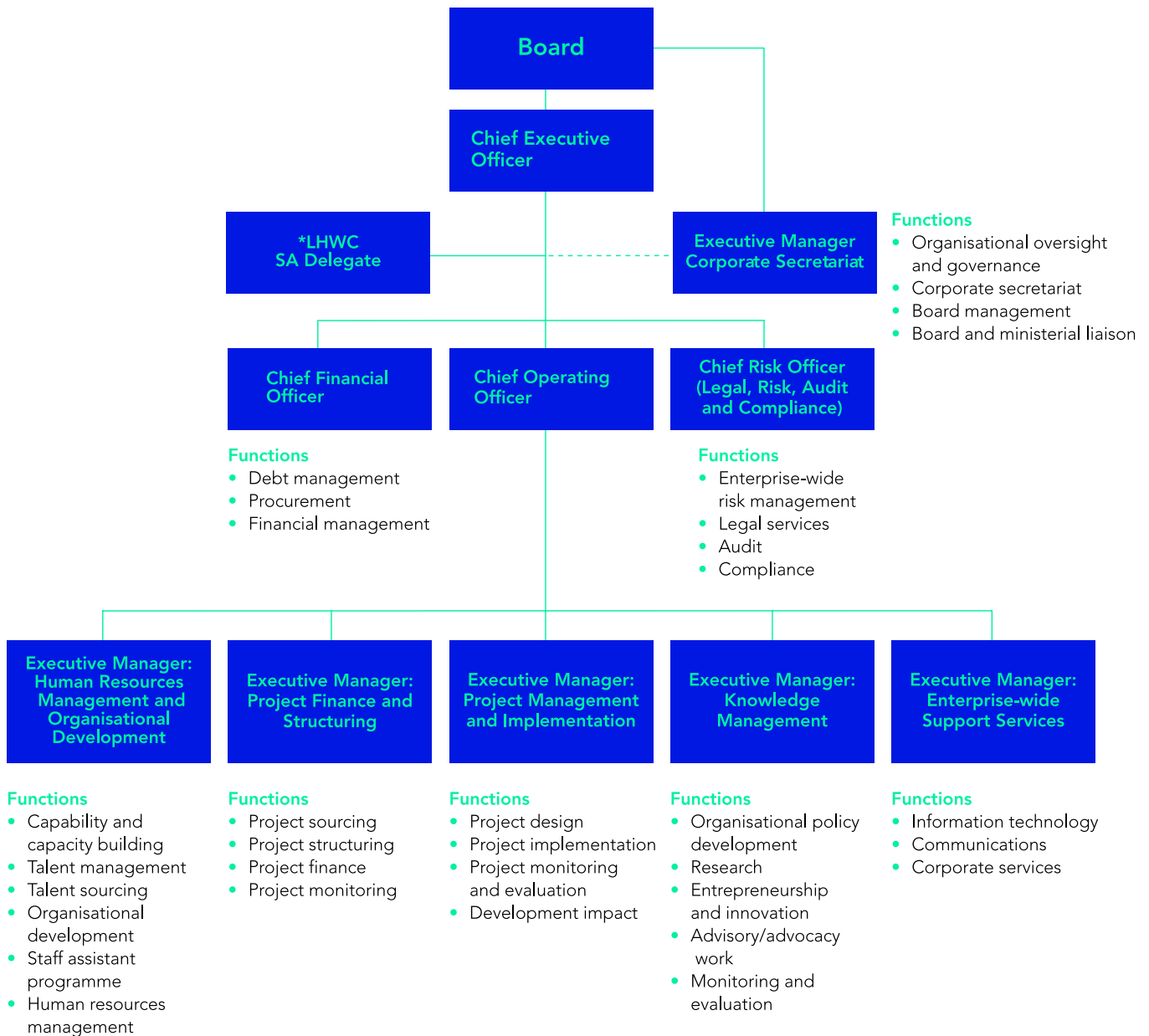
The contribution of TCTA's current executive core has the ability to take the organisation to this level of operations – a unique knowledge and entrepreneurial hub for the country's water industry – present and future.

I thank the Chairman, Dr Snowy Khoza, for her leadership and support in leading the dynamic TCTA team. The support of management has been more than encouraging and I believe this team is well-poised to enhance TCTA's migration to its next level of rightful operations.



James Ndlovu
Chief Executive Officer

Organisational structure





Board of Directors



1. Dr Snowy Khoza (51)
Chairman

Qualifications

PhD (Brandeis University; MA, USA – 1996)
MBA (University of Cape Town – 2008)
MA (SS) (University of South Africa – 1990)
BA (Honours) (University of Fort Hare – 1986)
BA (SW) (University of the North – 1981)
Economics and Public Finance (University of South Africa – 1999)
Finance for Executives (INSEAD; France – 2005)
Utility Regulation and Strategy (University of Florida, USA – 2001)
Global Management Development Programme (University of Navarra, Spain – 2000)

Current position

Group Executive Manager: Group Strategy and Communication (DBSA)

Other directorships/memberships

Mali Trust (Presidency) (trustee)
National Housing Financing Corporation (Non-executive Board member)
Tiisano Construction (Pty) Limited (non-executive director)
Ka-Manowi Manor CC (non-executive director)
Vamanana Designs CC (non-executive director)

Board committees

REMCO (chairman)



2. Mr Lebohlang Thotanyana (35)
Deputy Chairman

Qualifications

CA (L)
BCom (Hons) (University of Cape Town – 2002)
International Qualification, Capital Markets (Securities Institute, UK – 1999)

Current position

Chairman and Managing Director: Mafube Investment Holdings (Pty) Limited and subsidiaries

Other directorships/memberships

Standard Bank of Lesotho
International Federation of Accountants – DNC
C4 Seed JV

Board committees

Audit and Risk (chairman)
ALCO
REMCO



3. Dr Patricia Makhesha (35)
Qualifications

DBA (Social Development) (Marylebone University – 2008)
MBA (Strategy specialisation) (Marylebone University – 2004)
MBA (General) (Milpark Business School – 2004)
Dip Public Relations Management (Technikon SA – 2001)
Management Development Programme (MDP) (UCT Business School – 2005)
Executive Education – Strategy (Harvard University Business School – 2005)
Executive Development Programme (Wits Business School – 2005)

Current position

Special projects: ArcelorMittal

Other directorships/memberships

Rand Water (non-executive director)
Mothibi Mutli-Media Services

Board committees

HR and Transformation



4. Mr Robert Mbwana (46)

Qualifications

Professional Engineer, Engineering Council of SA (1998)
 BSc Civil Eng (Polytechnic University Malawi – 1987)
 Dip Eng (Polytechnic University Malawi – 1984)

Current position

Managing Director: Inhlakanipho Management Services CC

Other directorships/memberships

None

Board committees

VRESAP Technical (chairman)
 Technical Committee
 REMCO



5. Ms Evodia M Malefane (59)

Qualifications

BCom Acc (National University of Lesotho – (NUL) – 1984)
 Graduate Cert Development Finance (Harvard Graduate School – 1998)
 AGA – SA

Current position

Credit Risk Manager: Development Bank of Southern Africa (DBSA)

Other directorships/memberships

None

Board committees

Audit and Risk
 VRESAP Technical
 Technical Committee



6. Mr Onesmus Ayaya (47)

Qualifications

MBA (University of Nairobi – 1990)
 CPA (K) (Institute of Certified Public Accountants Nairobi – 1991)
 ACMA (The Chartered Institute of Management Accountants UK – 1998)
 BCom (Hons) (University of Nairobi – 1988)
 Dip (SA Law and Taxation) (Institute of Commercial Industrial Education, Durban – 1996)

Current position

Deputy Director-General:
 Department of Water Affairs

Other directorships/memberships

The Chartered Institute of Management Accountants (Professional membership)

Board committees

None



7. Angie Makwetla (62)

Qualifications

BA Social Work (Limpopo University – 1978)
 Management Certificate (Cambridge, Massachusetts – 1992)

Current position

CEO: Makwetla & Associates Consultancy

Other directorships/memberships

Education Africa (chairperson)
 Concerned Professional Women's Forum
 Basadi Ba Tiro, Soweto
 Thusanang Women's Club (Secretary)
 Boipelo Community Development Foundation (chairperson)
 Dr Sam Motsuenyane Rural Development Foundation (chairperson)

Board committees

HR and Transformation

Board of Directors (continued)



8. Simphiwe Kondlo (42)

Qualifications

MSc Eng Management (Pretoria University – 2003)
 BSc Agric Eng (KZN University – 1993)
 Dip Project Management (Executive Education – 1989)
 Dip Civil Eng (ML Sultan – Durban Institute of Technology – 1993)
 Cert in Commercial Property Practitioner (Pretoria University – 2006)
 Cert in Project Monitoring for Effectiveness (IRC), Netherlands – 1997)

Current position

CEO: East London Industrial Development Zone (Pty) Limited

Other directorships/memberships

JIPSA Council – EC
 Amathole Economic Development Agency
 Border-Kei Chamber of Business
 WISA (professional membership)
 SAIAE (professional membership)

Board committees

Technical Committee (chairman)
 VRESAP Technical
 REMCO



9. Mr André Pillay (40)

Qualifications

BSc Maths (Pretoria University – 1994)

Current position

Chief Director: Liability Management, National Treasury

Other directorships/memberships

Public Debt Management Committee, National Treasury (chairman)
 Primary Dealers in RSA Government Bonds Committee, National Treasury (chairman)
 Corporation for Public Depositors, South African Reserve Bank

Board committees

ALCO (chairman)
 Audit and Risk Committee
 REMCO



10. Mr Gregory White (49)

Qualifications

BA Economics (UCT – 1980)
 B Admin Hons Development Studies (Unisa – 2008)

Current position

Freelance Consultant

Other directorships/memberships

None

Board committees

HR and Transformation (chairman)
 ALCO
 REMCO



11. Ms Makano Mosidi (45)

Qualifications

Dip Education (University of the North – 1987)
 BCom (University of the North – 1987)

Current position

Managing Director: Relational Database Consulting (Pty) Limited

Other directorships/memberships

Khomelela Investment Holdings Bunker Hills – An entity that undertook the biggest BEE transaction with AfriSam (Pty) Limited – 85% equity
 AfriSam (Pty) Limited – Cement manufacturing company – alternate director and member of the Transformation Subcommittee
 A member of the Limpopo Premier's Advisory Council on Technology
 A member of the North West Premier's Advisory Council on Technology

Board committees

Technical Committee



12. Mr Jan Geenen (36)

Qualifications

CA(SA)
 Postgraduate Dip Accountancy
 (University of Natal – 1996)
 BCom (University of Natal – 1995)

Current position

Corporate Finance Manager:
 Nedbank Capital

Other directorships/memberships

None

Board committees

ALCO (chairman)
 Audit and Risk
 REMCO



13. Mr James Ndlovu (39)

Chief Executive Officer

Qualifications

BA (Wits – 1993)
 MSc Development Planning
 (Wits – 1995)
 Micro Computing Options in
 Monitoring and Evaluation (short
 course) (University of East Anglia,
 UK – 1995)
 Short course in Monitoring and
 Evaluation of Public Sector Projects
 and Programmes (University of East
 Anglia, UK – 1995)

Current position

CEO: TCTA

Other directorships/memberships

None

Board committees

None



14. Ms Lahlane Malema (37)

Company Secretary

Qualifications

BProc (University of the North
 – 1995)
 LLB (University of the North – 1998)
 Admitted Attorney of the High Court
 – 2002

Other directorships/memberships

None

Board committees

None

SPECIALIST COMMITTEE MEMBERS

Mr Buyani Zwane (44)

Qualifications

BAdmin (Public Admin)
 Graduate Certificate (Services
 Marketing and Strategic HRM)
 Advanced Certificate (Advanced
 Management Programme)

Current position

Executive Chairman: Franklin Covey
 South Africa
 CEO: Buyani Networks
 Part-time lecturer at the University
 of Pretoria's Gordon Institute of
 Business Science (GIBS)
 CEO of Breakthrough Development
 CC

Other directorships/memberships

Dynamic Leadership Solutions
 (Pty) Limited
 Magnificent Mile (Pty) Limited

Board committees

HR and Transformation Committee
 Specialist member

Dr Paul Roberts (69)

Qualifications

DSc Engineering (MIT, USA), Pr Eng

Current position

Independent Consultant in Water
 Resources Management

Other directorships/memberships

None

Board committees

BWP and VRESAP Technical
 Committee
 Specialist member

Footnotes to the TCTA Board of Directors

- Ms L Mthembu's contract as acting CEO came to an end on 31 July 2008
- Mr J Geenen was appointed as a director from 15 August 2008
- Ms M Mosidi was appointed as a director from 15 August 2008
- Mr G White was appointed as a director from 15 August 2008
- Mr J Claassens was the acting CEO from 1 July 2008 to 31 October 2008
- Mr J Ndlovu was appointed CEO from 1 November 2008

Executive management



James Ndlovu (39)
Chief Executive Officer



Jeanette Nhlapo (38)
Chief Operating Officer



Halima Nazeer (40)
Chief Financial Officer



Johann Claassens (48)
Executive Manager:
Project Management and
Implementation



Zodwa Mbele (37)
Executive Manager: Project
Finance and Structuring



Lahlane Malema (37)
Executive Manager:
Corporate Secretariat



Evelyn Motsatsing (36)
Executive Manager:
Enterprise-wide Support
Services



Rathata Matabane (43)
Executive Manager: Human
Resources Management and
Organisational Development



Staff



Sustainability report

Economic performance

Without water, the capacity of a nation to develop economically, socially and environmentally is drastically constrained. This is no different in South Africa and TCTA fully accepts its responsibility as a major role player in the sustainability of the country's economic development.

To this end, the authority's credibility, both nationally and internationally, is such that despite the international economic meltdown, it is recognised as a preferred borrower. This will stand the authority in good stead in the even tighter economic times ahead.

The priority of sustainability is demonstrated by the manner in which TCTA implements its projects – from the development of economically sustainable funding models to the design of cost-effective and environmentally sound infrastructure, through to the design and implementation of environmental management and socio-economic strategies.

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 budgets. Where possible, the authority benchmarks its funding performance against corresponding and appropriate government debt instruments.

As financial operating results are measured according to projects that generate income, the overall TCTA financial performance in the reporting year is primarily measured against income generation from the Lesotho Highlands Water Project. In the next financial year the Berg Water Project and the Vaal River Eastern Subsystem Augmentation Project will report income from the sale of bulk water, which will reflect in the overall financial operating results.

Lesotho Highlands Water Project

The Lesotho Highlands Water Project is 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 and the project depends on the revenues generated by water sales from the Vaal River system.

Project cost

Since water delivery began, 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 400 million total project cost of the two phases is split 57:43.

The full water transfer costs incurred by both TCTA and the Lesotho Highlands Development Agency are the responsibility of the South African Government and are included in TCTA's balance sheet. See note 9 to the financial statements for a split of the debt.

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 488 million at 31 March 2009.

Despite the economic meltdown, TCTA remained a preferred borrower in the domestic and international money markets.

Based on the current debt curve, it is estimated that the outstanding liabilities will peak in 2010 at R19 704 million and that all debt will be repaid by 2025.

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 debt.

Operating results

The operating surplus for the financial year came to R1 888 million, compared to R1 597 million in the previous year. A net deficit for the reporting year of R77 million, compared to R162 million in 2007/08, was realised, which reflects a shortfall in covering interest.

This net deficit after interest is a result of keeping water tariffs constant in real terms, taking into account the impact of future demand for water as well as the future timing of augmentation schemes.

Income is sufficient to repay all water transfer costs within approximately 20 years after completion of each project subphase. However, interest will be capitalised for the first number of years of operation to support end-user affordability and tariff stability.

Debt servicing

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

For the review year revenue generated from the sale of 1 454 million m³ of raw water amounted to R2 493 million, compared to 1 413 million m³ to the value of R2 088 million the previous year. This revenue was based on a bulk raw water tariff of 157,04 cents per m³ for the year under review, compared to 147,60 cents per m³ the year before. The net higher revenue is due to a 2,90% increase in water volume.

Water tariff

TCTA entered into an income agreement with the Department of Water Affairs in August 2001, which determines the Vaal River raw water tariff for augmentation schemes. The authority annually sets a constant tariff in real terms over a 30-year period based on agreed input assumptions. These input assumptions included CPIX, which has since been replaced with CPI. The income agreement allows for automatic and negotiated adjustments.

Should CPI fall between the floor and the cap level of 4,50% and 7,50% respectively, the tariff will be adjusted automatically. However, should CPI be below 4,50% or above 7,50%, TCTA will be entitled to a negotiated adjustment to the tariff, according to the income agreement with the department.

Other tariff review triggers include:

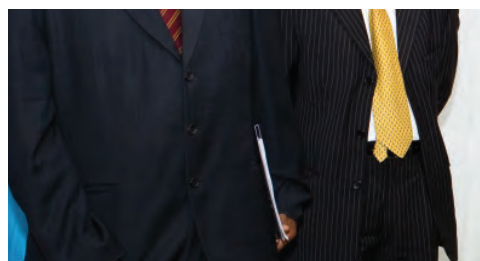
- adjustments for changes in demand;
- adjustments for further augmentation like yield, timing, cost and construction period;
- operation and maintenance charges after the redemption of debt; and
- changes in input assumptions that increase/decrease the final repayment date.

Economic input factors from the Bureau of Economic Research:

- Slightly higher inflation over the repayment period from 5,22% to 5,58% on average.
- Lower average real interest rates, which declined from 3,17% previously to 3,04%.

Following negotiations between TCTA, the Department of Water Affairs and other stakeholders, an increase of 6,00% for the 2009/10 Vaal River raw water tariff was agreed upon.

Project partners – VRESAP



Sustainability report (continued)

Tariff adjustments

Vaal River tariff for augmentation schemes	Previous year tariff c/m ³	Increase in tariff c/m ³	% increase	Tariff for the year
2008/09 tariff	147,59	9,45	6,40	157,04
2009/10 tariff	157,04	9,42	6,00	166,46

Royalties and water delivery

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

The royalties are based on the calculated net benefit of the construction of the Lesotho Highlands Water Project, 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 the Katse Dam reached the previously agreed level of 1 993 m above sea level. The fixed component is payable monthly to Lesotho until 2045.

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

Total capital market bonds in issue at 31 March 2009

Bond	Issue date	Maturity date	Coupon %	Authorised R million	Nominal R million	Available R million
WS03	5 Dec 1996	15 Sept 2010	13,00	4 500	2 585	1 915
WS04	20 Mar 2001	30 May 2016	12,50	10 000	7 917	2 083
WS05	20 Nov 2001	1 Aug 2018	5,00	7 000	3 525	3 475
WSP1	21 May 2003	28 May 2015	9,00	1 000	400	600
WSP2	21 May 2003	28 May 2017	9,00	1 000	400	600
WSP3	21 May 2003	28 May 2019	9,00	1 000	400	600
WSP4	21 May 2003	28 May 2020	9,00	1 000	400	600
WSP5	21 May 2003	28 May 2021	9,00	4 000	990	3 010
Total				29 500	16 617	12 883

The total amount of royalties paid to date to the government of Lesotho is R2 650 million compared to R2 330 million in the previous year.

The 2009 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 766 million m³ of water was transferred to South Africa, compared to 780 million m³ the previous year. 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 7 230 million m³.

Capital market

Sentiment in the domestic debt capital markets continued to be gloomy and characterised by a global credit crisis, which manifested itself in dwindling liquidity, widening credit spreads, worsening inflation expectations and rising interest rates.

TCTA continued tapping largely into the WS04s as well as the inflation-linked WS05s bonds. Authorised amounts for the various issued bonds were amended, with a notable increase in WS05 to R7 billion.

TCTA successfully redeemed the principal amount of R800 million for the 8% WS06 bond on 30 April 2008, which was first issued in November 2004. During the 2008/09 financial year the authority successfully switched R1 billion of the WS03 bond, maturing in September 2010, to the WS04 bond maturing in May 2016, in line with the WS03 redemption strategy.

Commercial paper programme

Short- to medium-term funding in the domestic market is also accessed through a commercial paper programme and other local loans. On 31 March 2009 TCTA had issued a total of R2 130 million against an authorised amount of R4 billion. The increase in the issued commercial paper, compared to the previous financial year, was the result of a liquidity framework strategy whereby TCTA introduced new investors to its portfolio. The net short- to medium-term exposure on 31 March 2009 was R391 million, excluding the WS03 bond.

TCTA used the commercial paper programme to fund up to five years on a fixed, floating or inflation rate basis.

Foreign funding

Over the past few years foreign funding has shown a steady decline and currently constitutes less than 3% of the entire project funding.

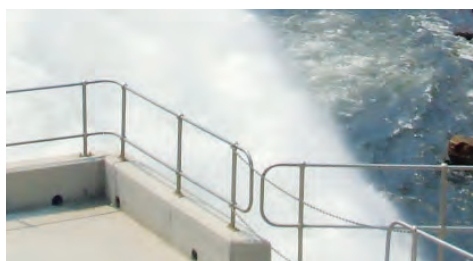
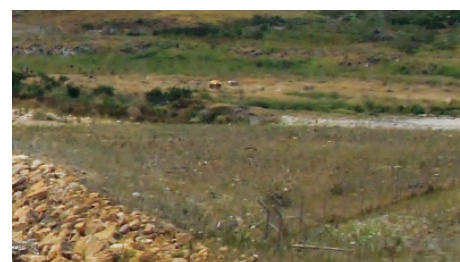
Medium-term funding

TCTA will raise R1 126 million during the 2009/10 financial year.

Funding requirement	Funding portfolio R million	Redemption portfolio R million	Total funding R million
Incremental funding requirement	310	–	310
Refinancing requirement	161	–	161
Redemption	–	655	655
Total 2009/10 funding requirement	471	655	1 126

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

Inauguration Day: BWP



Sustainability report (continued)

Environmental performance

TCTA's environmental sustainability framework provides information systems that enable the:

- integration of sustainability into business planning;
- enhancement of the positive impacts of project implementation; and
- internalisation of negative project impacts as part of project controls so that it does not become a social cost.

TCTA's flagship project, the Berg Water Project in Franschhoek, was the first dam in South Africa to be designed, constructed and operated in strict accordance with the guidelines of the United Nations World Commission on Dams and the requirements of the National Water Act.

The environmental management plan for each project provides the framework and scope for socio-economic strategies, environmental design guidelines, contractual specifications and monitoring of environmental impacts on the project area to ensure compliance with the record of decision.

The Berg Water Project is an international showcase of integrated planning, design and implementation and is the first dam in South Africa in which provision is made for flood releases for environmental purposes.

In terms of the Lesotho Highlands Water Project, one of the requirements of the treaty between South Africa and Lesotho ensures the protection of the environment and long-term sustainability of the river system. Within the borders of Lesotho, the Lesotho Highlands Development Agency implements the environmental management plan, while TCTA implements elements located in South Africa.

TCTA implements a river management plan on behalf of the Department of Water Affairs to monitor and evaluate the performance of the erosion protection structures on the Ash River in the eastern Free State. In the review year performance complied with the requirements of the plan.

Environmental Monitoring Committee

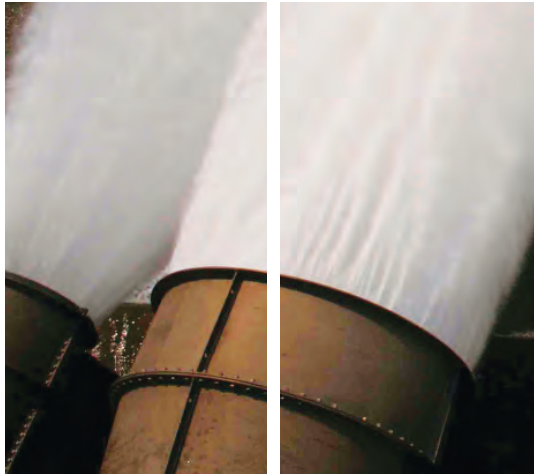
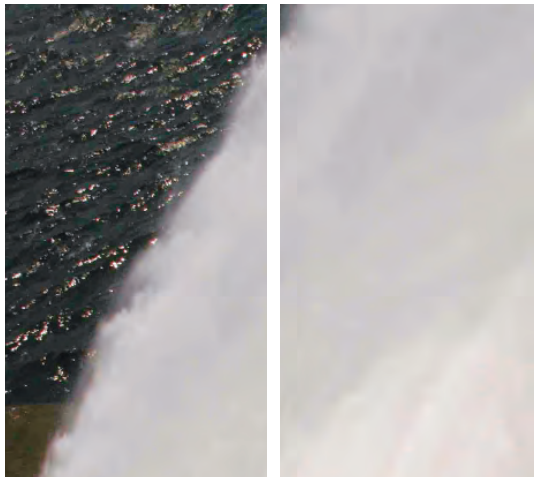
An independent Environmental Monitoring Committee was established for each project, facilitated by an independent Chairman. These committees comprise representatives from the project authorities, mandated representatives of local communities, elected officials, interested and affected parties and local stakeholders.

They encourage participative monitoring of the conditions specified in the record of decision and the performance against and implementation of the environmental management plan, the standard environmental management plan and the environmental management plan reports.

Water boards

TCTA also provided assistance to various water institutions and municipalities.

Each of TCTA's project environmental management plans provides the framework and scope for socio-economic strategies, environmental design guidelines, contractual specifications and monitoring of environmental impacts.



Inauguration Day: BWP



Sustainability report (continued)

Human capital performance

TCTA's recent growth has necessitated a revamp of its labour planning strategies to align resources with the achievement of the increasing business objectives. TCTA was also faced with the challenge to consolidate human resources and institutional arrangements to ensure competitiveness and a single point of responsibility.

Business partnering

A business partnering model was introduced to align the human resources function to the increasing demands of the organisation to provide timely and relevant interventions and solutions. The model is a strategic human resources movement in response to the strong evidence that links people management practices and business success. The authority's human resources management and organisational development had to fully understand both the business agenda and the best human resources practices in delivering effective solutions to maximise business performance.

The business partnering model recognises integrated service delivery and builds alignment between human resources functions and business objectives. Furthermore, it is a key driver to assist line managers with human resources solutions through frontline feedback systems. This model projects the organisation's human resources function as an embodiment of change.

Performance management system

TCTA's performance management system is a vital component of the organisation's people management and improvement strategy. It is a tool that encourages strategic discussions between the manager and the employee and that plans and tracks the deliverables for the team. TCTA views performance management as a set of activities which ensure that goals are consistently met in an effective and efficient manner.

The performance management system is designed to encourage and reward high achievement, manage individual performance and provide a clear link for employees between their work and broader corporate objectives.

TCTA recognises that teamwork and teambuilding are integral parts of the continued development of the organisation – hence the strategic approach to human capital planning. An innovative programme for people development – called Growing Our People – has been implemented. The programme identified the specific skills, developmental objectives, principles, responsibilities and performance measurements necessary to achieve the business outcomes and commitments outlined in the corporate business plan.



TCTA staff

To enhance TCTA's human resources management and organisational development, the authority fully understands both the business agenda and the best human resources practices to maximise business performance.

Learning and development

TCTA believes the development of core talents and specific abilities is a two-way commitment between the organisation and its employees. The organisation offers support, encouragement and resources, while the employee in turn provides the motivation, time and personal dedication.

In practical terms, TCTA's learning and development programmes are developed on various levels:

- Individually, as part of a personal development plan to meet job and career needs.
- Functionally, to meet the needs of the business unit and to support the implementation of specific projects.
- Organisationally, to address the strategic needs of TCTA and to ensure consistent application of the processes.

The learning and development programmes require an investment in terms of time away from the office and increased motivation from employees. The actual number of investment days for learning and development purposes varies, depending on the business agenda.

During the performance management sessions, the line manager and the employees will complete and commit to a personal development plan for that particular financial year, detailing the developmental areas to be covered. TCTA uses a variety of assessment tools to assist employees to understand their strengths and developmental needs so that they can be assisted to develop themselves further.

The total amount of learning and development investment for the past financial year came to more than R2,17 million for both internal and external interventions. These learning and development interventions included management and leadership training through the University of Stellenbosch's Executive Development Programme and Senior Management Programme training, information technology literacy skills programmes, diversity and core technical training.

TCTA made sufficient progress with its BBBEE skills development scorecard. The beneficiaries of the learning and development spend were:

• Target of 3% of payroll	Achievement:	3,75%
• Target of 60% spend on black people	Achievement:	84,45%
• Target of 40% on black women	Achievement:	44,91%
• Target of 1% spend on management	Achievement:	1,97%

Employment equity

TCTA views employment equity as part of the overall human capital strategy and a key driver of its transformation imperative. Consultation with employees is linked to concerted efforts regarding BBBEE with a functional Employment Equity and Skills Development Forum that meets quarterly. The employment equity programme underlines the value of a diverse workforce, providing equal opportunities and engendering an inclusive working environment.

Strategies are consistently reviewed to enable equitable representation of the designated groups in all occupational levels and categories. The overall aim is to promote equal opportunity and diversity and eliminate barriers that could exist, which may adversely hinder progress on employment equity. The objective is not only to increase the numbers of designated groups, but also to create an enabling environment for growth and development. Through this, TCTA aims to ensure equitable representation in the core functions of its business and achieve the objective of being the water industry leader.

TCTA staff

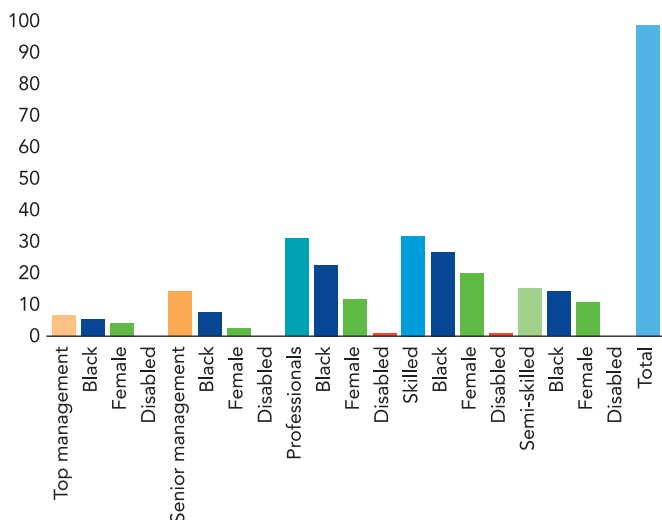


Sustainability report (continued)

Number of employees – including employees with disabilities – by gender and population group

Occupational levels	Designated							Non-designated			Total
	Male			Female				White Male	Foreign nationals		
	A	C	I	A	C	I	W	W	M	F	
Top management	2	–	–	4	–	1	–	1	–	–	8
Actual – March 2009	Black 87,50%; female 62,50%; disabled 0%										
Senior management	7	–	–	1	–	1	1	6	1	–	17
Actual – March 2009	Black 52,9%; female 17,6%; disabled 0%										
Professionals	17	1	1	6	1	1	6	1	2	1	37
Actual – March 2009	Black 73%; female 37,8%; disabled 0%										
Skilled	9	3	1	14	3	2	5	–	–	1	38
Actual – March 2009	Black 84,2%; female 63,2%; disabled 2,63%										
Semi-skilled	5	–	–	11	1	–	1	–	–	–	18
Actual – March 2009	Black 94,4%; female 72,2%; disabled 0%										
Grand total	40	4	2	36	5	5	13	8	3	2	118

Designated groups per occupational level



TCTA has submitted a revised employment equity plan to the Department of Labour reflecting targets for 2009. With the addition of four new mandates to the organisation's portfolio, the level of specialisation and the employee complement will increase to meet these emerging challenges. It is, therefore, imperative that the TCTA focuses the recruitment of new employees in the targeted occupational levels and categories to promote diversity.

Labour relations

TCTA approaches labour relations inclusively. Preference is given to constructive and progressive dialogue on workplace matters with both unions and employees. The authority supports an equitable workplace wherein legislative rights of employees are confirmed and articulated in its general approach to employee relations. As testimony to this, the organisation entered into a recognition and procedural agreement with the South African State and Allied Workers Union, which represents the TCTA's employees.

TCTA strives for a relationship-based approach with the recognised union. It believes in sound, fair and measurable employment policies, and procedures and practices that are aligned to and support the organisation's strategic objectives.

As part of capacitating the union representatives at the TCTA, a shop stewards' skills course was presented by Nexis Lexis. In the near future the focus will be on equipping line managers and supervisors with the necessary competencies to deal with misconduct and incapacity-related procedures fairly.

Social development programme

In support of the government's transformation agenda for the Accelerated and Shared Growth Initiative for South Africa (ASGISA), the Joint Initiative on Priority Skills Acquisition (JIPSA) and the National Human Resources Strategy, the development of scarce and critical skills and the creation of job opportunities are relevant issues that TCTA is addressing.

In this regard, Project Naledi, which consists of two components, was introduced:

Internship scheme

The scheme entails the recruitment of unemployed graduates into specific functions of the organisation. These learner employees, from historically disadvantaged backgrounds, are being developed in the business functions of the TCTA over two years. When they complete the training, they are permanently employed by the authority. Currently, six learner employees are undergoing training with plans afoot to enlarge the intake.

Bursary scheme

Every financial year TCTA offers bursaries to historically disadvantaged individuals to study in the fields of engineering, project management and finance. Currently, nine learners are registered at various institutions of higher learning across the country. The overall objective is to create the requisite skills for the organisation by employing these learners when they graduate.

Well-being and work/life balance

TCTA recognises that work/life balance is critical to maintaining productive and sufficient employee morale – hence the goal to assist employees to find options and practical ways to balance their private lives with their work commitments.

The organisation provides employees with various options that revolve around their work commitments to balance their lives. To accommodate employees' varying needs, employees and managers pursue best practices and enter into formal and informal arrangements that best suit both the business requirements and individual preferences.

In addition, the TCTA has a well-developed employee wellness programme that encourages employees to participate in various activities. These include a blood donating drive, free HIV/Aids testing, flu vaccination, living with chronic diseases like tuberculosis, HIV/Aids and cancer. Trained professionals deal with these issues, both onsite and offsite.

Transformation framework

At TCTA transformation is a process of changing the way in which the organisation conducts its business to provide a measured, goal-orientated response to socio-economic trends and the need to improve performance.

The organisations' transformation underpins the six elements of broader broad-based black economic empowerment (BBBEE). Implementing these elements not only ensures that TCTA achieves a level four contributor status – 100 points on the generic scorecard and 100% BEE procurement recognition level – but plays an active role in society to create opportunities that will redress the skewed economy of the country.

The key components of the TCTA BBBEE charter are:

- social investment in collaboration with key suppliers in the supply chain, to contribute to the organisation's project areas; and
- enterprise development with a specific focus on facilitating access to construction opportunities for black entrepreneurs.

Transformation is a permanent agenda point at TCTA. A subcommittee of the Board, the Human Resources and Transformation Committee, provides guidance and monitoring on transformation issues. A draft framework strategy has been submitted to role players for approval.

According to the final gazetted Codes of Good Practice of 2007, state-owned enterprises use the adjusted generic scorecard. This excludes equity ownership with a redistributed weighting of the remaining elements.

Component	Elements	Percentage
Direct empowerment	Management control	15
Human resources development	Employment equity	15
	Skills development	20
Indirect empowerment	Preferential procurement	20
	Enterprise development	15
Residual	Socio-economic development	15

TCTA environment

As an organisation operating in a dynamic environment, TCTA is heavily influenced by external and internal factors, which shape the direction of transformation.

Environmental and social sustainability

- Poverty alleviation
- Job creation
- Environmental awareness and rehabilitation during and after project implementation

Organisational capacity

- Growing our people
- Growing our teams
- Employee wellness programme
- Women empowerment fund

Sustainability report (continued)



Water delivery celebration – VRESAP

BBBEE scorecard – 31 March 2009

Scores achieved in each of the BBBEE scorecard elements

Category	BEE score target	TCTA score
Management control	15	16,50
Employment equity	15	12,78
Skills development	20	11,70
Preferential procurement	20	12,26
Enterprise development	15	5,26
Socio-economic development	15	15,00
Overall	100	73,50

Developmental impact

TCTA applies a policy of social development, down to local level, with all the projects it undertakes.

With the Lesotho Highlands Water Project, a stakeholder conference awarded the social and environmental performance of the Katse, Mohale and Muela areas overall scores of 88%, 85% and 75% respectively. Local, regional and international stakeholders scored the project's overall performance on social and environmental issues at 84%.

With the Berg Water Project, TCTA introduced the Franschoek First Policy to maximise the socio-economic benefits in terms of employment, training and procurement of the project to the local community. The policy gave preference to local residents and businesses with regard to employment and procurement opportunities.

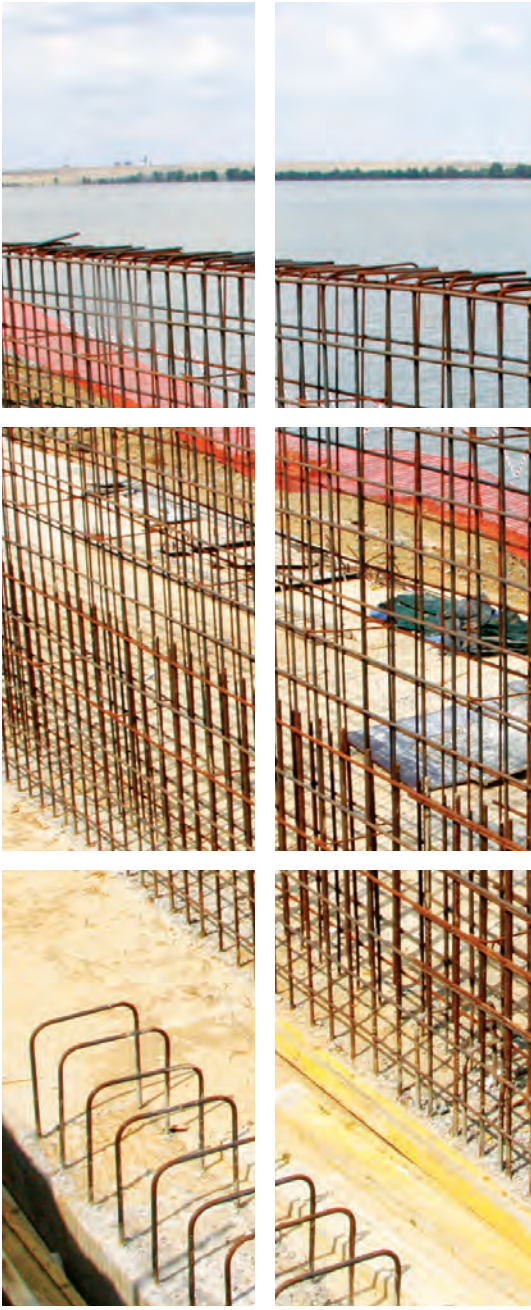
When operations started at the Vaal River Eastern Subsystem Augmentation Project, TCTA implemented a pilot for a development model for Women in Construction, training women to instal air valve chambers on the pipeline route. Contractors provided business training in the form of a micro-MBA course, and the construction consortium provided practical training and mentoring. A total of 108 workers were employed on the project from the six companies.





Community service – Midrand

Corporate governance



Board of Directors

The Board of Directors recognises corporate governance as essential to protect the interests of all stakeholders. Business is conducted according to the principles of openness, integrity and accountability, as advocated in the Code of Corporate Practices and Conduct in the King Report. The Board is committed to maintaining high standards of corporate governance and implementing corporate governance principles, policies and practices within each operation of the organisation which will add value to all stakeholders.

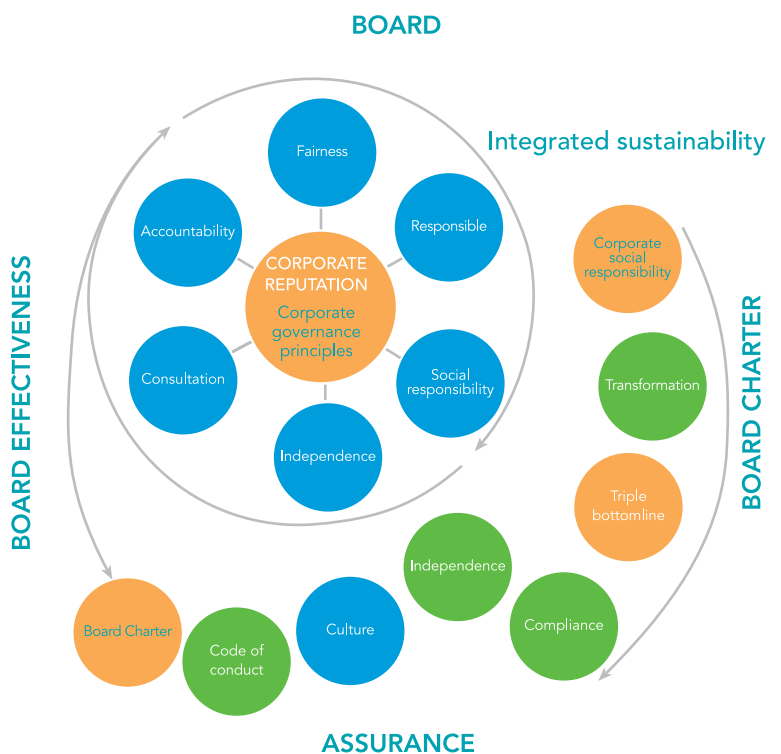
The Board acknowledges its responsibility to ensure that the principles of good governance are observed and that the directors collectively and individually acknowledge their responsibilities and duties in terms of the Board Charter and other governance, regulatory framework and legislative requirements.

It is responsible for overall guidance on strategy, business plans and related affairs of the organisation. In conducting its oversight role, the Board holds management accountable for the business performance and achievement of the organisation's objectives.

Term of office

The current Board of Directors continued their three-year term of office since appointment in July 2006 by the Minister of Water and Environmental Affairs. Due to vacancies during the year under review, the Minister appointed three additional directors to serve from 15 August 2008 to 15 August 2009. The new directors are Mr Gregory White, Ms Makano Mosidi and Mr Jan Geenen.

Corporate governance framework



The Board is committed to maintaining high standards of corporate governance and implementing corporate governance principles, policies and practices within each operation of the organisation which will add value to all stakeholders.

On 31 July 2008 Ms Londiwe Mthembu's contract as the Acting Chief Executive Officer came to an end and Mr Johann Claassens was appointed as the Acting Chief Executive Officer from 1 August 2008 until 31 October 2008. Mr James Ndlovu was appointed as new Chief Executive Officer on 1 November 2008. In line with the TCTA Board Charter and the Notice of Establishment, the Chief Executive Officer is an *ex officio* member of the TCTA Board of Directors.

The three-year term of office of the current Board of Directors will end on 30 June 2009.

Governance and regulatory framework

TCTA's objectives, mandates, the powers of the Board as well as the relationship between itself and its stakeholders are set out in the Notice of Establishment as promulgated in terms of the National Water Act, the Board Charter, as well as the Shareholder's Compact. TCTA is also subject to the provisions of the Public Finance Management Act, No 1 of 1999.

The South African Government, through the Minister of Water and Environmental Affairs, plays the oversight role to TCTA.

TCTA subscribes to the principles set out in the King II Report on Corporate Governance as well as the Protocol on Corporate Governance in the public sectors. In this regard we are constantly reviewing our policies and practices to adhere to the King II Report recommendations as closely as is possible.

TCTA's directors, management and employees are committed to transparent, sound and ethical business practices as expressed in its Code of Conduct. The organisational delegation matrix provides a clear delineation of responsibilities between the Board, Board committees and the executive management committee, and the Board has delegated some of its responsibilities in writing to the executive management in compliance with section 56 of the PFMA.

Role and functions of the Board

The Board operates within a unitary structure that provides for interaction among all Board directors in the decision-making process on strategy, planning and performance, allocation of resources, business ethics and communication with stakeholders. For ease of alignment and general interface with the organisation, the Board invites executive management to its meetings which sit on a quarterly basis.

Directors' induction and orientation

The three newly appointed Board directors were taken through an induction process and provided with business operations, statutory and governance-related documentation. The process included a strategic induction process on management and operational matters of the organisation. Site visits to the various TCTA projects were also done with the new Board directors to familiarise them with TCTA business. New Board members were also part of the Board strategy session held on 15 and 16 January 2009 in preparation for TCTA business strategy and business planning for the 2009/10 financial year.

The induction package included:

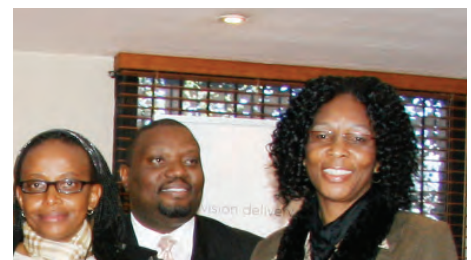
- the Board's fiduciary duties and responsibilities;
- TCTA's legislative framework, including its governance processes;
- TCTA's various mandates from the Minister of Water and Environmental Affairs;
- the nature of TCTA's business, management structure and operations; and
- the development on both the water and financial sectors and the impact on TCTA.

Independence of the Board

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

- The minister appoints the directors of the Board for a term of three years in terms of the Notice of Establishment.
- The positions of Chairman and Chief Executive Officer are kept separate.
- The Chairman is an independent non-executive member of the Board.

Board members



Corporate governance (continued)

- All Board committees are chaired by independent non-executive directors and specialist and independent committee members get appointed to provide expert advice as and when required.
- The Chief Executive Officer is the only executive member of the Board and committees.

All directors are entitled to seek independent specialist advice on the affairs of TCTA. Such advice or services are paid for by TCTA if sought with the prior approval of the Chairman.

Board Charter

The Board Charter has been developed for the Board members 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 and relationship with TCTA staff and 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; and
- assist in guiding the minister on director selection, orientation and evaluation.

Remuneration of the Board

The directors are remunerated in line with the non-executive directors' remuneration policy and procedure as approved by the Minister of Water and Environmental Affairs effective 1 October 2008. This policy ensures that remuneration of directors is comparable to the level, skill and expertise required from Board directors and in accordance with current market practice and the guidelines of the state-owned entities. (*Details of directors' remuneration are stated in the notes to the annual financial statements.*)

The independent non-executive directors of the Board are remunerated on the basis of a monthly retainer and Board meeting attendance, including attendance of committee meetings and additional work done as directed by the Board.

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. The governance structure was revised during this financial period to ensure that there are adequate structures and subcommittees in place to strengthen the Board's effectiveness. This came as a result of new mandates being issued to TCTA and thus the organisation finding itself in a multiproject environment.

The Board, including management, conducted an individual Board performance appraisal based on the following key deliverables:

- Functional deliverables on corporate governance
- Principles of good governance (values)
- Water sector issues
- Individual committee contribution

- Individual participation
- Relationship management

Outcomes of this review were overall satisfactory and were also used as a basis for identifying possible developmental and training requirements of the Board. To keep Board directors abreast of the latest developments in the regulatory, legislative, compliance, risk management and good governance practices, the Company Secretary designed a customised programme of action including in-house training on a continuous basis. The Company Secretary consistently monitors the programme of action to address these requirements on an ongoing basis. Various training and developmental initiatives were also undertaken by the directors to enhance Board effectiveness.

Board committees

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

- Remuneration Committee (REMCO)¹;
- Audit and Risk Committee (A&R);
- Assets and Liabilities Committee (ALCO);
- HR and Transformation Committee (HR&TR);
- BWP Technical Committee (BWP)²;
- VRESAP Technical Committee (VRESAP); and
- Technical Committee (TC)³.

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.

Various chairmen submit reports pertaining to their areas of responsibility at Board meetings, such that the Board has an overall view of the whole organisation. TCTA directors have full access to committee documentation and, where required, the Board committees are free to take independent professional advice.

In line with the Delegation Matrix of the organisation, the Board has delegated authority to its committees as well as TCTA Executive Management whose performance is reviewed 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.

- 1 REMCO was previously referred to as the Board Chairs Committee and changed its name in September 2008.
- 2 BWP Committee had its last meeting in May 2008, and has since not been in operation.
- 3 The Technical Committee was established in July 2008 to oversee the multiprojects mandated to TCTA.

An overview of the Board committees

HR and Transformation	Audit and Risk	Remuneration	VRESAP Technical	Asset and Liability	BWP Technical	Technical
<p>Membership</p> <p>Three non-executive directors, chaired by a non-executive director</p> <p>Independent Specialist Committee member</p> <p>Chief Executive Officer</p>	<p>Membership</p> <p>Three non-executive directors, chaired by a non-executive director</p> <p>Chief Executive Officer</p>	<p>Membership</p> <p>Six non-executive directors chairing other Board committees, chaired by a non-executive director</p> <p>Chief Executive Officer</p>	<p>Membership</p> <p>Three non-executive directors, chaired by a non-executive director</p> <p>Independent Specialist Committee member</p> <p>Chief Executive Officer</p>	<p>Membership</p> <p>Three non-executive directors, chaired by a non-executive director</p> <p>Chief Executive Officer</p>	<p>Membership</p> <p>Five non-executive directors, chaired by a non-executive director</p> <p>Independent Specialist Committee member</p> <p>Chief Executive Officer</p>	<p>Membership</p> <p>Four non-executive directors, chaired by a non-executive director</p> <p>Chief Executive Officer</p>
<p>Objectives ensure that:</p> <p>remuneration is linked to performance based on achievement of goals;</p> <p>labour laws are adhered to;</p> <p>management and staff receive market-related remuneration;</p> <p>human resources policies are adhered to;</p> <p>succession plans are in place and are periodically reviewed;</p> <p>Board is advised of emerging issues on transformation that could affect TCTA;</p> <p>transformation issues are coordinated; and</p> <p>operating guidelines are established in the monitoring of transformation issues.</p>	<p>Objectives ensure that:</p> <p>adequate internal, financing and operating controls are in place;</p> <p>significant risks are identified and managed appropriately;</p> <p>appropriate standards of governance, reporting and compliance are in place; and</p> <p>enterprise-wide risk management is applied and high risks appropriately addressed.</p>	<p>Objectives ensure that:</p> <p>performance key indicators are linked to the key strategic deliverables of the organisation;</p> <p>remuneration is linked to performance based on achievement of goals;</p> <p>remuneration of the executive management is determined;</p> <p>performance of the Board is reviewed;</p> <p>appointment process of the Chief Executive Officer and recommendations to the Minister are managed; and</p> <p>the recruitment process of the new Board members and recommendation to the Minister are managed.</p>	<p>Objectives ensure that:</p> <p>terms of the mandate to implement the VRESAP project are adhered to;</p> <p>appropriate policies and processes are in place in the award of tenders on contracts;</p> <p>policies for capital expenditure are adhered to;</p> <p>appropriate technical consideration is given on independent technical reviews; and</p> <p>project risks are appropriately monitored.</p>	<p>Objectives ensure that:</p> <p>financial risks are appropriately managed;</p> <p>appropriate funding and risk strategy is formulated to meet business requirements;</p> <p>financial policies are adhered to; and</p> <p>the financial performance of TCTA is measured and reported.</p>	<p>Objectives ensure that:</p> <p>terms of the mandate to implement BWP project are adhered to;</p> <p>appropriate policies and processes are in place in the award of tenders on contracts;</p> <p>policies for capital expenditure are adhered to;</p> <p>appropriate technical consideration is given on independent technical reviews; and</p> <p>project risks are appropriately monitored.</p>	<p>Objectives ensure that:</p> <p>terms of the mandates to implement the various projects are adhered to;</p> <p>appropriate policies and processes are in place in the award of tenders on contracts;</p> <p>policies for capital expenditure are adhered to;</p> <p>appropriate technical consideration is given on independent technical reviews; and</p> <p>project risks are appropriately monitored.</p>

Corporate governance (continued)

HR and Transformation	Audit and Risk	Remuneration	VRESAP Technical	Asset and Liability	BWP Technical	Technical
Invitees	Invitees	Invitees	Invitees	Invitees	Invitees	Invitees
Executive Manager: Human Resources Management and Organisational Development	Chief Risk Officer: Assurance	Chief Operating Officer	Executive Manager: Project Management and Implementation	Chief Operating Officer	Executive Manager: Project Management and Implementation	Executive Manager: Project Management and Implementation
Chief Operating Officer	Chief Operating Officer	Chief Financial Officer	Chief Operating Officer	Chief Financial Officer	Chief Financial Officer	Chief Operating Officer
Chief Financial Officer	Chief Financial Officer		Chief Financial Officer	Executive Manager: Project Finance and Structuring	Executive Manager: Project Finance and Structuring	Chief Financial Officer
	Head: Internal Audit		Stakeholder representatives from: DWA, Sasol and Eskom	Financial Controller	Chief Operating Officer	Stakeholder representatives from: DWA
	Risk Manager			Treasury Manager	Chief Financial Officer	
	External auditors			Executive Manager: Project Management and Implementation	Risk Manager	
					Stakeholder representatives from: DWA and City of Cape Town	

Meeting attendance

TCTA Board committee members' and attendance (1 April 2008 to 31 March 2009)

During the period under review, Board and committee directors attended scheduled and special meetings as follows:

Meetings	Board	Strategy session	REMCO	Audit and Risk	ALCO	HR&TR	Technical Committee	BWP Technical	VRESAP Technical
Meetings held	9	1	5	5	4	9	4	2	3
Board members									
Snowy Khoza (Chairman)	9	1	5	–	–	1	–	–	–
Lebohang Thotanyana (Deputy Chairman)	9	1	5	5	4	1	–	–	–
Angie Makwetla	5	1	3	–	–	9	–	–	–
Simphiwe Kondlo	9	1	4	–	–	–	3	2	3
Robert Mbwana	9	1	3	–	–	–	2	2	3
Patricia Makhsha	6	1	–	–	–	6	–	–	–
Evodia Malefane	8	1	–	4	–	–	4	2	3
André Pillay	6	1	–	3	3	–	–	–	–
Onesmus Ayaya	4	1	–	–	–	–	–	–	–
Specialist members									
Paul Roberts	–	–	–	–	–	–	–	2	3
Buyani Zwane	–	–	–	–	–	5	–	–	–
New Board members									
Jan Geenen	2	1	–	2	2	–	–	–	–
Gregory White	5	1	2	–	2	3	–	–	–
James Ndlovu	2	1	–	1	1	2	1	–	1
Makano Mosidi	4	1	–	–	–	–	2	–	–

Footnotes to TCTA Board and committee members' attendance:

- Paul Roberts is a specialist member of the BWP and VRESAP Technical committees.
- Buyani Zwane is a specialist member of the HR and Transformation Committee.
- Makano Mosidi was appointed Board member from 15 August 2008.
- Jan Geenen was appointed Board member from 15 August 2008.
- Gregory White was appointed Board member from 15 August 2008.
- James Ndlovu was appointed Executive Board member from 1 November 2008.

Corporate governance (continued)

Stakeholder engagement

TCTA recognises that its activities do not exist in a vacuum and that a wide range of stakeholders will both affect and be affected by the organisation. It embraces the range of interests of its various stakeholder groups, while continually seeking to maintain and enhance social, economic and environmental value.

The organisation remains committed to a policy of effective communication and engagement with all its stakeholders and welcomes dialogue. Ongoing interaction enables the organisation to satisfy stakeholder needs, meet regulatory requirements and play a more significant role in the development of water infrastructure resources.

Stakeholder representative attendance at Technical Committee meetings (1 April 2008 to 31 March 2009)

Meetings	BWP Technical	Technical Committee	VRESAP Technical
Meetings held	2	4	3
Project implementation partners			
DWA: Willie Croucamp	2	2	2
DWA: Lehasa Moloï (Alternate member)	1	n/a	1
BWP CCT: Paul Rhode	2	n/a	n/a
Arne Singels (Alternate member)	1	n/a	n/a
Sasol: Loekie Pretorius (Only VRESAP)	n/a	n/a	3
Sasol: Fritz Weilbach (Alternate member) (Only VRESAP)	n/a	n/a	1
Eskom: Nanda Govender (Only VRESAP)	n/a	n/a	1
Ian Midgley	n/a	n/a	1

Footnote to TCTA stakeholder representatives' attendance:

* Alternate members attend when the appointed stakeholder representatives are not able to attend.

Compliance with legislative requirements

Regulations and guidelines



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.

Code of Conduct

TCTA directors and management believe the ethical standards and the criteria as set out in the Code of Conduct were met during the period.



Risk management

TCTA's system of internal controls provides management and the Board with assurance about the appropriateness and effectiveness of good governance measures. The division facilitates TCTA's system of internal controls to enhance efficiency, effectiveness and compliance with relevant legislative, regulatory and best practice requirements. It comprises three departments – Risk Management, Internal Audit and Legal and Compliance.

During the year under review there were no material areas of non-compliance with TCTA's legislative framework, nor under its obligations for various loan agreements. No material breaches of controls occurred.

Risk management function

The treasury risk management function was centralised in the Risk Management Department to optimise the independence of the function and to integrate all TCTA's financial and non-financial risks. Although risk management is monitored centrally, all aspects of the business are involved in the risk assessment and management processes. All business risks are taken into account when formulating risk management strategies. The risk management process involves planning and controlling of activities and resources to reduce the business risks to tolerance levels acceptable to TCTA and its Board.

TCTA's risk management philosophy is defined as risk averse or having a low level of risk tolerance. This philosophy is embedded in TCTA's strategic framework and its policies, resulting in the minimisation of financial and non-financial risks. The philosophy takes into account:

- the specific risks associated with project implementation such as construction, environmental and geotechnical;
- the financial risks associated with the liability management function of TCTA; and
- the ability of the risk management processes to reinforce TCTA's business objectives.

Risk management is the Board's responsibility, while management is responsible for designing, implementing and monitoring the process of risk management. As the second line of defence, risk management facilitates the identification, assessment, management, monitoring and reporting of risks throughout the organisation. Organisational risks are managed at both divisional and departmental levels. High risks are reported to the Board of Directors, through the Board Audit and Risk Committee.

Major risk categories and responses

TCTA is exposed mainly to project risks and financial risks associated with its project management and liability management function. TCTA manages risks such as:

Strategic risks

Strategic risks are managed by identifying the factors that impact the Authority's ability to achieve its business objectives. The risks are mitigated by TCTA's strong governance and reporting structures, which ensure delivery against the corporate business plan.

There were no material areas of non-compliance with TCTA's legislative framework, nor under its obligations for various loan agreements.

Project implementation risks

Project implementation risks are the risks associated with contractual arrangements, geotechnical considerations, contractor/consultant performance, as well as construction risks. All of these may cause delays in project completion and have an adverse effect on the TCTA's reputation. Mitigation measures are put in place and reviewed throughout the project life cycle, in terms of contractual and commercial agreements with contractors/consultants, to prevent delays.

Liquidity risks

This relates to the risk that TCTA could be unable to secure the right quantity of funds, in the right currency at the right time, to meet its financial obligations. The risk is managed by, among others, maintaining sufficient government-guaranteed facilities with domestic banks to act as a liquidity buffer, detailed and regular cash flow forecasting as well as conducting repos and reverse repo transactions in bonds.

Interest rate risks

This relates to the risk that adverse changes in interest rates will cause a reduction in net income emanating from reduced interest income from financial assets and/or increased cost from financial liabilities. TCTA manages this risk by complying with a statistically determined optimal capital structure of fixed to floating rate debt.

Foreign currency risk

This relates to the risk of financial loss arising from adverse movements in the exchange rate of the rand against foreign currencies to which TCTA is exposed. This risk is mitigated through the use of appropriate hedging strategies.

Credit risk

This relates to the risk that a counterparty may default on its obligations on redemption or maturity or presentation of paper for settlement. This risk is managed through a careful selection of counterparties and setting limits within which TCTA's treasury function deals with counterparties.

Operational risks

This is the risk of potential loss caused by fraud, error or systems failure that may arise due to a breakdown in internal controls. Such risks are managed by a comprehensive system of internal controls, such as segregation of duties and proper delegation of authority. The risk is managed through segregation of duties between dealing, confirmation, settlement and authorisation of transactions. A delegation of authority regulates the authorisation framework within TCTA.

Regulatory risks

This relates to the risks emanating from the introduction of Basel II, which are likely to affect TCTA's ability to obtain and secure cost-effective funding. Some of the strategies that have been put in place to manage this risk include:

- obtaining approved funding for project facilities;
- building strong relationships with local and international financiers;
- continuing to maintain appropriate institutional arrangements to secure good credit ratings and appropriate funding; and
- exploring the introduction of the domestic medium-term note to facilitate raising bridging finance.

Internal audit

TCTA's internal audit function is mandated to independently appraise the appropriateness, adequacy and effectiveness of the organisation's systems, internal financial controls and accounting records. It also identifies corrective actions and recommends improvements to such controls and processes. It reports its findings to management and the Board of TCTA through the Audit and Risk Committee.

The purpose, authority and responsibility of the internal audit function are formally defined in an internal audit charter that is approved by the Audit and Risk Committee and is reviewed annually.

The Audit and Risk Committee annually approves the one-year and three-year risk-based audit plan, which covers all major risks emanating from TCTA's risk management processes. This is based on changes in the authority's risk profile and control environment to ensure that the audit coverage is focused on areas of high risk.

The external auditors are responsible for independently auditing TCTA and reporting on its financial statements in conformance with the International Financial Reporting Standards.

Legal and compliance

The Legal and Compliance Department provides management and the Board of TCTA with assurance that:

- all key material agreements binding the organisation to any other institution are legally reviewed and/or drafted by the department to identify and mitigate TCTA's legal risks;
- relevant legislative/regulatory provisions applicable to TCTA as a public sector entity are adhered to as far as possible; and
- monitoring of compliance with legislative/regulatory provisions applicable to TCTA is undertaken and reported on a regular basis to management and the Audit and Risk Committee.

In the period under review, the Legal and Compliance Department has:

- reviewed and reported on TCTA's compliance with the provisions of the Public Finance Management Act; and
- reviewed and reported on TCTA's compliance with its loan covenant obligations under various loan agreements for different projects.



Our projects

Projects provide bulk water infrastructure – the essence of TCTA's existence

To meet and exceed its mandate to design, finance and implement bulk raw water infrastructure like dams, pipelines, pump stations and supplement schemes, TCTA managed six projects during the year under review. The projects were the Lesotho Highlands Water Project, the Berg Water Project, the Vaal River Eastern Subsystem Augmentation Project, the Mooi-Mgeni Transfer Scheme phase 2, the Olifants River Water Resource Development Project phase 2 and the Komati Water Scheme Augmentation Project.

In addition, TCTA is providing advisory and project implementation services for the Mokolo Crocodile Water Augmentation Project. The mandate to fund and implement the project will be issued in the new financial year.

TCTA inaugurated two of its flagship projects – the Berg Water Project and the Vaal River Eastern Subsystem Augmentation Project. This sets the tone for the authority's ability to provide for the country's future needs of bulk water infrastructure.



TCTA is well poised and continues to service the future needs of the country's bulk water infrastructure requirements.



Our projects (continued)

LESOTHO HIGHLANDS WATER PROJECT – a man-made engineering wonder

The Lesotho Highlands Water Project was established as a binational project within the borders of South Africa and Lesotho, in accordance with a treaty signed in 1986. This world-class infrastructure project diverts water from the Senqu River system in Lesotho to South Africa's economic driving force, yet water-stressed, Gauteng region.

Project profile

The project, completed in 2001, was the first where TCTA was responsible for the development of infrastructure. TCTA is now responsible for the debt management and funding of the water transfer part of the project.

The project entailed, among others, the building of three dams – the Katse, Mohale and Muela dams – an intake tower, two transfer tunnels, a delivery tunnel and a hydropower station.

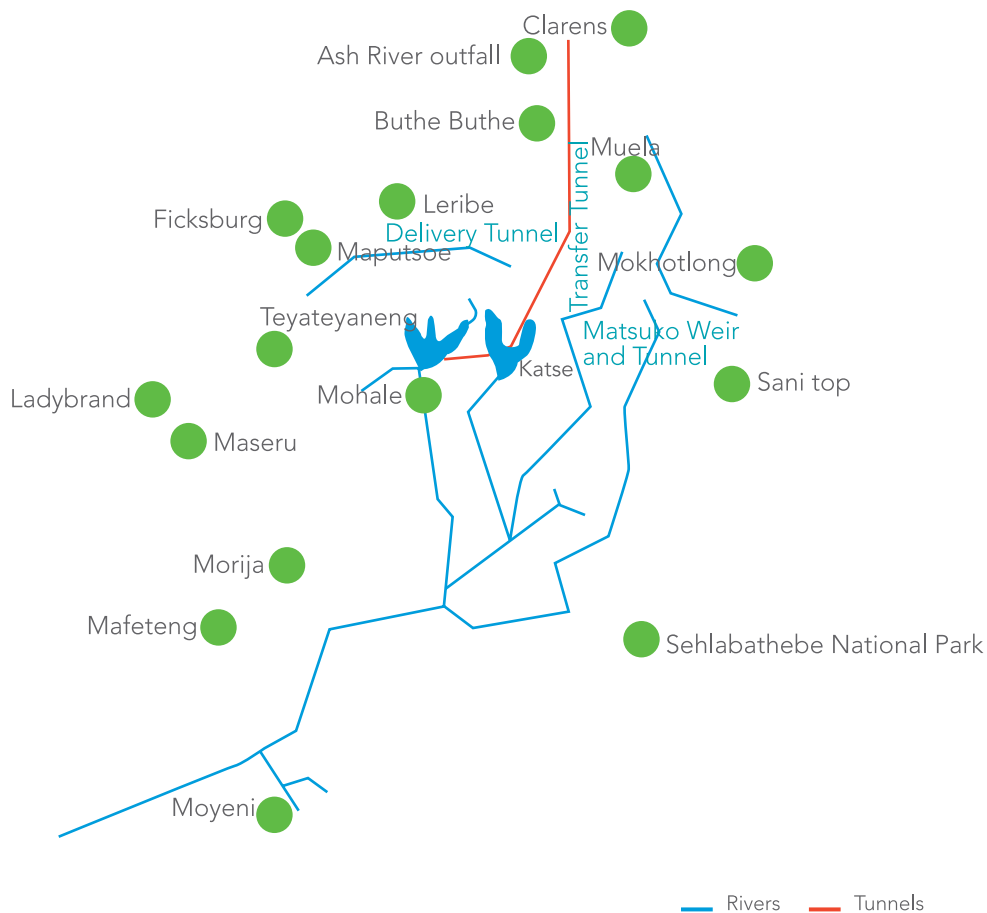
The focal point of the project, the Katse Dam, is a double curvature concrete arch, 185 m high and 710 m along the crest. This design was the most cost-effective to span the wide U-shaped valley of the Malibamatso River, downstream of its confluence with the Bokong River. It also allowed water to be impounded at low risk while construction was taking place.

Some 2,32 million m³ of concrete were used to build the wall, 60 m thick at the base and 9 m at the crest. The contractor was an international consortium of companies from Italy, France, Germany, the United Kingdom and South Africa.

Although the Lesotho Highlands Water Project is primarily a water transfer system, at the Muela Power Station the water en route to South Africa is put to good use, powering an underground hydro-electric power station that generates electricity to supply the needs of Lesotho. Before the station was built, Lesotho depended entirely on South Africa for its electricity needs.

Water exits from the three 24 MW turbines into the Muela tailpond, a 55-m high, 6 million m³ capacity dam. Built on the Nqoe River, it provides the headwater for the continuation of water delivery to South Africa. Delivery and transfer tunnels and a weir form part of this system.

Associated social development programmes, implementing the project's environmental and social actions plan, will be completed by the end of 2009.



Funding

The total project cost was R16 400 million. Water delivery began in January 1998, and the project depends on the revenues generated by water sales from the Vaal River system. It is a sustainable, bankable bulk infrastructure project and will be fully paid for by water users. The funding is done off-balance sheet from government and explicitly government guaranteed.

The South African Government is responsible for the full water transfer costs incurred by both TCTA and the Lesotho Highlands Development Authority. These costs are included in TCTA's balance sheet.

In the past financial year, revenue from the sale of raw water from the project came to more than R2 283 million, compared to R2 087 million in the previous year.

The net deficit after interest is the result of keeping water tariffs constant in real terms to ensure end-user affordability, taking into account the impact of future demand for water and the future timing of augmentation schemes of the Vaal River System. Income is sufficient to repay all water transfer debt over approximately 20 years after completion of each subphase of the project, which is in line with the Water Pricing Strategy of the Department of Water Affairs.

The management of the related debt continues to be TCTA's core treasury activity and will continue to manage the debt until final envisaged payment in 2022. During the past financial year, R1 311 million was borrowed to meet funding and redemption requirements.

Debt servicing

By 31 March 2009, the project debt was R18 488 million. This was after taking into account the water tariff income and annual shortfalls due to interest after completion of construction.

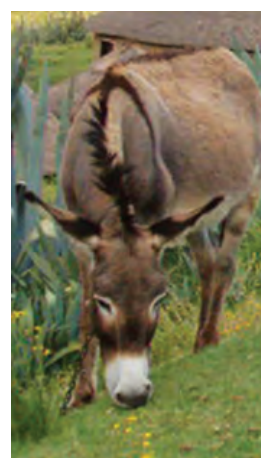
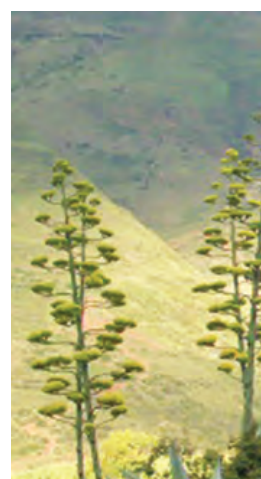
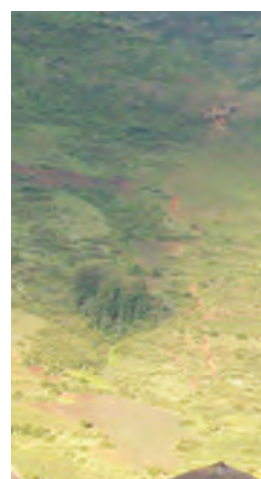
Based on the current debt curve, it is estimated that the outstanding liabilities will peak in 2010 at R18 810 million and that all debt will be repaid by 2022.

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

Social performance

In accordance with the treaty between South Africa and Lesotho, social development programmes in the project were implemented by the Lesotho Highlands Development Authority in terms of International Best Practice and World Bank Guidelines.

At a stakeholder conference where social issues were assessed, the Katse project area was awarded an overall score of 88%, while the Mohale and Muela areas received an 85% and 75% score respectively. Another annual national stakeholders conference which was attended by representatives of local, regional and international stakeholders scored the project's overall performance on social and environmental issues at 84%, 6% higher than the previous year.



The LHWP is a sustainable, bankable bulk water infrastructure and will be fully paid for by water users.

Our projects (continued)

Environmental performance

Part of the agreement between South Africa and Lesotho entails a programme that ensures environmental protection and sustainability of the river system. In Lesotho, the Lesotho Highlands Development Authority implements the programme whilst in South Africa TCTA takes this responsibility. Both these bodies are overseen by the Lesotho Highlands Commission.

On the project's overall operations there were no environmental incidents. The project is accredited by the International Register of Certificated Auditors, which also awarded the Muela operations with two regional awards of excellence:

- Best Overall Safety, Health and Environment System in Category 6 – Water services companies in southern Africa.
- Best Overall Safety, Health and Environment Safety Management System in southern Africa.

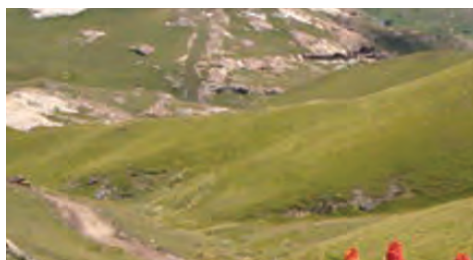
Possible future phases

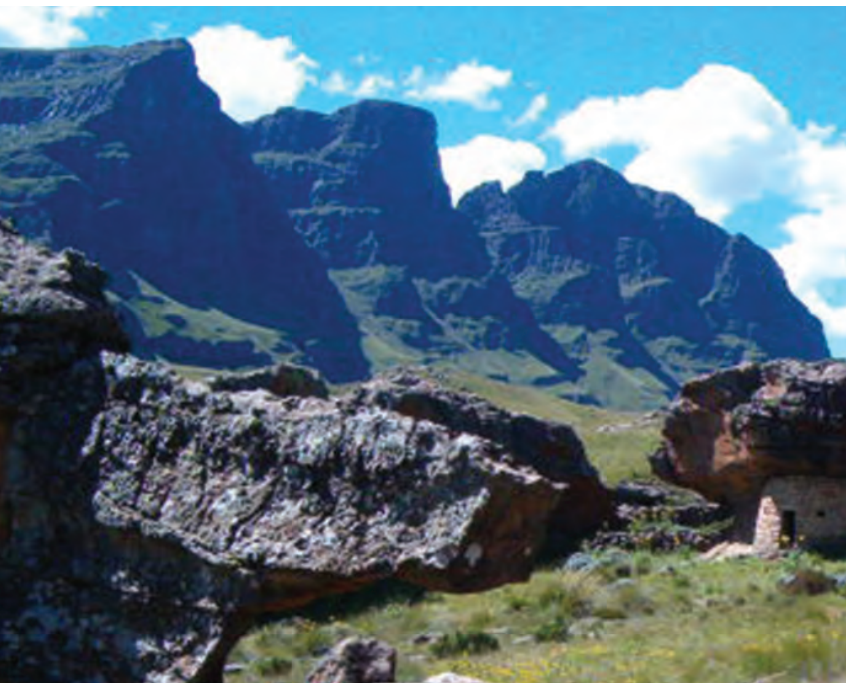
The South African Government has approved the second phase of the project at an estimated cost in 2008 price levels of R7 300 million. Subject to the signing of a protocol with the Lesotho Government, the project will include the construction of the Polihali Dam in Lesotho.

The construction of this dam and other infrastructure will ensure the water security of Gauteng and the rest of the Vaal River water supply area in the most cost-effective manner. It will take place alongside water conservation measures in the Vaal, improving water quality and curbing illegal water use.

The new phase will be funded off-budget, meaning funds will be borrowed from capital markets.

Apart from being a lifeline for South Africa's economic nucleus, the Lesotho Highlands Water Project is a prime example of what can be achieved when neighbouring countries join forces and work towards a common goal.





Our projects (continued)

BERG WATER PROJECT – *beyond steel and mortar*

The R1,6 billion flagship Berg Water Project in Franschhoek that augments the supply of water to the City of Cape Town by 18%, was officially inaugurated by former President Kgalema Motlanthe in March 2009.

The project, mandated in May 2002 with operations starting in December 2007, increases Cape Town's water supply by 81 million m³ per year or 18% to 523 million m³ per year.

Project profile

The project includes a new dam with a capacity of 130 million m³, a supplement scheme, which comprises two pump stations and a 12 km of pipeline infrastructure.

The concrete-faced rock fill dam, 250 m above sea level, lies in the upper reaches of the Berg River and consists of an embankment of rock mined from the basin, with an impermeable 300 mm thick concrete face on the upstream side. The dam wall is 67 m high and 929 m long.

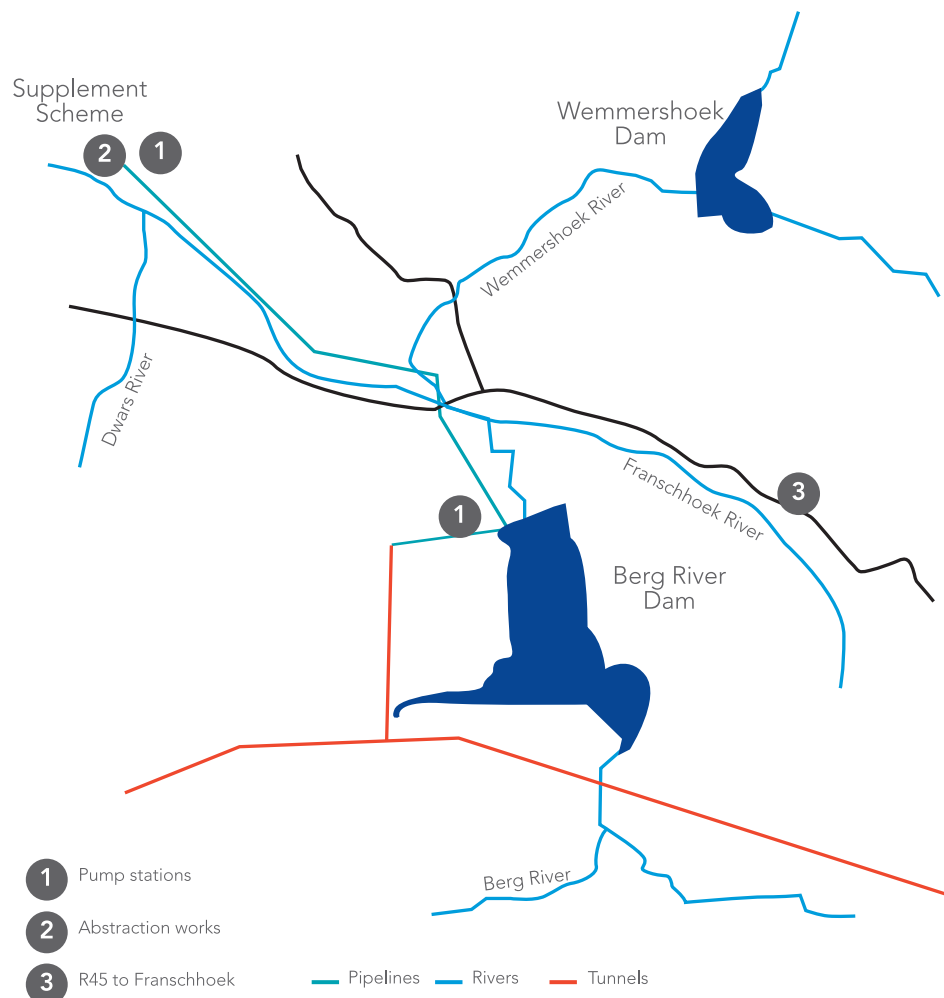
In addition to the dam, the project entails a supplement scheme located 10 km downstream, alongside the Drakenstein Prison. The scheme diverts winter high flow entering the Berg River from the Franschhoek, Wemmershoek and Dwars River tributaries to supplement water stored in the dam. Water from the scheme is pumped to the dam via the Drakenstein pump station, along a 9,5-km pipeline.

The project was the first in South Africa to be designed, constructed and operated in strict accordance with the guidelines of the United Nations World Commission on dams.

Funding

The project was funded on an off-budget basis and the capital costs are being recovered from the revenue generated from the sale of water from the Western Cape Water System.

The project debt, after taking the water tariff income into account, was R1 239 million on 31 March 2009.



The long-term funding for the project was provided for as follows:

Financier	Facility value	Value added
Development Bank of Southern Africa	R500 million	Leverages strong social and environmental skills in terms of project implementation
European Investment Bank	R800 million	Single biggest loan signed between the bank and a South African entity at that time. No commercial bank or government guarantee were required
Absa	R300 million	Offers flexibility and creative solutions for raising capital market debt post construction

The short-term working capital requirements are funded through the commercial paper programme, which carries an authorised amount of R450 million with overnight to five-year funding.

A net amount of R111 million was borrowed during the year under review to meet the project's funding requirements. The prevailing capital structure mix as at 31 March 2009 was 46% fixed and 54% floating.

The liability arising from the long-term funding has been matched with "free cash" generated from the project. The long-term funding is 100% asset/liability matched by virtue of amortising loans and a flexible loan with no specified repayment profile.

The project maintained its excellent Fitch long-term credit rating of AA+(zaf) and the project debt will be repaid by 2028 from revenue generated from the sale of water to the City of Cape Town.

Debt servicing

In terms of the National Water Policy, water development projects should be funded by users where the users are able to afford a capital contribution tariff. For BWP, a capital charge is added to the tariff that the Department of Water Affairs charges on water supplied from the Western Cape Water System. The City of Cape Town pays for water used, whilst the department pays TCTA to cover the costs and to repay the loans to fund the implementation of the project.

Annual adjustments to the charge is made in accordance with the CPI, changes in water demand, changes in macroeconomic factors and allocation of water to third-party users.

The charge, based on the projected low-growth water demand of the City of Cape Town over 24 years, was phased in over the four-year construction period and will continue until the project is fully repaid.

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.

Funding activities – composition of project funding

March 2009	
Funding requirement	R million
Incremental	77
Refinancing	34
Redemption	–
Total	111

Sources of project funding

Funding source	R million	%
Money market	18	16
Long-term loans	93	84
Redemption	–	–
Total	111	100

Forecast funding for 2009 to 2011

Funding requirement – 2009/10	R million
Incremental	(15)
Refinancing	64
Total	49

Funding requirement – 2010/11

Incremental	10
Refinancing	64
Total	74

Contractors

Engineering contract

The consultancy services contract was awarded to Berg River Consultants that comprised Goba, Knight Piesold and Ninham Shand. The consultant was responsible for the design and construction supervision of all construction contracts.

TCTA engaged the service of a panel of experts to mitigate the risk of engineering errors.

Dam contract

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

The R18 million contract for the main access road to the dam was awarded to the Department of Water Affairs Construction.

Supplement scheme

• Civil works contract

The R219-million contract was awarded to the construction division of the then Department of Water and Environmental Affairs. It entailed construction of the weir and sedimentation traps in the river, balancing dam, Drakenstein and Dasbos pump stations and the pipe connection to the Riviersonderend tunnel system at the Dasbos Adit.

Our projects (continued)

- **Electrical and mechanical works contract**

The R59-million contract was awarded to Sulzer Pumps South Africa. The services included the supply, installation and commission of pumps and other mechanical and electrical items to both the Dasbos and Drakenstein pump stations.

- **Construction of pipelines contract**

This contract entailed the supply and construction of the 9,5-km pipeline linking the Supplement Scheme to the Berg River Dam as well as the 2,5-km pipeline from the Dasbos pump station to the Dasbos Adit. The R105-million contract was awarded to Cycad Pipelines.

La Motte Village

The R30-million La Motte Village provided 80 houses for contractors involved in the project. Emerging contractors from the project area were awarded contracts to build 40 of the houses. When the project ended the village was handed over to the Stellenbosch Municipality. Proceeds from the sale of the houses will be used to fund further housing development in the area.

La Motte Village contracts

1	La Motte Village services contract	DWA construction	R9,5 million
2	40 housing units	Power Donico JV	R5,2 million
3	20 housing units	Bright Idea 611 CC	R2,6 million
4	20 housing units	Bright Idea 632 CC	R2,6 million
5	Wemmershoek outfall server	EXEO Khokela	R3,7 million

Social performance

TCTA introduced the Franschoek First Policy to maximise the socio-economic benefits in terms of employment, training and procurement of the project to the local community. The policy gave preference to local residents and businesses with regard to employment and procurement opportunities. Compliance with the policy by all contractors was monitored by a committee of local representatives, known as the Integrated Employment and Training Committee. Contractual targets for local employment, training and procurement were exceeded.

Environmental performance

Prior to construction, an Environmental Management Plan was prepared, which incorporated environmental social strategies, detailed design guidelines, and social and river monitoring programmes. It also served as the guideline document for environmental governance whereby the natural environment and social components of the project were actively monitored by the Environmental Committee. Discrete activities to enhance social and environmental performance included the following:

- *Franschoek First Policy* – a policy commitment to maximise local training, procurement of services to ensure that local contractors were able to take maximum advantage of the opportunities generated by the project, and employment.

- *Water Quality Monitoring Programme* set out in the Environmental Management Plan to monitor the water quality impact of construction-related activities and to ensure compliance with the specified water quality standards.
- *River Monitoring Programme* set out in the Environmental Management Plan to establish a baseline of the functioning of the river prior to impoundment. During the operation of the dam the monitoring programme will be used to determine the impact of the dam on the river, and estuarine functioning and ecological status.
- *Alien clearing*, a contract awarded to the Working for Water Programme with the objectives to clear invasive plants from the catchment, so that water runoff is maximised and indigenous vegetation restored.
- *Environment Compliance Audit*, a biannual audit by an independent Environmental Control Officer mainly concerned with compliance with the Environmental Management Plan. TCTA pays this control officer who reports in parallel to the Environmental Management Committee and the independent governance body on which interested and affected parties are represented.
- *Social Monitoring Programme* initiated as part of the Environmental Management Plan to develop effective strategies to compensate and mitigate construction-related negative impacts and maximise social benefits. It gave special attention to issues like the impact of in-migration and effectiveness of host community skills training, impacts of skilled migrant workers and the nature and scale of women's empowerment on the project.
- *Environmental and Social Panel of Experts*, an independent peer review body consisting of three respected experts to provide an additional mechanism for quality assurance and independent evaluation of the social and water quality monitoring activities, and the validity of data.

In general, the significant negative environmental and social impacts that were predicted in the environmental impact assessment and the initial fears of the local communities, and interested and affected parties did not materialise. This was due to strict environmental and social control measures that were included in the construction contracts and the external compliance auditing undertaken by the Environmental Control Officer and monitoring and review by the Environmental Monitoring Committee.

The Berg Water Project consistently achieved a high level of compliance with the environmental impact assessment record of decision and the Environmental Management Plan requirements. During the construction period the project incrementally increased its Environmental Management Plan compliance from 82% to 96%.

During the period under review an Environmental Management Plan for the operational phase was developed. This plan outlined a system for the conservation of the natural resources in the project's watershed, for the sustainable use of the dam, lake and watershed and for the management of the environmental and flood releases from the Berg River Dam.



Our projects (continued)

VAAL RIVER EASTERN SUBSYSTEM AUGMENTATION PROJECT – *a lifeline from Vaal Marina to Secunda*

One of South Africa's largest water supply projects – the R2 700-million Vaal River Eastern Subsystem Augmentation Project – now delivers water to mothballed and new Eskom power stations, and to Sasol in Mpumalanga, with major benefits to local communities along the 121-km pipeline. The pipeline traverses four local municipalities – MidVaal, Dipaleseng, Lekwa and Govan Mbeki. Construction started in December 2005.

Project profile

The pipeline transfers water from the Vaal Dam to the diversion structure at Knoppiesfontein near Secunda. From here water is discharged into either the Trichardtsfontein or Bosjesspruit dams, from where Eskom and Sasol abstract their water.

One of the major challenges was land acquisition, as more than 100 land owners were affected.

A 40-metre-wide servitude along the total pipeline length was required for its construction. In addition, 25 borrow pits along the pipeline route were acquired for the sourcing of backfill material. Initially the servitudes were cleared of all vegetation, after which topsoil and fertile soil were stockpiled separately. Topsoil and fertile soils were replaced once backfilling of the pipeline had been completed.

A further challenge was the groundwater in the area, following high rainfall experienced when many of the pipeline trenches were flooded. There were variable groundwater levels throughout the

contract period, and in many portions the management of water in the trenches was a problem.

Various engineering solutions were applied and water was pumped out of the trenches in a manner that avoided soil erosion. In many instances water could not be pumped into adjacent crop land, as farmers were drying out lands for harvesting – hence, in some cases, water had to be pumped up to a distance of two kilometres away from the servitude.

The commissioning of the temporary abstraction works, balancing dams, surge tank and pipeline are complete. The three available pump sets in the high lift pump station were tested individually, although the final testing of all three pumps running together is still outstanding. The water diversion works at Knoppiesfontein has also been substantially commissioned except for those tests requiring the full capacity to be pumped.

The redesign of the cofferdam, due to the unexpected high water level in the Vaal Dam during the early construction period and the worse than expected geotechnical conditions at the abstraction works, was the main reason for the delay in the completion date.

VRESAP will augment the existing yield to Knoppiesfontein from 301 million m³ per annum to 461 million m³ per annum.



While the construction of the permanent abstraction works is progressing well, the forecast indicates that the commission date will be March 2011.

Funding

The project costs at completion are expected to be within the revised approved project budget of R2 700 million.

The project was funded on an off-government budget basis without an explicit government guarantee. Project costs will be recovered from revenue generated from the sale of water to Eskom and Sasol from the full Vaal River Eastern Subsystem by 2027. By the end of the financial year the project debt, after taking interest capitalised during construction into account, was R2 860 million.

Debt servicing

Sasol and Eskom will pay for water used, and the Department of Water Affairs will in turn pay TCTA to repay the loans required to fund the implementation of the project. The tariff will apply once the project is declared operational. The tariff will be sufficient to redeem the debt within 20 years once the project is operational in line with the Water Pricing Strategy of the Department of Water Affairs.

Annual adjustments to the tariff are made in accordance with the CPI, changes in water demand, changes in macroeconomic factors and allocation of water to third-party users.

Capital expenditure

Project capital expenditure for the review year totalled R263,5 million, compared to R786,6 million in the previous year.

The project also maintained an excellent Fitch long-term credit rating of AA+(zaf).

Contractors

A construction contract for the supply and installation of the pipeline (Contract V020) was awarded to Mpumalanga Pipeline Contractors Joint Venture, comprising Murray and Roberts Construction, Group Five Construction, WK Construction and J&J Group. The contract price was R1 390 million.

A second construction contract (Contract V021) for the construction of civil structures: mechanical, electrical instrumentation and piping works was awarded to COVEC-MC Joint Venture, comprising the China Overseas Engineering Corporation and Mathe Construction, a 25% black-empowerment company partner. The contract value was R418 million.

The consulting engineers are a joint venture known as Vaal Pipeline Consultants, consisting of Goba, PD Naidoo and Associates, and Ninham Shand.

Social performance

TCTA created an excellent track record of local community empowerment. Where possible, employment and training opportunities were provided to communities along the pipeline route.

Six women-owned emerging companies, mainly from Mpumalanga and belonging to South African Women in Construction (SAWiC), were trained to construct air valve chambers along the pipeline route. The six companies were provided with business training by the South African Federation of Civil Engineering Contractors. They also received practical training and mentoring from the Mpumalanga Pipeline Contractors. The Capital Outsourcing Group assisted the companies with labour-related matters. The programme has been a success, with 108 workers employed on the project.



Our projects (continued)

Preferential procurement was also a crucial aspect of VRESAP. It ensured that local companies, black people and women benefited from the project. The contract conditions required the main contractor to spend 2,5% with local companies, 15% with BEE companies with 25,1% BEE shareholding, 10% with BEE companies with 50,1% BEE shareholding and 7,5% with SMMEs with less than R60 million turnover per year.

Local companies were used for temporary fencing of the servitude, plant hire, transportation of workers, stationery and general supplies for site offices along the length of the pipeline, and for accommodation for all personnel. Community liaison officers on all work fronts along the pipeline registered suppliers from local communities to facilitate sourcing in each region.

Employment – locals

Category	Local (target 45%)			
	2008/09		Cumulative to date	
	Actual (Persons' years)	Actual (%)	Actual (Persons' years)	Actual (%)
Contract number V020	176	61	2 198	63
Contract number V021	254	71	857	74
Total	430	66	3 055	68

Employment – historically disadvantaged individuals

Category	Historically disadvantaged individuals (target 75%)			
	2008/09		Cumulative to date	
	Actual (Persons' years)	Actual (%)	Actual (Persons' years)	Actual (%)
Contract number V020	270	93	3 219	93
Contract number V021	268	75	933	80
Total	539	84	4 152	86

During the period under review the contractors endeavoured to meet the socio-economic development targets. Overall performance will be measured at the end of the contracts.

Environmental performance

Environmental performance on the project for the period under review generally met compliance targets. Compliance against the Environmental Management Plan was 94%, compared to 88% in the previous year.

The affected communities are represented on the VRESAP Environmental Monitoring Committee, together with farmers' associations and local and national stakeholders.

Critical risk issues

The main challenge experienced in the past financial year was with the completion of the construction works under the main contracts, which were required to start with commissioning of the project. The first water was delivered through the system during December 2008.

However, electrical failure challenges were experienced during the further commissioning of the high lift pumps, which resulted in a delay in declaring the project operational. Tests are ongoing to determine the root cause of the electrical failures experienced.

The completion of the permanent abstraction works in the shortest possible time is another risk that is carefully monitored and managed to prevent further delays.



Other achievements for VRESAP include the rescuing of endangered plants and rehabilitating roads, working areas and quarries.

Our projects (continued)

MOOI-MGENI TRANSFER SCHEME PHASE 2 – transforming the KwaZulu-Natal midlands

Phase two of the R1 700-million Mooi-Mgeni Transfer Scheme in the KwaZulu-Natal midlands entails the augmentation of the existing transfer scheme into the Mgeni River catchment. This will increase the system yield by 60 million m³ per year to 394 million m³ per year.

Project profile

The new phase, upstream from the existing Mearns weir, entails the construction of the new Spring Grove Dam on the Mooi River, and a new pump station. It also entails a new pipeline from the dam to the Mpfana River and a fish barrier upstream of the tail waters of the dam to prevent the small-mouthed bass from entering the brown trout water upstream.

The main beneficiaries are: eThekweni Metropolitan, uMgungundlovu District and Msunduzi Local municipalities.

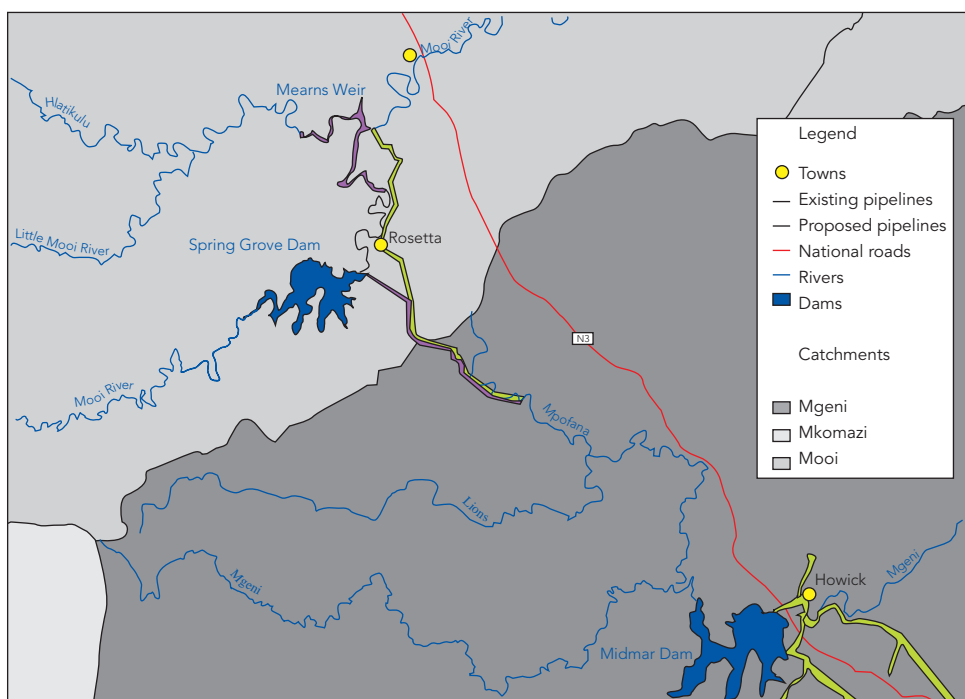
Construction will begin in 2010, with water delivery scheduled to begin by mid-2012.

Funding

The National Treasury has approved a R3 100-million borrowing limit. The project will be funded on an off-budget basis and the capital costs will be recovered from the revenue generated from the sale of water.

Environmental performance

During the period under review the Environmental Impact Assessment process was undertaken and the resultant report was submitted to the authorities for decision-making. Physical implementation of the project has not commenced.





The R1,7 billion phase two of the MMTS will increase water yield to 394 m³ per year.

Our projects (continued)

OLIFANTS RIVER WATER RESOURCES DEVELOPMENT PROJECT PHASE 2 supporting industry and empowering local communities

The second phase of the Olifants River Water Resources Development Project (ORWRDP2) entails bulk water infrastructure to meet the water requirements of new mines and power stations in the Limpopo province, together with social water needs. It will particularly benefit the towns of Mokopane, Burgersfort, Steelpoort, Roosenekal, Jane Furse, Polokwane, Lebowakgomo as well as the rural communities of the Lepelle-Nkumpi, Fetakgomo, Makhuduthamaga and Greater Tubatse municipalities.

Project profile

Incorporated into the Olifants River and Sand River catchment areas, the project caters for the water demands of commercial and social users.

It entails the De Hoop storage dam – currently under construction by the Department of Water Affairs – and bulk transfer pipelines and pump stations that will be funded and implemented by TCTA.

The main distribution infrastructure includes five components:

- The abstraction works for water abstraction from the Steelpoort River released from the De Hoop Dam, or alternatively a bulk water pipeline from the dam.
- A bulk distribution system comprising pipelines and pump stations from the Steelpoort Works along the R37 road that will link up with the existing Olifants-Sand Transfer Scheme at Olifantspoort.
- A bulk distribution system from the Flag Boshielo Dam to the Mokopane area.
- The infrastructure of the Lebalelo Water User Association to be acquired and incorporated into the project.

- A bulk distribution system comprising a pipeline and pumping station from the De Hoop Dam to the Eskom Tubatse Pumped Storage Scheme. This will pump water to Jane Furse and the Nebo Plateau area.

The bulk distribution system will enable the Flag Boshielo and De Hoop dams to function as a single system, ensuring a higher water supply assurance level. The additional yield is expected to be approximately 80 million m³ per year.

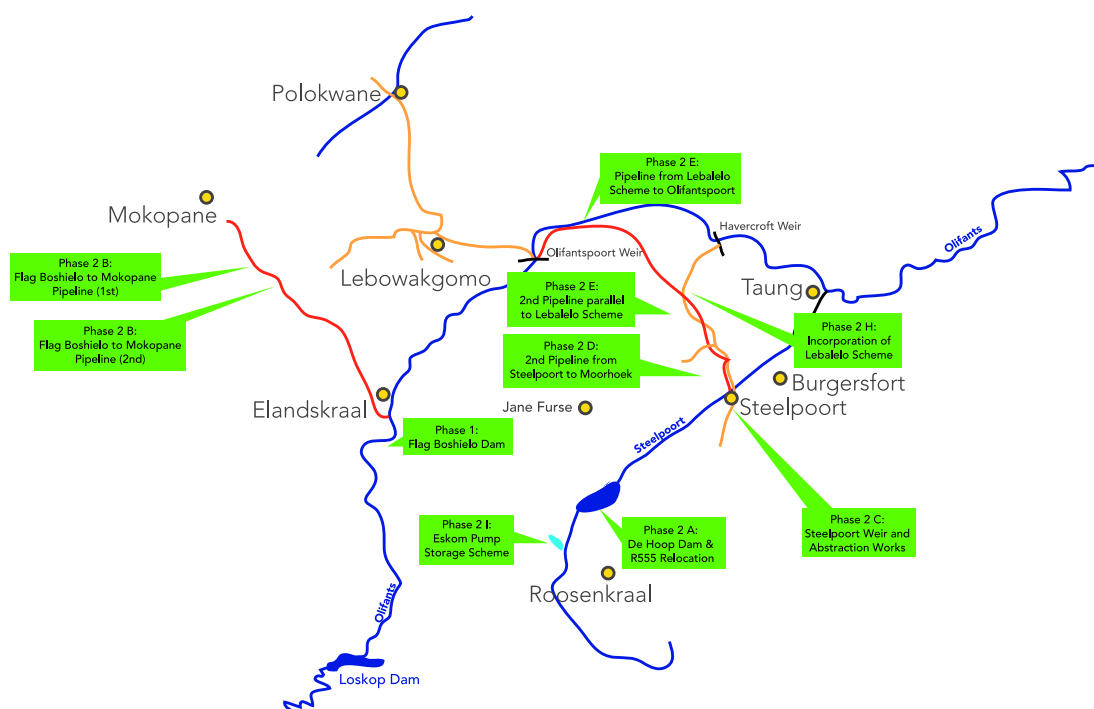
An open tender process was followed for the procurement of consultancy services. Prequalified entities were invited to tender in February 2009 and the successful tenderer is expected to conclude tender design by the end of the financial year 2009/10. Construction will begin by mid-2010, and water delivery is anticipated by 2012.

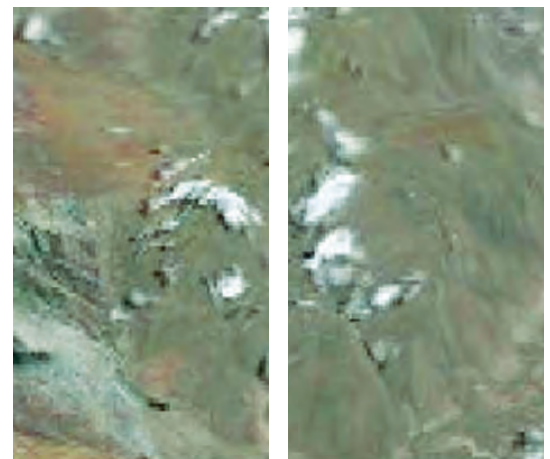
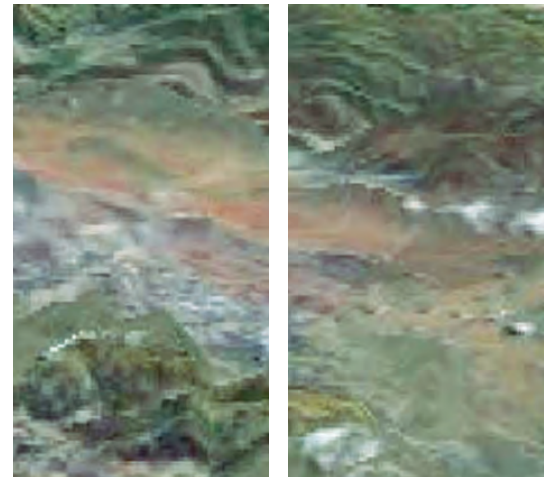
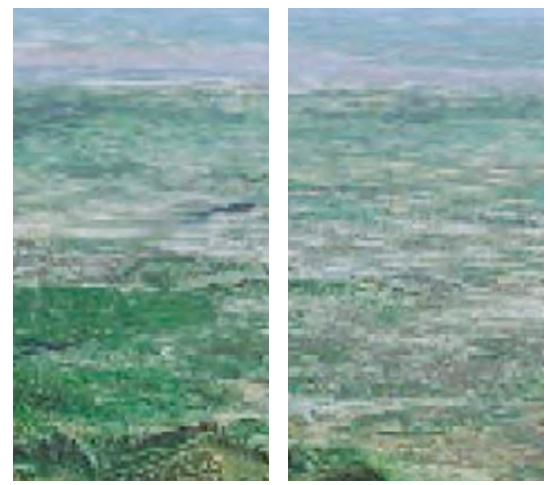
Funding

Mines and municipalities are the two main user groups. Government is funding the De Hoop Dam, the municipalities will fund approximately 50% of the bulk distribution system and the commercial off-takers are funded off-budget. The project budget is estimated to be R7,9 billion at completion. The capital costs for the commercial portion will be recovered from the revenue generated from the sale of water on a take-of-pay principle to industrial users.

Environmental performance

During the period under review no environmental activities were undertaken. Physical implementation of the project has not commenced.





The ORWRDP2 is incorporated into the Olifants River and Sand River catchment areas. It caters for the water demands of commercial and social users.

Our projects (continued)

KOMATI WATER SCHEME AUGMENTATION PROJECT – *water for power*

The Komati Water Scheme Augmentation Project entails water supply to Eskom’s Duvha and Matla power stations in Mpumalanga. It will augment the Komati Water Scheme from the Vaal Eastern Subsystem for the sole benefit of Eskom.

The infrastructure consists of a 64-km water pipeline from the Rietfontein weir to the Duvha Power Station with a 7-km off-take to the Matla Power Station. The additional yield is expected to be approximately 57 million m³ per year.

Following an open public tender process, a professional engineering services provider, BKS Consulting Engineers South Africa, was appointed.

Construction will begin early in 2010, and water delivery is anticipated by the end of 2011.

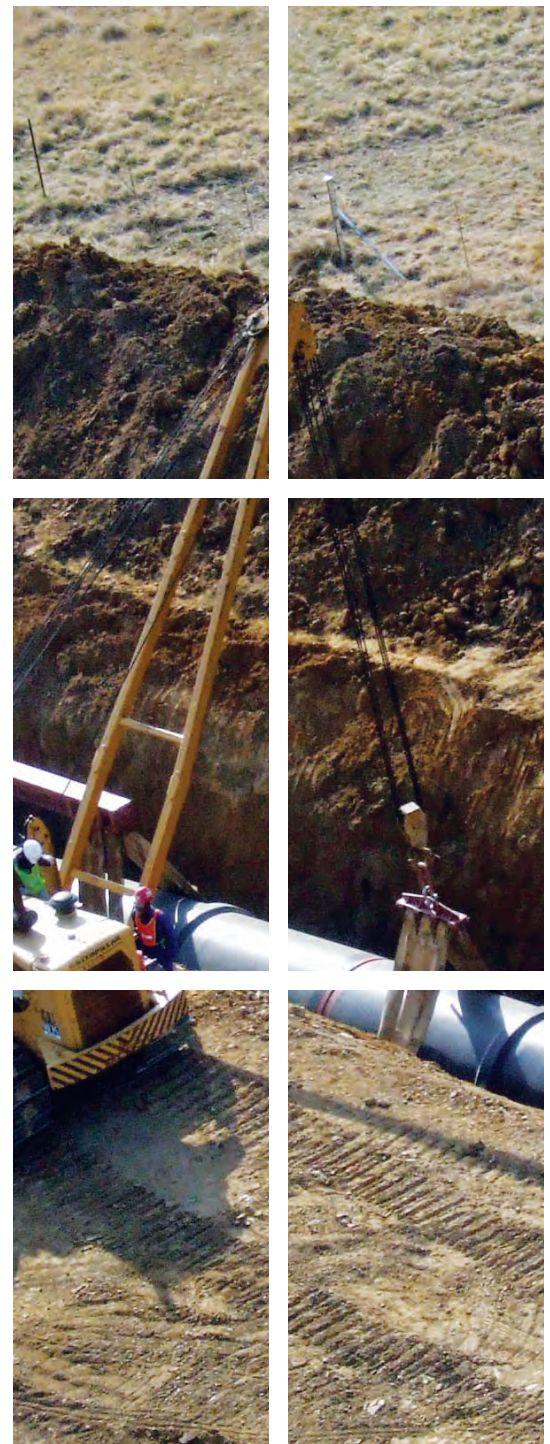
Funding

The project budget of about R1 700 million will be funded on an off-budget basis and the capital costs will be recovered from the revenue generated from the sale of water to Eskom over a 20-year period after completion of construction.

Environmental performance

During the period under review the Environmental Impact Assessment process was undertaken and the resultant report was submitted to the authorities for decision-making. Physical implementation of the project has not commenced.





The KWSAP entails water supply to Eskom's Duvha and Matla power stations in Mpumalanga.

Our projects (continued)

MOKOLO CROCODILE WATER AUGMENTATION PROJECT – *water equals energy*

To meet South Africa's future energy needs, the water requirements in the Waterberg coal fields in Limpopo are expected to increase tenfold in the next 20 years. The importance of increased bulk water provision to the area is further heightened by a possible Sasol plant in the area to produce liquid fuel from coal as well as associated mining activities.

The project will be commercially viable with all costs recovered from water users, except for a small municipal portion.

Project profile

The project will be implemented in two phases. Phase one comprises a pump station and an 81-km pipeline. The one-metre diameter pipes will deliver 50 million m³ bulk water per year from the Mokolo Dam.

The system will run parallel to and tie into the existing infrastructure that supplies the Exxaro Grootegeluk Mine, the Eskom Matimba Power Station, the Lephalale Local Municipality and Steenbokpan with bulk water.

Exxaro owns and operates the existing water system, which needs to be acquired and incorporated into the new government waterworks.

Phase two comprises an abstraction weir in the Crocodile River at Vleipoort near Thabazimbi, degritting channels with high and low lift pump stations and a 128-km pipeline with pipes with a diameter of up to three metres. It also entails the erection of break pressure and balancing reservoirs to deliver 197 million m³ bulk water per year to Steenbokpan, tying in with the phase one infrastructure.

Both phases will require supplementary infrastructure like access roads, an operations centre and additional measuring weirs in the Crocodile River, as well as monitoring and control systems of the entire water infrastructure.

An open tender process was followed for the procurement of consultancy services and the shortlisted service providers were invited to tender for provision of the engineering services in February 2009. The evaluation of these proposals will be completed in the new financial year.

Construction of phase one is expected to begin in July 2010 and of phase two in January 2011. Water delivery of phase one is expected by September 2012 and that of phase two by June 2014.

The Minister of Water and Environmental Affairs' directive to the TCTA to finance and implement the project is pending.

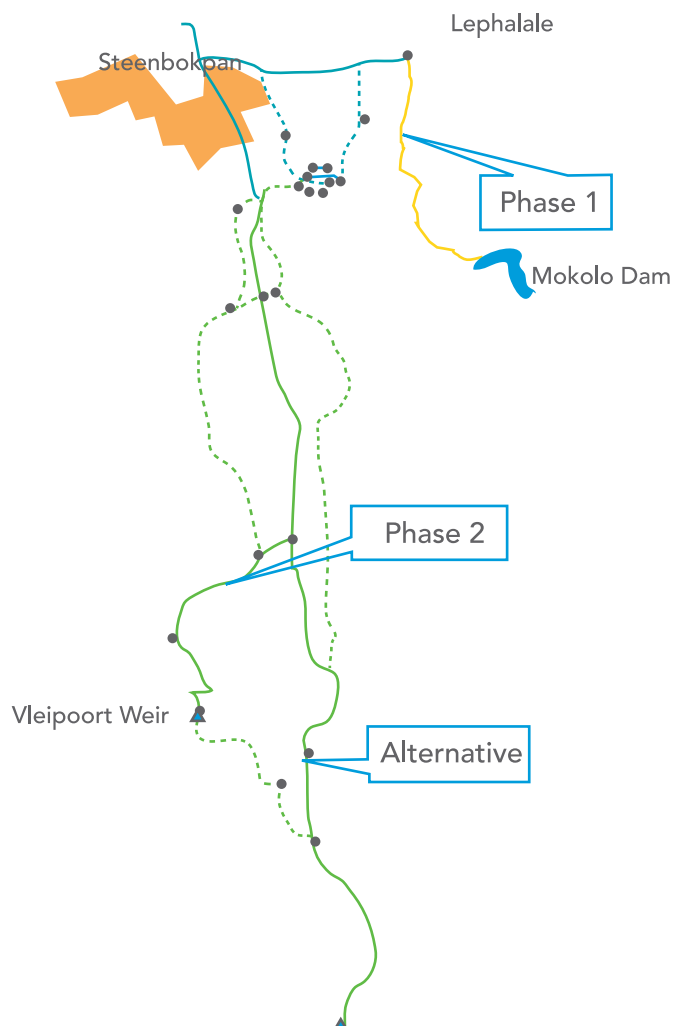
Funding

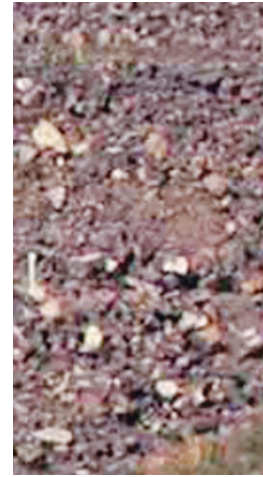
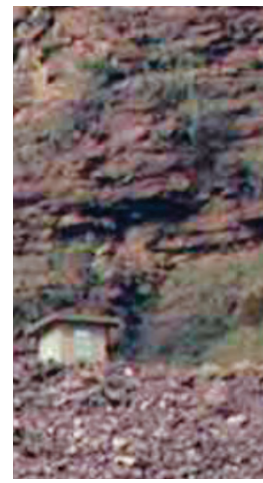
The project budget is estimated at R2 090 million at completion.

The project will largely be funded from off-budget sources and the minister will direct TCTA to procure funding and implement the project. Funding will be repaid through a capital tariff to the off-takers on water delivered from the system.

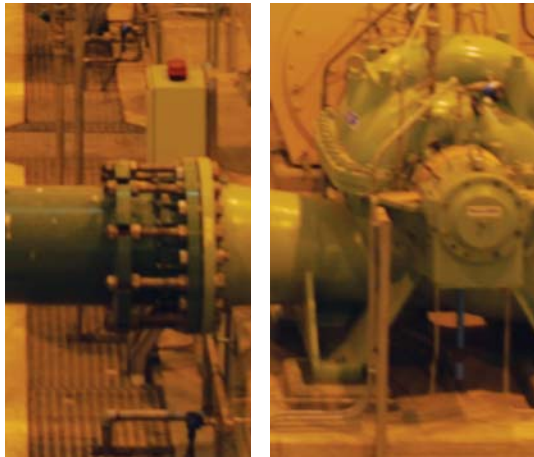
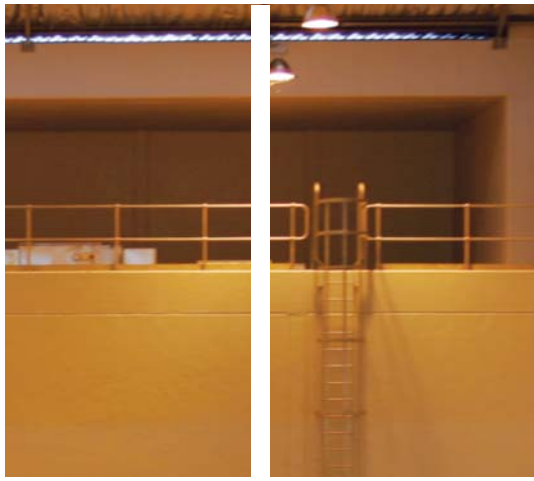
Environmental performance

The Environmental Impact Assessment commenced in February 2009.





The MCWAP will be commercially viable with all costs recovered from water users.



Annual financial statements



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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 Financial 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 are subject to audit.

TCTA is a going concern. The long-term solvency of TCTA is determined by its tariff methodology, income agreements and guarantees (explicit and 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. The income agreements allow for a CPI-adjusted increase on an annual basis. Furthermore, additional increases are provided for in the income agreements for any changes in the input assumptions, including changes in water demand and operations costs. 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 (LHWP) and implicit (BWP and VRESAP), and the useful life of the projects, it is clear that the debt will be repaid over the planned repayment period and that the organisation is a going concern.

A further fact contributing to TCTA as a going concern is the additional four mandates during this financial year.

The financial statements were approved by the Board of Directors on 26 June 2009 and are signed on its behalf by the Chairman and Chief Executive Officer.



Dr Snowy Khoza
Chairman



James Ndlovu
Chief Executive Officer

The Audit and Risk Committee's report

TO STAKEHOLDERS AND OTHER USERS OF THE FINANCIAL STATEMENTS

Report by the Audit and Risk Committee in terms of Regulations 27(1) (10)(b) and (c) of the Public Finance Management Act of 1999 (as amended).

In execution of its duties during the past financial year, the Audit and Risk Committee has:

- reviewed the procedures for identifying business risks and managing their impact on TCTA, including the risk management functions;
- reviewed TCTA's policies and procedures for detecting and preventing fraud;
- reviewed the operational effectiveness of TCTA's policies, systems and procedures;
- reviewed the effectiveness and adequacy of the Internal Audit Department and adequacy of its annual work plan;
- considered whether the independence, objectives, organisation, staffing plans, financial budgets, audit plans and standing of the internal audit function provide adequate support to enable the committee to meet its objectives;
- reviewed the results of the work performed by the internal audit function in relation to financial reporting, corporate governance, risk areas, internal control and any significant investigations and management response;
- reviewed the coordination between the internal audit function and the external auditors and dealt with any issues of material or significant dispute or concern;
- reviewed the entity's compliance with significant legal and regulatory provisions;
- reviewed such significant transactions as the committee deemed appropriate;
- reviewed the controls over significant financial and operational risks;
- reviewed any other relevant matters referred to it by the Board;
- reviewed the adequacy, reliability and accuracy of financial information provided by management and other users of such information;
- reviewed the accounting and auditing concerns identified by internal and external auditors;
- reviewed the annual report and financial statements taken as a whole to ensure they present a balanced and understandable assessment of the position, performance and prospects of the Corporation;
- reviewed the external auditors' findings and reports submitted to management; and
- reviewed the independence and objectivity of the external auditors.

No significant weaknesses were identified in internal controls, but corrective actions are taken to eliminate or reduce the concomitant risks. Based on the information and explanations given by management and the Internal Audit Department and discussions with the independent external auditors, the Board Audit and Risk Committee is of the opinion that the internal controls of TCTA have operated effectively throughout the year under review to ensure that TCTA's assets have been safeguarded, proper accounting records maintained and resources utilised efficiently.

Following our review of the financial statements for the year ended 31 March 2009, we are of the opinion that it is compliant with the relevant provisions of the Public Finance Management Act 1999, as amended, cash flow and financial position of TCTA. The Board Audit and Risk Committee concur that the adoption of the going-concern premise in the preparation of the financial statements as submitted be approved. On behalf of the Board Audit and Risk Committee.



Lebohang Thotanyana
Chairman: Audit and Risk Committee

Independent auditor's report

TO THE MINISTER OF WATER AND ENVIRONMENTAL AFFAIRS OF THE REPUBLIC OF SOUTH AFRICA ON TCTA

We have audited the financial statements of Trans-Caledon Tunnel Authority (TCTA), which comprise the statement of financial position as at 31 March 2009, the statement of comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 72 to 137.

Directors' responsibility for the financial statements

TCTA's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in a manner required by the Public Finance Management Act, Act 1 of 1999, as amended. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

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 comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall financial statement presentation.

The audit was also planned and performed to obtain reasonable assurance that our duties in terms of sections 27 and 28 of the Public Audit Act, Act 25 of 2004 have been complied with.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of TCTA as at 31 March 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Public Management Finance Act, Act 1 of 1999, as amended, and the Public Audit Act, Act 25 of 2004.

In our opinion the performance information of TCTA in terms of section 55(2)(a) of the Public Finance Management Act, Act 1 of 1999, as amended, fairly presents in all material respects TCTA's performance for the year ended 31 March 2009 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 accordance with the mandatory functions of TCTA, as determined by law or otherwise.

Deloitte & Touche

Deloitte & Touche
Per Mgcinisihlalo Jordan
Partner
26 June 2009

Woodmead

Deloitte & Touche
Registered Auditors
Audit – Johannesburg
Private Bag X6
Gallo Manor 2052
South Africa

Tel +27 11 806 5200
Fax +27 11 806 5222
www.deloitte.com

National Executive: GG Gelink Chief Executive AE Swiegers Chief Operating Officer GM Pinnock Audit
DL Kennedy Tax & Legal and Financial Advisory L Geeringh Consulting L Bam Corporate Finance
CR Beukman Finance TJ Brown Clients & Markets NT Mtoba Chairman of the Board.

A full list of partners and directors is available on request

SizweNtsaluba VSP

SizweNtsaluba VSP
Per Anoosh Rooplal
Partner
26 June 2009

Woodmead

SizweNtsaluba VSP
Registered Auditors
Chartered Accountants (SA)
PO Box 2939
Saxonwold 2132
South Africa

Tel +27 86 1176 877
Fax +27 11 234 0933
www.sizwentsaluba.co.za

Statement of financial position

as at 31 March 2009

	Notes	Total 2009 R million	Total 2008 R million
Assets			
Non-current assets		21 169	19 677
Property, plant and equipment	6	6 026	5 461
Intangible assets	7	13 107	13 073
Investment property	8	14	15
Long-term financial market investments	9.3	2 000	1 114
Derivative financial instruments	9.3	17	14
Loans and other receivables	10	5	–
Current assets		2 796	1 276
Loans and other receivables	10	863	397
Derivative financial instruments	9.3	6	2
Short-term financial market investments	9.3	1 819	794
Prepaid expenditure	11	88	70
Non-contractual amounts	15	4	13
Cash and cash equivalents	18	16	–
Total assets		23 965	20 953
Equity and liabilities			
Reserves and deficit		(3 629)	(3 551)
Non-distributable reserves	12	120	121
Cumulative deficit	13	(3 749)	(3 672)
Total equity		(3 629)	(3 551)
Liabilities			
Non-current liabilities		23 637	21 966
Long-term financial market liabilities	9.3	23 312	21 694
Long-term liabilities	17	282	227
Derivative financial instruments	9.3	43	45
Current liabilities		3 957	2 538
Trade and other payables	14	797	688
Non-contractual amounts	15	69	51
Provisions	16	3	3
Derivative financial instruments	9.3	36	27
Short-term financial market liabilities	9.3	3 046	1 769
Overdraft	18	6	–
Total liabilities		27 594	24 504
Total equity and liabilities		23 965	20 953

Statement of comprehensive income

for the year ended 31 March 2009

	Notes	Total 2009 R million	Total 2008 R million
Revenue	19	2 493	2 088
Other income	20	8	1
Expenses		(613)	(492)
Legal fees and litigation costs		(1)	(1)
Other reversals of provisions		-	6
Depreciation and amortisation		(40)	(35)
Operating costs for the work in Lesotho		(71)	(66)
Lesotho Highlands Water Commission (LHWC) costs		(8)	(8)
Staff costs		(101)	(57)
Directors' emoluments	23.1	(5)	(9)
Development contribution		(31)	-
Royalties paid	22	(325)	(302)
Other operating expenses	23	(31)	(20)
Operating surplus		1 888	1 597
Net finance costs		(1 965)	(1 759)
Finance income	21.1	639	451
Finance costs	21.2	(2 604)	(2 210)
Deficit for the year		(77)	(162)
Other comprehensive income:			
Realisation of revaluation		(1)	-
Reversal of revaluation		-	(24)
Other comprehensive income for the year		(1)	(24)
Total comprehensive income for the year		(78)	(186)

Segmental statement of financial position

as at 31 March 2009

	Notes	LHWP ¹ 2009 R million	BWP ² 2009 R million	VRESAP ³ 2009 R million	Advisory services ⁷ 2009 R million	MMTS2 ⁴ 2009 R million	ORWRDP2 ⁵ 2009 R million	KWSAP ⁶ 2009 R million	Total 2009 R million
Assets									
Non-current assets									
		17 202	1 216	2 749	–	2	–	–	21 169
Property, plant and equipment	6	2 064	1 211	2 749	–	2	–	–	6 026
Intangible asset	7	13 107	–	–	–	–	–	–	13 107
Investment property	8	14	–	–	–	–	–	–	14
Long-term financial market investments	9.3	2 000	–	–	–	–	–	–	2 000
Derivative financial instruments	9.3	17	–	–	–	–	–	–	17
Loans and other receivables	10	–	5	–	–	–	–	–	5
Current assets									
		2 504	195	95	–	2	–	–	2 796
Loans and other receivables	10	707	110	46	–	–	–	–	863
Derivative financial instruments	9.3	6	–	–	–	–	–	–	6
Short-term financial market investments	9.3	1 745	68	6	–	–	–	–	1 819
Prepaid expenditure	11	46	1	39	–	2	–	–	88
Non-contractual amounts	15	–	–	4	–	–	–	–	4
Cash and cash equivalents	18	–	16	–	–	–	–	–	16
Total assets									
		19 706	1 411	2 844	–	4	–	–	23 965
Equity and liabilities									
Reserves and deficit									
		(3 490)	(27)	(66)	(6)	(18)	(15)	(7)	(3 629)
Non-distributable reserves	12	120	–	–	–	–	–	–	120
Cumulative deficit	13	(3 610)	(27)	(66)	(6)	(18)	(15)	(7)	(3 749)
Total equity									
		(3 490)	(27)	(66)	(6)	(18)	(15)	(7)	(3 629)
Liabilities									
Non-current liabilities									
		20 023	993	2 621	–	–	–	–	23 637
Long-term financial market liabilities	9.3	19 698	993	2 621	–	–	–	–	23 312
Long-term liabilities	17	282	–	–	–	–	–	–	282
Derivative financial instruments	9.3	43	–	–	–	–	–	–	43
Current liabilities									
		3 173	445	289	6	22	15	7	3 957
Trade and other payables	14	593	118	36	6	22	15	7	797
Non-contractual amounts	15	56	13	–	–	–	–	–	69
Provisions	16	3	–	–	–	–	–	–	3
Derivative financial instruments	9.3	36	–	–	–	–	–	–	36
Short-term financial market liabilities	9.3	2 479	314	253	–	–	–	–	3 046
Overdraft	18	6	–	–	–	–	–	–	6
Total liabilities									
		23 196	1 438	2 910	6	22	15	7	27 594
Total equity and liabilities									
		19 706	1 411	2 844	–	4	–	–	23 965

Financial statements are rounded to the nearest million. Where balances are zero, the amount is less than R500 000.

1 LHWP – Lesotho Highlands Water Project

2 BWP – Berg Water Project

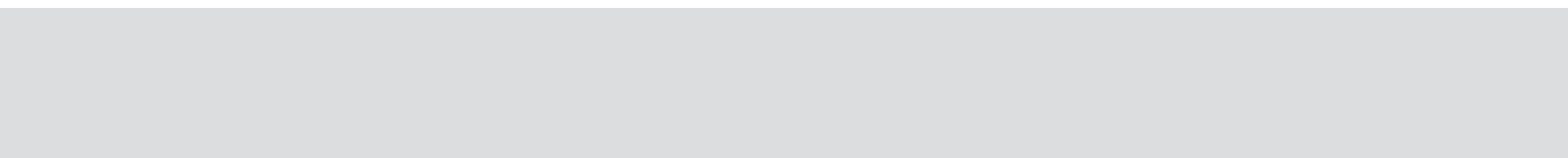
3 VRESAP – Vaal River Eastern Subsystem Augmentation Project

4 MMTS2 – Mooi-Mgeni Transfer Scheme phase 2

5 ORWRDP2 – Olifants River Water Resource Development Project phase 2

6 KWSAP – Komati Water Scheme Augmentation Project

7 Advisory services – includes Mokolo Crocodile Water Augmentation Project (MCWAP)



LHWP ¹ 2008 R million	BWP ² 2008 R million	VRESAP ³ 2008 R million	MMTS ² ⁴ 2008 R million	ORWRDP ² ⁵ 2008 R million	KWSAP ⁶ 2008 R million	Total 2008 R million
16 280	1 128	2 269	–	–	–	19 677
2 064	1 128	2 269	–	–	–	5 461
13 073	–	–	–	–	–	13 073
15	–	–	–	–	–	15
1 114	–	–	–	–	–	1 114
14	–	–	–	–	–	14
–	–	–	–	–	–	–
1 254	7	15	–	–	–	1 276
397	–	–	–	–	–	397
2	–	–	–	–	–	2
794	–	–	–	–	–	794
61	4	5	–	–	–	70
–	3	10	–	–	–	13
–	–	–	–	–	–	–
17 534	1 135	2 284	–	–	–	20 953
(3 456)	(53)	(42)	–	–	–	(3 551)
121	–	–	–	–	–	121
(3 577)	(53)	(42)	–	–	–	(3 672)
(3 456)	(53)	(42)	–	–	–	(3 551)
18 959	961	2 046	–	–	–	21 966
18 687	961	2 046	–	–	–	21 694
227	–	–	–	–	–	227
45	–	–	–	–	–	45
2 031	227	280	–	–	–	2 538
560	40	88	–	–	–	688
51	–	–	–	–	–	51
3	–	–	–	–	–	3
27	–	–	–	–	–	27
1 390	187	192	–	–	–	1 769
–	–	–	–	–	–	–
20 990	1 188	2 326	–	–	–	24 504
17 534	1 135	2 284	–	–	–	20 953

Segmental statement of comprehensive income

for the year ended 31 March 2009

	Notes	LHWP ¹ 2009 R million	BWP ² 2009 R million	VRESAP ³ 2009 R million	Advisory services ⁷ 2009 R million	MMTS2 ⁴ 2009 R million	ORWRDP ⁵ 2009 R million	KWSAP ⁶ 2009 R million	Total 2009 R million
Revenue	19	2 283	202	–	8	–	–	–	2 493
Other income	20	3	5	–	–	–	–	–	8
Expenses		(484)	(51)	(24)	(14)	(18)	(15)	(7)	(613)
Legal fees and litigation costs		(1)	–	–	–	–	–	–	(1)
Other reversals of provisions		–	–	–	–	–	–	–	–
Depreciation and amortisation		(35)	(5)	–	–	–	–	–	(40)
Operating costs for the work in Lesotho		(71)	–	–	–	–	–	–	(71)
Lesotho Highlands Water Commission (LHWC) costs		(8)	–	–	–	–	–	–	(8)
Staff costs		(90)	(3)	–	(8)	–	–	–	(101)
Directors' emoluments	23.1	(5)	–	–	–	–	–	–	(5)
Development contribution		–	(31)	–	–	–	–	–	(31)
Royalties paid	22	(325)	–	–	–	–	–	–	(325)
Other operating expenses	23	51	(12)	(24)	(6)	(18)	(15)	(7)	(31)
Operating surplus		1 802	156	(24)	(6)	(18)	(15)	(7)	1 888
Net finance costs		(1 835)	(130)	–	–	–	–	–	(1 965)
Finance income	21.1	638	1	–	–	–	–	–	639
Finance costs	21.2	(2 473)	(131)	–	–	–	–	–	(2 604)
Deficit for the year		(33)	26	(24)	(6)	(18)	(15)	(7)	(77)
Other comprehensive income:									
Realisation of revaluation		(1)	–	–	–	–	–	–	(1)
Reversal of revaluation		–	–	–	–	–	–	–	–
Other comprehensive income for the year		(1)	–	–	–	–	–	–	(1)
Total comprehensive income for the year		(34)	26	(24)	(6)	(18)	(15)	(7)	(78)

Financial statements are rounded to the nearest million. Where balances are zero, the amount is less than R500 000.

1 LHWP – Lesotho Highlands Water Project

2 BWP – Berg Water Project

3 VRESAP – Vaal River Eastern Subsystem Augmentation Project

4 MMTS2 – Mooi-Mgeni Transfer Scheme phase 2

5 ORWRDP2 – Olifants River Water Resource Development Project phase 2

6 KWSAP – Komati Water Scheme Augmentation Project

7 Advisory services – includes Mokolo Crocodile Water Augmentation Project (MCWAP)

LHWP ¹ 2008 R million	BWP ² 2008 R million	VRESAP ³ 2008 R million	Advisory services ⁷ 2008 R million	MMTS ² ⁴ 2008 R million	ORWRDP ² ⁵ 2008 R million	KWSAP ⁶ 2008 R million	Total 2008 R million
2 087	–	–	1	–	–	–	2 088
1	–	–	–	–	–	–	1
(446)	(21)	(24)	(1)	–	–	–	(492)
(1)	–	–	–	–	–	–	(1)
6	–	–	–	–	–	–	6
(35)	–	–	–	–	–	–	(35)
(66)	–	–	–	–	–	–	(66)
(8)	–	–	–	–	–	–	(8)
(56)	–	–	(1)	–	–	–	(57)
(9)	–	–	–	–	–	–	(9)
–	–	–	–	–	–	–	–
(302)	–	–	–	–	–	–	(302)
25	(21)	(24)	–	–	–	–	(20)
1 642	(21)	(24)	–	–	–	–	1 597
(1 759)	–	–	–	–	–	–	(1 759)
451	–	–	–	–	–	–	451
(2 210)	–	–	–	–	–	–	(2 210)
(117)	(21)	(24)	–	–	–	–	(162)
–	–	–	–	–	–	–	–
(24)	–	–	–	–	–	–	(24)
(24)	–	–	–	–	–	–	(24)
(141)	(21)	(24)	–	–	–	–	(186)

Statement of changes in equity

for the year ended 31 March 2009

	Non-distributable reserves			Total recognised income and expense for the year ¹
	Revaluation reserve R million	Total reserves R million	Cumulative deficit R million	R million
Opening balance at 1 April 2007	141	141	(3 510)	(3 369)
Amounts released to deficit during the year	–	–	–	–
Reversal of revaluation	(24)	(24)	–	(24)
Net deficit for the year	–	–	(162)	(162)
Total income and expenses recognised during the year	(24)	(24)	(162)	(186)
Accumulated depreciation adjusted against non-distributable reserve	5	5	–	5
Realisation of revaluation surplus	(1)	(1)	–	(1)
Balance at 31 March 2008	121	121	(3 672)	(3 551)
Opening balance at 1 April 2008	121	121	(3 672)	(3 551)
Amounts released to deficit during the year	–	–	–	–
Realisation of revaluation surplus	(1)	(1)	–	(1)
Net deficit for the year	–	–	(77)	(77)
Total comprehensive income and expenses recognised during the year	(1)	(1)	(77)	(78)
Balance at 31 March 2009	120	120	(3 749)	(3 629)

The notes on pages 72 to 137 are an integral part of these financial statements.

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

Statement of cash flows

for the year ended 31 March 2009

	Notes	Total 2009 R million	Total 2008 R million
Cash flow from operating activities			
Cash receipts from customers		2 098	2 298
Cash paid to suppliers and employees		(478)	(746)
Cash generated from project activities	A	1 620	1 552
Interest paid	C	(2 351)	(2 112)
Net cash outflow from operating activities		(731)	(560)
Cash flow from investing activities			
Payments to acquire financial assets		(2 515)	(1 071)
Proceeds on the sale of financial assets		700	16
Interest received	B	210	23
Removed from enduring benefit		–	–
Capitalised to works in South Africa		(395)	(821)
Addition of other assets		(4)	(1)
Purchase of investment property		–	(12)
Net cash outflow from investing activities		(2 004)	(1 866)
Cash flow from financing activities			
Proceeds from long-term borrowings		1 670	2 945
Repayments on long-term borrowings		(980)	(532)
Proceeds from short-term borrowings		2 667	875
Repayments on short-term borrowings		(612)	(862)
Net cash inflow from financing activities		2 745	2 426
Net increase in cash and cash equivalents		10	–
Cash and cash equivalents at the beginning of the period		–	–
Cash and cash equivalents at the end of the period	D	10	–

Notes to the statement of cash flows

for the year ended 31 March 2009

	Total 2009 R million	Total 2008 R million
A. Cash generated from project activities		
Net deficit for the year	(77)	(162)
Adjustments for non-cash flow items and amounts separately disclosed:		
Depreciation on non-current assets	40	35
Transfer of NDR to retained earnings	–	(1)
Finance cost recognised in profit or loss	1 952	1 780
Net foreign exchange gains	(39)	(122)
Net foreign exchange losses	52	101
Higher than actual O&M costs	21	–
Rental income – RSA account	(1)	–
Development contribution	31	–
Changes in working capital:		
(Increase/decrease) in trade and other receivables	(471)	41
(Increase/decrease) in other assets	–	–
(Increase/decrease) in prepayments	(18)	85
Increase in payables and provisions (excluding interest payable)	129	(218)
Non-cash flow item in accounts receivable	10	17
Non-cash flow item in accounts payable	(9)	(4)
Cash generated from project activities	1 620	1 552
B. Interest received		
Amount due at the beginning of the year	136	25
Income during the year adjusted for non-cash items	308	134
Amount received	601	329
Loan premium amortised	(123)	(95)
Transfer to funding portfolio	(165)	(100)
Interest on RSA account	(5)	–
Amount due at the end of the year	(234)	(136)
Interest received	210	23

	Total 2009 R million	Total 2008 R million
C. Interest paid		
Amount not paid at the beginning of the year	(503)	(498)
Expensed during the year adjusted for non-cash items	(2 358)	(2 117)
Amount expensed	(2 805)	(2 377)
Less: Loan discount amortised	17	15
Foreign loan payments	(4)	(4)
Non-cash interest on zero coupons	–	9
Transfer to redemption portfolio	165	100
Loss on switch auction	39	–
Capital adjustment to inflation-linked liability	102	54
Concessionary portion – on EIB loan	4	5
Interest capitalised	173	117
Cash flow in cum/ex dividend reflected under cash flow from financing activities	(49)	(36)
Net unrealised/amortised foreign currency loss	510	503
Amount not paid at the end of the year	(2 351)	(2 112)
D. Cash and cash equivalents at the end of the period		
Cash and cash equivalents consist of cash on hand and balances with banks.		

The notes on pages 72 to 137 are an integral part of these financial statements.

Segmental statement of cash flows

for the year ended 31 March 2009

	Notes	LHWP 2009 R million	BWP 2009 R million	VRESAP 2009 R million	ADVISORY 2009 R million	MMTS2 2009 R million
Cash flow from operating activities						
Cash receipts from customers		2 011	87	–	–	–
Cash paid to suppliers and employees		(461)	132	(151)	–	2
Cash generated from project activities	A	1 550	219	(151)	–	2
Interest paid	C	(2 142)	(130)	(79)	–	–
Net cash (outflow)/inflow from operating activities		(592)	89	(230)	–	2
Cash flow from investing activities						
Payments to acquire financial assets		(2 441)	(68)	(6)	–	–
Proceeds on the sale of financial assets		700	–	–	–	–
Interest received	B	210	(1)	1	–	–
Removed from enduring benefit		–	–	–	–	–
Capitalised to works in South Africa		–	(165)	(228)	–	(2)
Addition of other assets		(4)	–	–	–	–
Purchase of investment property		–	–	–	–	–
Net cash outflow from investing activities		(1 535)	(234)	(233)	–	(2)
Cash flow from financing activities						
Proceeds from long-term borrowings		1 174	94	402	–	–
Repayments on long-term borrowings		(961)	(19)	–	–	–
Proceeds from short-term borrowings		2 236	218	213	–	–
Repayments on short-term borrowings		(328)	(132)	(152)	–	–
Net cash inflow from financing activities		2 121	161	463	–	–
Net increase in cash and cash equivalents		(6)	16	–	–	–
Cash and cash equivalents at the beginning of the period		–	–	–	–	–
Cash and cash equivalents at the end of the period	D	(6)	16	–	–	–

	ORWRDP2 2009 R million	KWSAP 2009 R million	Total 2009 R million	LHWP 2008 R million	BWP 2008 R million	VRESAP 2008 R million	Total 2008 R million
	-	-	2 098	2 156	142	-	2 298
	-	-	(478)	(467)	(213)	(66)	(746)
	-	-	1 621	1 689	(71)	(66)	1 552
	-	-	(2 351)	(1 957)	(114)	(41)	(2 112)
	-	-	(731)	(268)	(185)	(107)	(560)
	-	-	(2 515)	(1 071)	-	-	(1 071)
	-	-	700	-	-	16	16
	-	-	210	23	-	-	23
	-	-	-	-	-	-	-
	-	-	(395)	-	(127)	(694)	(821)
	-	-	(4)	(1)	-	-	(1)
	-	-	-	(12)	-	-	(12)
	-	-	(2 004)	(1 061)	(127)	(678)	(1 866)
	-	-	1 670	1 978	274	693	2 945
	-	-	(980)	(532)	-	-	(532)
	-	-	2 667	597	131	147	875
	-	-	(612)	(714)	(93)	(55)	(862)
	-	-	2 745	1 329	312	785	2 426
	-	-	10	-	-	-	-
	-	-	-	-	-	-	-
	-	-	10	-	-	-	-

Notes to the segmental statement of cash flows

for the year ended 31 March 2009

	LHWP 2009 R million	BWP 2009 R million	VRESAP 2009 R million	ADVISORY 2009 R million	MMTS2 2009 R million
A. Cash generated from project activities					
Net deficit for the year	(33)	26	(24)	(6)	(18)
Adjustments for non-cash flow items and amounts separately disclosed:					
Depreciation on non-current assets	35	5	–	–	–
Transfer of NDR to retained earnings	–	–	–	–	–
Finance cost recognised in profit or loss	1 822	130	–	–	–
Net foreign exchange gains	(39)	–	–	–	–
Net foreign exchange losses	52	–	–	–	–
Higher than actual O&M costs	21	–	–	–	–
Rental income – RSA account	(1)	–	–	–	–
Development contribution	–	31	–	–	–
Changes in working capital:					
(Increase/decrease) in trade and other receivables	(310)	(115)	(46)	–	–
(Increase/decrease) in other assets	–	–	–	–	–
(Increase/decrease) in prepayments	15	3	(34)	–	(2)
Increase in payables and provisions (excluding interest payable)	32	93	(47)	6	22
Non-cash flow item in accounts receivable	(36)	46	–	–	–
Non-cash flow item in accounts payable	(9)	–	–	–	–
Cash generated from project activities	1 550	219	(151)	–	2
B. Interest received					
Amount due at the beginning of the year	136	–	–	–	–
Income during the year adjusted for non-cash items	306	1	1	–	–
Amount received	599	1	1	–	–
Loan premium amortised	(123)	–	–	–	–
Transfer to funding portfolio	(165)	–	–	–	–
Interest on RSA account	(5)	–	–	–	–
Amount due at the end of the year	(232)	(2)	–	–	–
Interest received	210	(1)	1	–	–
C. Interest paid					
Amount not paid at the beginning of the year	(486)	(3)	(14)	–	–
Expensed during the year adjusted for non-cash items	(2 147)	(131)	(80)	–	–
Amount expensed	(2 421)	(131)	(253)	–	–
Less: Loan discount amortised	17	–	–	–	–
Foreign loan payments	(4)	–	–	–	–
Non-cash interest on zero coupons	–	–	–	–	–
Transfer to redemption portfolio	165	–	–	–	–
Loss on switch auction	39	–	–	–	–
Capital adjustment to inflation-linked liability	102	–	–	–	–
Concessionary portion – on EIB loan	4	–	–	–	–
Interest capitalised	–	–	173	–	–
Cash flow in cum/ex dividend reflected under cash flow from financing activities	(49)	–	–	–	–
Net unrealised/amortised foreign currency loss	491	4	15	–	–
Amount not paid at the end of the year	(2 147)	(130)	(79)	–	–
Interest paid	(2 142)	(130)	(79)	–	–
D. Cash and cash equivalents at the end of the year					
Cash and cash equivalents consist of cash on hand and balances with banks.					

The notes on pages 72 to 137 are an integral part of these financial statements.

	ORWRDP2 2009 R million	KWSAP 2009 R million	Total 2009 R million	LHWP 2008 R million	BWP 2008 R million	VRESAP 2008 R million	Total 2008 R million
	(15)	(7)	(77)	(117)	(21)	(24)	(162)
	-	-	40	35	-	-	35
	-	-	-	(1)	-	-	(1)
	-	-	1 952	1 780	-	-	1 780
	-	-	(39)	(122)	-	-	(122)
	-	-	52	101	-	-	101
	-	-	21	-	-	-	-
	-	-	(1)	-	-	-	-
	-	-	31	-	-	-	-
	-	-	(471)	29	12	-	41
	-	-	-	(12)	6	6	-
	-	-	(18)	(21)	2	104	85
	15	7	129	4	(70)	(152)	(218)
	-	-	10	17	-	-	17
	-	-	(9)	(4)	-	-	(4)
	-	-	1 620	1 689	(71)	(66)	1 552
	-	-	136	25	-	-	25
	-	-	308	134	-	-	134
	-	-	601	329	-	-	329
	-	-	(123)	(95)	-	-	(95)
	-	-	(165)	(100)	-	-	(100)
	-	-	(5)	-	-	-	-
	-	-	(234)	(136)	-	-	(136)
	-	-	210	23	-	-	23
	-	-	(503)	(478)	(16)	(4)	(498)
	-	-	(2 358)	(1 965)	(101)	(51)	(2 117)
	-	-	(2 805)	(2 108)	(101)	(168)	(2 377)
	-	-	17	15	-	-	15
	-	-	(4)	(4)	-	-	(4)
	-	-	-	9	-	-	9
	-	-	165	100	-	-	100
	-	-	39	-	-	-	-
	-	-	102	54	-	-	54
	-	-	4	5	-	-	5
	-	-	173	-	-	117	117
	-	-	(49)	(36)	-	-	(36)
	-	-	510	486	3	14	503
	-	-	(2 351)	(1 957)	(114)	(41)	(2 112)

Notes to the annual financial statements

for the year ended 31 March 2009

1. General information

TCTA is a specialised liability management body, established in terms of Government Notice No 2631 in *Government Gazette* No 10545, dated 12 December 1986. The notice was replaced by Government Notice 277 in *Government Gazette* No 21017, dated 24 March 2000. The entity is domiciled in South Africa. The address of the registered office is 265 West Avenue, Tuinhof Building, 1st Floor, Centurion.

2. Basis of preparation

The annual financial statements have been prepared on the accrual and 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 26.

3. Adoption of new and revised standards and interpretations

3.1 Standards, amendments and interpretations effective in the current period:

IFRIC 12: Service Concession Arrangement: This interpretation was issued in November 2006. It is effective for annual periods beginning on or after 1 January 2008. Earlier adoption is permitted.

IFRIC 12 applies to public-to-private service concession arrangements in which the public sector body (the grantor) controls and/or regulates the services provided with the infrastructure by the private sector entity (the operator). The interpretation also addresses to whom the operator should provide the services and at what price. The grantor controls any significant residual interest in the infrastructure.

As the infrastructure is controlled by the grantor, the operator does not recognise the infrastructure as its property, plant and equipment; nor does the operator recognise a finance lease receivable for leasing the public service infrastructure to the grantor, regardless of the extent to which the operator bears the risk and rewards incidental to ownership of the asset.

On assessing the possible impact of the IFRIC on TCTA, consideration was given to the nature of the relationship between DWA and TCTA as well as between TCTA and various contractors. An arrangement that would have been within the scope of the interpretation would typically have involved a private sector entity (operator) constructing the infrastructure used to provide the public service or upgrading it and operating and maintaining that infrastructure for specified period of time. The operator is paid for its services. Firstly, the relationship between DWA and TCTA is that of public to public sector. TCTA receives the directives from DWA for the implementation and funding of various bulk raw water infrastructure assets. The operators are the various contractors. The contractors have no rights towards the assets constructed and is not responsible for the management of the constructed assets. TCTA thus finds itself on middle ground: It is also a public sector and it is not responsible for the actual constructing of the assets as contractors are appointed. Therefore this IFRIC does not apply to TCTA.

IFRIC 14: Interim Financial Reporting and Impairment and IFRIC 14: The limit on a defined benefit asset, minimum funding requirements and their interaction (Issued July 2007): Effective for annual periods beginning on or after 1 January 2008.

This interpretation applies to all post-employment defined benefits and other long-term employee defined benefits. There is no impact on TCTA financial statements.

3.2 Early adoption of standards and interpretations:

3.2.1 Revised standards

IAS 1: Presentation of Financial Statements: Effective for annual periods beginning on or after 1 January 2009 (as revised in February 2008). The early adoption of the standard resulted in the following changes to the presentation of TCTA's financial statements for the year ended 31 March 2009.

Recognised income and expenses are presented in a single statement (a statement of comprehensive income) or in two statements (an income statement and a statement of comprehensive income).

Both the statement of comprehensive income and the statement of changes in equity as primary statements.

The balance sheet is referred to as the 'statement of financial position' and the cash flow statement is referred to as the 'statement of cash flows'.

IAS 23 (revised): Borrowing costs: This revised standard was issued in March 2007. It is effective for annual periods beginning on or after 1 January 2009.

The revisions to IAS 23 (revised) have had no impact on TCTA's accounting policies. The principal change to the standard was to eliminate the previously available option to expense all borrowing costs when incurred. This has no impact on the financial statements because it has always been TCTA's accounting policy to capitalise borrowing costs incurred on qualifying assets.

IFRS 1 (revised): *First-time Adoption of International Financial Reporting Standards*.

A revised version of IFRS 1: *First-time Adoption of International Financial Reporting Standards* was issued in November 2008. It supersedes IFRS 1: *First-time Adoption of International Financial Reporting Standards* (as issued in 2003 and amended at May 2008). The revised IFRS 1 is required to be applied from 1 July 2009. Earlier application is permitted. The early adoption of the standard has not led to any changes in TCTA's financial statements.

Amendments to IAS 32 and IAS 1: *Puttable Financial Instruments and Obligations Arising on Liquidation* (Amendments to IAS 32 and IAS 1) was issued in February 2008. The amendments are required to be applied from 1 January 2009. Earlier application is permitted.

The amendments are relevant to entities that have issued financial instruments that are (i) puttable financial instruments, or (ii) instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation. Under the revised IAS 32, subject to specified criteria being met, these instruments will be classified as equity whereas, prior to these amendments, they would have been classified as financial liabilities.

TCTA's financial instruments do not meet the criteria for puttable financial instruments and therefore this amendment has no impact on TCTA's financials.

Amendments to IFRS 1 and IAS 27: *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*. Amendments to IFRS 1 and IAS 27 was issued in May 2008. The amendments are required to be applied from 1 January 2009. Earlier application is permitted.

The cost of a subsidiary, jointly controlled entity or associate in a parent's separate financial statements, on transition to IFRS, is determined under IAS 27 or as a deemed cost. Deemed cost is either fair value or the carrying amount under the previous accounting practice.

Dividends from a subsidiary, jointly controlled entity or associate are recognised as income. There is no longer a distinction between pre-acquisition and post-acquisition dividends.

The cost of the investment of a new parent in a group (in a reorganisation meeting certain criteria) is measured at the carrying amount of its share of equity as shown in the separate financial statements of the previous parent.

The adoption of the amendments has no impact on TCTA's financial statements as TCTA has no subsidiary, jointly controlled entity or associate.

Amendment to IAS 39: *Eligible Hedged Items* (Amendment to IAS 39) was issued in July 2008. The amendment is required to be applied from 1 July 2009. Earlier application is permitted.

- It prohibits designating inflation as a hedgeable component of a fixed rate debt.
- In a hedge of one-sided risk with options, it prohibits including time value in the hedged risk. This change precludes a treatment that was previously considered acceptable. Hedging strategies involving options should be reassessed immediately to minimise the effect on comparatives arising from the retrospective application from 1 July 2009.

TCTA has no hedging instruments and therefore the amendment has no effect on TCTA's financial statements.

Amendments to IAS 39 and IFRS 7: *Reclassification of Financial Assets* (Amendments to IAS 39 and IFRS 7) was issued in October 2008. The amendments are required to be applied from 1 July 2008. Subsequently, in November 2008, further amendments were issued as *Reclassification of Financial Assets – Effective Date and Transition*. Those amendments are also required to be applied from 1 July 2008.

The change to IAS 39 permits an entity to reclassify non-derivative financial assets out of FVTPL and AFS categories in limited circumstances. Such reclassifications will trigger additional disclosure requirements.

TCTA did not reclassify any financial assets and the adoption of the amendments to the standard had no impact.

IFRS 3: *Business Combinations*: Effective for annual periods beginning on or after 1 July 2009. The revised standard was issued in January 2008.

The business combinations standard represents some significant changes.

IFRS 3 (revised) is a further development of the acquisition model. The standard now applies to more transactions, as combinations by contract alone and combinations of mutual entities are brought into the standard's scope. Common control transactions and the formation of joint ventures remain outside the scope of the standard. The definition of a business has been amended slightly. It now states that the elements are 'capable of being conducted' rather than 'are conducted and managed'. This change is supplemented by a significant expansion of the application guidance. This may bring more transactions into acquisition accounting.

TCTA has not entered into any business combinations during the current period and the adoption of the standard has no impact.

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

3. Adoption of new and revised standards and interpretations (continued)

3.2.2 Interpretations

The following interpretations issued by the International Financial Reporting Interpretations Committee have been early adopted:
IFRIC 13: *Customer Loyalty Programmes*: IFRIC 13 is required to be applied for annual periods beginning on or after 1 July 2008. The interpretation had been issued in June 2007.

This interpretation applies to customer loyalty award credits that:

- (a) an entity grants to its customers as part of a sales transaction, ie a sale of goods, rendering of services or use by a customer of entity assets; and
- (b) subject to meeting any further qualifying conditions, the customers can redeem in the future for free or discounted goods or services. The interpretation addresses accounting by the entity that grants award credits to its customers.

The adoption of the interpretation did not have any effect on TCTA.

IFRIC 15: *Agreements for the Construction of Real Estate*: IFRIC 15 is required to be applied for annual periods beginning on or after 1 January 2009. Early adoption is permitted. IFRIC 15 was issued in July 2008. IFRIC 15 was issued in response to concerns over diversity in practice regarding revenue recognition for real estate construction agreements. The interpretation provides guidance on determining whether an agreement is within the scope of IAS 11: *Construction contracts*, or is for the sale of goods under IAS 18: *Revenue*.

The interpretation will have an impact when entities have previously recognised revenue from construction activities under IAS 11.

The decision as to which standard should be applied will depend on the terms of the agreement and all the surrounding facts and circumstances. Judgement will be required with respect to each agreement. The interpretation sets out the following guidance in determining which standard would apply:

- IAS 11 applies when an agreement meets the definition of a construction contract. The interpretation clarifies that when a buyer is able to specify the major structural elements of design, either before or during construction, the agreement meets the definition of a construction contract.
- IAS 18: An agreement is for the sale of goods when the buyer has only limited ability to influence the major structural elements of design, either before or during construction. In addition, an entity that is responsible only for the assembly of materials supplied by a customer, but not the acquisition of the related materials, generally applies the guidance in IAS 18 for sale of services. Conversely, if an entity is responsible for assembly and the related acquisition of materials, the guidance in IAS 18 for the sale of goods would apply.

This interpretation was early adopted and had no implication on TCTA.

IFRIC 16: *Hedges of a Net Investment in a Foreign Operation*: This interpretation was issued in July 2008. IFRIC 16 is required to be applied for a period beginning on or after October 2008. Earlier application is permitted.

This interpretation applies to an entity that hedges the foreign currency risk arising from its net investments in foreign operations and wishes to qualify for hedge accounting in accordance with IAS 39.

The early adoption of this interpretation had no impact on TCTA as TCTA has no investments in foreign operations.

IFRIC 17: *Distributions of Non-cash Assets to Owners*: This interpretation was issued in November 2008 and is effective from 1 July 2009. This interpretation was to clarify how an entity should measure distributions of assets other than cash made as a dividend to its owners. The current standards do not specifically address this issue.

The four main clarifications are as follows:

- A dividend payable should be recognised when appropriately authorised and no longer at the entity's discretion.
- Where an owner has a choice of a dividend of a non-cash asset or cash, the dividend payable is estimated considering both the fair value and probability of the owners selecting each option.
- The dividend payable is measured at the fair value of the net assets to be distributed.
- The difference between fair value of the dividend paid and the carrying amount of the net assets distributed is recognised in profit or loss.

TCTA does not pay dividends as it is a public entity, established under the National Water Act, and does not have any share capital. The early adoption of this interpretation had no impact on TCTA.

3.3 Standards, amendments and interpretations in issue but not yet adopted:

The following standards and interpretations are issued but not yet effective and have not been early adopted:

IFRS 2: *Share-based Payment*: The standard was amended in January 2008. The amendments will be effective for annual periods beginning on or after 1 January 2009. Early adoption is permitted.

The standard previously stated that vesting conditions included service and performance conditions, implying that other conditions not listed could also meet the definition. The standard after the amendment clarifies that vesting conditions are limited only to service and performance conditions. The adoption of the amendment to the standard is not expected to have an impact on TCTA's financials.

IFRS 8: *Operating Segment*: The standard was issued in November 2006 and was revised in November 2007. The standard will be effective for annual periods beginning on or after 1 January 2009. Early adoption is permitted.

The key principle behind IFRS 8 is that the disclosures will enable users to evaluate the nature and financial effects of the business activities in which it engages and the economic environment in which it operates.

IFRS 8 applies to entities whose equity or debt securities are publicly traded or that issue equity or debt securities in a public market (as with IAS 14) and to entities who file (or are in the process of filing) financial statements with a regulatory organisation for purposes of issuing securities in a public market. TCTA is trading bonds through Bond Exchange of South Africa and this standard will therefore be applicable to TCTA.

Operating segments under IFRS 8 are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision-maker (CODM) and for which discrete financial information is available. The CODM is the person/function who/which allocates resources and assesses the performance for the entity. TCTA will duly appoint an executive with the ability to perform the functions as required by the standard.

Reported information under IFRS 8 is based on information that management uses to run the business and not on the financial information presented in the consolidated financial statements, as under IAS 14. It is therefore possible for the segment disclosures to be presented on a basis different from that of the financial statements. However, there is a requirement for this to be reconciled. TCTA will perform a detailed analysis of the difference in reporting to management. Minor changes to the format and disclosure and presentation are foreseen.

Annual improvements

The annual improvements project provides a vehicle for making non-urgent but necessary amendments to IFRSs. The first product from this project was issued in May 2008 as Improvements to IFRSs. Most of the miscellaneous amendments are required to be applied from 1 January 2009, but some have an effective date of 1 July 2009. In all cases earlier application is permitted.

The improvements include those involving terminology as well as editorial changes with minimal effect on measurement and recognition criteria.

The annual improvements are not anticipated to have a major effect on TCTA's accounts, but there would possibly be additional disclosure requirements in future.

IFRIC 18: *Transfers of assets from customers*: Effective for transfers received on or after 1 July 2009.

In the utilities industry, an entity may receive from its customers items of property, plant and equipment that must be used to connect those customers to a network and provide them with ongoing access to a supply of commodities such as electricity, gas or water. Alternatively, an entity may receive cash from customers for the acquisition or construction of such items of property, plant and equipment. Typically, customers are required to pay additional amounts for the purchase of goods or services based on usage.

TCTA is not in the utilities industry and it is not foreseen that the interpretation will have any impact on TCTA.

4. 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.

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

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

4. Significant accounting policies (continued)

4.1 Property, plant and equipment (continued)

During construction

The initial costs of the works consist of the following elements:

- (a) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
 - (b) Any costs **directly attributable** to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
 - (c) The **initial estimate** of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.
- 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*.

LHWP

- 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.

BWP

- All income received during the construction period is offset against works. Revenue from water levies is allocated to works. Water levies are received during the construction phase before saleable water is delivered.

Once construction is complete

LHWP

- The depreciable portion is estimated to be the mechanical components of the completed works and 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 as required by the Water Resource Pricing Strategy as published in *Government Gazette* 20615, dated 12 November 1999. The remaining useful lives of assets and the depreciable portion will also be reassessed during the revaluations. The recoverable amount is determined annually. As there is no active market for the works, it is difficult to determine the fair value less cost to sell. The value in use is calculated based on the estimated future cash flows that are expected to flow from the asset, using an appropriately adjusted risk-free discount rate. Future revaluations will be based on the fair value of the future income streams, and an appropriately qualified independent expert will be sourced to perform these fair value calculations every three years.

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

BWP

- The depreciable portion is estimated to be the mechanical components of the completed works and is amortised over an estimated useful life of 45 years, taking into account the demands as per the income agreement.
- 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. The recoverable amount is determined annually. As there is no active market for the works, it is difficult to determine the fair value less cost to sell. The value in use is calculated based on the estimated future cash flows that are expected to flow from the asset, using an appropriately adjusted risk-free discount rate. Future revaluations will be based on the fair value of the future income streams, and an appropriately qualified independent expert will be sourced to perform these fair value calculations every three years.

Vaal River Eastern Subsystem Augmentation Project (VRESAP)

- The depreciable portion is estimated to be the mechanical components of the completed works and 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.

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 statement of comprehensive income. When revalued assets are sold, the amounts included in the revaluation reserves are transferred to retained earnings.

4.2 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 enduring benefit has both a finite and an indefinite component. The finite component is the mechanical portion of the works and is estimated to be 5% of the water resource components. This finite portion is amortised over the estimated useful life of the asset and is deemed to be 45 years. The amortisation of the enduring benefit, which commenced upon completion of construction, is directly related to the depreciable component of the underlying assets.

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

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

LHWP

- 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 5% 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.

4.3 Investment property

LHWP

Investment properties, comprising houses at Khubetswana and a building in Pietersdal were initially acquired for use during construction. Post-construction, the houses at Khubetswana 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.

During the 2007/08 financial year, the LHDA purchased the Lesotho Bank Towers from Standard Lesotho Bank at a cost of M20 million. It was agreed that the South African Government will contribute 50% towards the purchase price, administrative and maintenance cost and will receive 50% of rental income received from the leasing of office space to external parties.

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

4.4 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.

Fair value less cost to sell

It is not possible to determine the fair value less cost to sell because there is no basis for making a reliable estimate of the amount obtainable from the sale of the enduring benefit at an arm's length transaction between knowledgeable and willing parties. Therefore, the value in use will be deemed to be its recoverable amount.

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

4. Significant accounting policies (continued)

4.4 Impairment of assets (continued)

Value in use

Value in use is the present value of the future cash flows expected to be derived from an asset/cash-generating unit.

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.

4.5 Borrowing costs

TCTA capitalises borrowing costs that are directly attributable to the construction of the qualifying assets as part of the cost of that asset. TCTA's projects are ring-fenced and therefore borrowing costs are allocated to the project that it relates to. Each project is deemed a qualifying asset as it takes substantial time to complete. The capitalisation of borrowing costs is ceased when substantially all the activities necessary to prepare the qualifying asset for its intended use, are complete.

4.6 Foreign currency translation

(a) 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.

(b) 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.

4.7 Financial assets

TCTA classifies financial assets in the following categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments; 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

(a) Financial assets at fair value through profit or loss

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that TCTA manages together and has a recent actual pattern of short-term profit taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with TCTA's documented risk management or investment strategy, and information about TCTA is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39: *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

Short-term financial market investments

TCTA engages in repurchase agreements (repos) 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 subsequently recognised at amortised cost.

Derivative instruments

Derivative assets and liabilities are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Derivatives are classified as current and non-current on the basis of its settlement date.

(b) Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate.

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.

Trade and other receivables are subsequently stated at amortised cost.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. TCTA currently does not have any financial assets classified as available-for-sale.

(d) Held-to-maturity investments

TCTA classifies redemption assets as held-to-maturity. Held-to-maturity investments are recorded at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

Long-term financial market investments

Funding portfolio

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.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets.

Derecognition of financial assets

TCTA derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If TCTA neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, TCTA recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If TCTA retains substantially all the risks and rewards of ownership of a transferred financial asset, TCTA continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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.

4.8 Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

4. Significant accounting policies (continued)

4.8 Financial liabilities (continued)

(a) Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that TCTA manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities, or both, which is managed and its performance is evaluated on a fair value basis, in accordance with TCTA's documented risk management or investment strategy, and information about TCTA is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39: *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss.

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.

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 remeasured at their fair value.

(b) Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Long-term financial market liabilities

Funding portfolio

The funding portfolio comprises the long-term funding for the specific projects.

Locally registered bonds in issue are classified as "other liabilities" in terms of IAS 39 and are hence stated at amortised cost, applying the yield-to-maturity method. Borrow transactions are offset against the short-term portion of the locally issued bonds as the transactions in the borrows in substance result in a reduction of the debt.

Local loans are stated at amortised cost and classified as "other liabilities" in terms of IAS 39. 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 12 months to maturity), classified as “other liabilities”, is held at amortised cost.

Trade and other payables

Payables are classified as “other liabilities” in terms of IAS 39 and are hence stated at amortised cost.

Derecognition of financial liabilities

TCTA derecognises financial liabilities when, and only when, TCTA's obligations are discharged, cancelled or expire.

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

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.

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.

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.

4.9 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.

4.10 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.

4.11 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.

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

4. Significant accounting policies (continued)

4.12 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 (DWA) to the Vaal River System water consumer. The portion of this tariff due to TCTA is recognised when DWA invoices the water consumer.

BWP

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

4.13 Other income

Rental income is generated from the properties that were acquired during the construction of the project and is recognised when earned.

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.

4.14 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.

4.15 Segmental reporting

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

- Lesotho Highlands Water Project (LHWP)
- Berg Water Project (BWP)
- Vaal River Eastern Subsystem Augmentation Project (VRESAP)
- Advisory services
- Mooi-Mgeni Transfer Scheme phase 2 (MMTS2)
- Vaal River Eastern Subsystem Augmentation Project phase 2 (VRESAP2)
- Komati Water Scheme Augmentation Project (KWSAP)
- Olifants River Water Resource Development Project phase 2 (ORWRDP2)

TCTA is awaiting the directive for the funding and implementation of the Mokolo Crocodile Water Augmentation Project (MCWAP)/ (Mokolo). The project is currently disclosed as an advisory service. A draft mandate was sent to TCTA and comments have been submitted to the minister. TCTA is now awaiting the final mandate. Due to the urgency of the project, TCTA has already done the feasibility studies as the project needs to be completed by 2011. TCTA has already incurred costs relating to the project and has initiated the process of finding the necessary funding for the project. Previously projects have only been recognised once a mandate has been received.

TCTA is also assisting DWA in an advisory capacity with regard to LHWP2.

These segments consist of the different projects that TCTA has been mandated with. TCTA provides various services to its customers, such as liability management, treasury management services as well as project implementation. TCTA received new mandates during the 2009 year for the following projects, which will be treated as separate segments for accounting and disclosure purposes for the duration of the project.

- Mooi-Mgeni Transfer Scheme phase 2 (MMTS2)
- Vaal River Eastern Subsystem Augmentation Project phase 2 (VRESAP2)
- Komati Water Scheme Augmentation Project (KWSAP)
- Olifants River Water Resource Development Project phase 2 (ORWRDP2)

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. TCTA's operations are situated in South Africa and Lesotho. As the works in South Africa (LHWP) do not have any monetary value without the works in Lesotho, no separate geographical information can be disclosed. All other projects are situated in South Africa.

4.16 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.

5. Financial risk management

TCTA's market activities expose it to a variety of financial risks including, but not limited to, market, credit and liquidity risks. 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 such risks.

The overall financial risk of the project is managed using the following:

- 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 flows⁽¹⁾ in any given year.
- Optimal capital structure.
- Redemption portfolio.
- Active interest rate management.

(1) The free cash flows refer to the excess cash generated by the projects.

The ALCO comprising at least three non-executive directors, the CFO and the CEO, assists management and the Board in this regard, and in reviewing TCTA's funding and risk management strategies as well as in maintaining the optimal capital structure.

5.1 Liquidity risk

Liquidity risk is the risk of TCTA defaulting on its financial obligations as a result of insufficient funding capacity. It is managed through the following:

- Market making via a panel of six banks in all Water Bond Issues, thereby improving market liquidity, funding rates and demand for water stock.
- Conducting repurchase transactions in water stock bonds.
- Ensuring sufficient banking facilities with large, reputable institutions.
- Maintaining sufficient government-guaranteed facilities with a selection of domestic banks to provide a liquidity buffer.
- Effective marketing of TCTA in order to raise its profile.
- Obtaining the required borrowing authority from National Treasury in a timely manner.
- Detailed and regular cash flow forecasting.
- Each project is supported by a combination of committed bank facilities and commercial paper.
- Participation in the offshore loan market and maintaining sufficient facilities in the required currencies to ensure that the project is funded efficiently and effectively.
- Availability and management of commercial paper, capital market programmes as well as long-term market facilities.

To further manage liquidity risk, borrowing limits have been set on the basis that no one counterparty should provide more than 40% of callable borrowings. The aim of this is to prevent a concentration of borrowings with any one party.

LHWP

Funding sources and utilisation for TCTA as at 31 March 2009:

TCTA funding limits	Limit R million	Utilisation R million	Available R million
Total borrowing authority*	23 500	19 845	3 655
Commercial Paper Programme	4 000	(2 136)	2 162
Capital Market – WS03	4 500	(2 585)	1 915
Capital Market – WS04	10 000	(7 917)	2 083
Capital Market – WS05 ¹	7 000	(3 525)	3 475
Capital Market – WSP1	1 000	(400)	600
Capital Market – WSP2	1 000	(400)	600
Capital Market – WSP3	1 000	(400)	600
Capital Market – WSP4	1 000	(400)	600
Capital Market – WSP5	4 000	(990)	3 010
Repurchases	1 000	(82)	918

Notes

¹ The inflated figure for WS05 is R5 438 million with a nominal value of R3 525 million.

* This is total utilisation of all facilities, including both local and foreign loans, against the borrowing limit.

The limits for commercial paper and the individual bonds are the authorised limits.

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

5. Financial risk management (continued)

5.1 Liquidity risk (continued)

Funding sources and utilisation for TCTA as at 31 March 2008:

TCTA funding limits	Limit R million	Utilisation R million	Available R million
Total borrowing authority*	22 000	19 856	2 144
Commercial Paper Programme	4 000	(533)	3 467
Capital Market – WS03	4 500	(3 585)	915
Capital Market – WS04	10 000	(6 775)	3 225
Capital Market – WS05 ¹	4 000	(3 075)	925
Capital Market – WS06	2 500	(800)	1 700
Capital Market – WSP1	1 000	(400)	600
Capital Market – WSP2	1 000	(400)	600
Capital Market – WSP3	1 000	(400)	600
Capital Market – WSP4	1 000	(400)	600
Capital Market – WSP5	4 000	(950)	3 050
Repurchases	1 000	(83)	917

Notes

¹ The inflated figure for WS05 is R4 332 million with a nominal value of R3 075 million.

* This is total utilisation of all facilities, including both local and foreign loans, against the borrowing limit. The limits for commercial paper and the individual bonds are the authorised limits.

Government-guaranteed facilities

TCTA has in place guaranteed facilities of R1 100 million with commercial banks. These facilities can be drawn upon should the need arise and therefore are useful as a liquidity buffer. As at 31 March 2009 these facilities were not utilised.

Contractual maturity analysis report: 2009

Liabilities	Maturity date	1 – 3 months R million	3 – 12 months R million	1 – 2 years R million	2 – 3 years R million	3 – 4 years R million	4 – 5 years R million	>5 years R million	Total R million
ZAR									
Bonds	15/09/10			2 585					2 585
Bonds	30/05/16							7 916	7 916
Bonds	1/08/18							5 438	5 438
Bonds	28/05/15							400	400
Bonds	28/05/17							400	400
Bonds	28/05/19							400	400
Bonds	28/05/20							400	400
Bonds	28/05/21							990	990
Commercial paper	1/04/09	30							30
Commercial paper	1/04/09	160							160
Commercial paper	1/04/09	210							210
Commercial paper	1/04/09	1							1
Commercial paper	1/04/09	30							30
Commercial paper	1/04/09	36							36
Commercial paper	1/04/09	6							6
Loan	31/03/18		15	15	8	15	23	61	137
Loan	30/09/22		35	34	8	7	7	60	151
Loan	15/12/17	12	12	24	24	24	24	98	218
Loan	15/03/18		8	7	8	7	8	31	69
Loan	15/03/18		1	2	1	2	2	6	14
Loan	15/09/18		5	6	5	6	6	25	53
Loan	31/08/10			100					100
Repos	various	1							1
Repos	various	22							22

2009									
Liabilities									
Product type	Maturity date	1 – 3 months R million	3 – 12 months R million	1 – 2 years R million	2 – 3 years R million	3 – 4 years R million	4 – 5 years R million	>5 years R million	Total R million
ZAR									
Repos	various	248							248
Repos	various	62							62
Term	various	56							56
Term	various	502							502
Term	various	125							125
Term	various	218							218
Term	various	290							290
Term	various	140							140
Term	various	40							40
Term	various	92							92
Term	25/05/09	200							200
EUR									
Loan	31/07/12		29	29	29	14			101
Loan	31/07/12		14	14	14	8			50
Loan	31/01/18		9	9	10	10	10	43	91
USD									
Loan	15/05/13	3	3	7	7	7	4		31
Total		2 484	131	2 832	114	100	84	16 268	22 013

2008									
Liabilities									
Product type	Maturity date	1 – 3 months R million	3 – 12 months R million	1 – 2 years R million	2 – 3 years R million	3 – 4 years R million	4 – 5 years R million	>5 years R million	Total R million
ZAR									
Bonds	15/09/10				3 585				3 585
Bonds	30/05/16							6 775	6 775
Bonds	1/08/18							4 332	4 332
Bonds	30/04/08	800							800
Bonds	28/05/15							400	400
Bonds	28/05/17							400	400
Bonds	28/05/19							400	400
Bonds	28/05/20							400	400
Bonds	28/05/21							950	950
Commercial paper	1/04/08	115							115
Commercial paper	1/04/08	21							21
Commercial paper	1/04/08	95							95
Commercial paper	1/04/08	30							30
Commercial paper	1/04/08	10							10
Commercial paper	1/04/08	71							71
Loan	31/03/18		15	15	15	8	15	84	152
Loan	30/09/22		37	35	34	5	7	70	188
Loan	15/12/17	12	12	24	24	24	24	121	241
Loan	15/03/18		15	15	15	15	15	77	152
Loan	31/08/10				100				100
Repos	various	10							10
Repos	various	267							267
Repos	various	61							61
Term	4/29/08	20							20
Term funding	various	171							171

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

5. Financial risk management (continued)

5.1 Liquidity risk (continued)

2008

Liabilities	Maturity date	1 – 3 months R million	3 – 12 months R million	1 – 2 years R million	2 – 3 years R million	3 – 4 years R million	4 – 5 years R million	>5 years R million	Total R million
EUR									
Loan	31/07/12		29	29	29	29	15		131
Loan	31/07/12		15	15	15	15	7		67
Loan	31/01/18		9	9	9	10	10	54	101
USD									
Loan	15/05/13	3	3	6	6	6	6	3	33
Total		1 686	135	148	3 832	112	99	14 066	20 078

The above contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the balance sheet date.

The following table details the liquidity analysis for the derivative financial instruments. The table is drawn up based on actual FEC rates and will therefore not tie in with the balance sheet values.

2009

Derivative financial instruments	1 – 3 months R million	3 – 12 months R million	1 – 2 years R million	2 – 3 years R million	3 – 4 years R million	4 – 5 years R million	>5 years R million	Total R million
Foreign exchange contracts (gross settled)	1	191	171	10	7	1		381

2008

Derivative financial instruments	1 – 3 months R million	3 – 12 months R million	1 – 2 years R million	2 – 3 years R million	3 – 4 years R million	4 – 5 years R million	>5 years R million	Total R million
Foreign exchange contracts (gross settled)		132	177	183	12	8	9	521

BWP

Funding limits and facilities at 31 March 2009:

BWP funding limits	Limit R million	Utilisation R million	Available R million
Total borrowing authority	1 500	(1 309)	741
Facilities			
Commercial Paper Programme	450	(257)	193
DBSA loan	500	(400)	100
EIB	800	(602)	198
Absa	300	(50)	250

Funding limits and facilities at 31 March 2008:

BWP funding limits	Limit R million	Utilisation R million	Available R million
Total borrowing authority	1 500	(1 149)	901
Facilities			
Commercial Paper Programme	450	(172)	278
DBSA loan	500	(400)	100
EIB	800	(527)	273
Absa	300	(50)	250

Contractual maturity analysis report

As at 31 March 2009, BWP has contractual maturities, which are summarised below:

2009

Product type	Maturity date	1 – 3 months R million	3 – 12 months R million	1 – 2 years R million	2 – 3 years R million	3 – 4 years R million	4 – 5 years R million	>5 years R million	Total R million
Commercial paper	1/04/09	116							116
Term funding	30/09/09		35						35
Commercial paper	1/04/09	36							36
Term funding	9/04/09	20							20
Loan	31/03/28							50	50
Loan	31/03/29		20	20	10	20	30	300	400
Loan	15/03/25		39	39	39	39	39	407	602
Term funding	24/04/09	50							50
		222	94	59	49	59	69	757	1 309

2008

Product type	Maturity date	1 – 3 months R million	3 – 12 months R million	1 – 2 years R million	2 – 3 years R million	3 – 4 years R million	4 – 5 years R million	>5 years R million	Total R million
Commercial paper	1/04/08	27							27
Commercial paper	1/04/08	4							4
Commercial paper	1/04/08	16							16
Loan	31/03/28							50	50
Loan	31/03/29			20	20	10	20	330	400
Loan	15/09/24		16	33	33	33	33	379	527
Term funding	various	95							95
Term funding	2/05/08	30							30
		172	16	53	53	43	53	759	1 149

The above contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the balance sheet date.

Loan commitments

As at 31 March 2009, BWP has unutilised facilities of R250 million (2008: R522 million).

VRESAP

Funding limits and facilities at 31 March 2009:

VRESAP funding limits	Limit R million	Utilisation R million	Available R million
Total borrowing authority	3 600	(2 541)	1 009
Facilities			
Commercial Paper Programme	300	(253)	47
EIB	500	(282)	218
Standard Bank	1 300	(770)	530
Absa	1 000	(931)	69
Investec	300	(155)	145
Nedbank	150	(150)	

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

5. Financial risk management (continued)

5.1 Liquidity risk (continued)

Funding limits and facilities at 31 March 2008

VRESAP funding limits	Limit R million	Utilisation R million	Available R million
Total borrowing authority	3 600	(2 078)	1 472
Facilities			
Commercial Paper Programme	300	(192)	108
EIB	500	(282)	218
Standard Bank	1 300	(770)	530
Absa	1 000	(581)	419
Investec	300	(155)	145
Nedbank	150	(98)	52

The figures above exclude capitalised interest on three loans but is included in the table below.

Contractual maturity analysis report:

As at 31 March 2009, VRESAP has contractual maturities, which are summarised below:

2009

Product type	Maturity date	1 – 3 months R million	3 – 12 months R million	1 – 2 years R million	2 – 3 years R million	3 – 4 years R million	4 – 5 years R million	>5 years R million	Total R million
Commercial paper	1/04/09	178							178
Commercial paper	1/04/09	75							75
Loan	31/03/28							1 080	1 080
Loan	15/06/27				9		19	254	282
Loan	31/03/28							155	155
Loan	15/03/28							173	173
Loan	1/03/28						37	926	963
		253				9	56	2 588	2 906

2008

Product type	Maturity date	1 – 3 months R million	3 – 12 months R million	1 – 2 years R million	2 – 3 years R million	3 – 4 years R million	4 – 5 years R million	>5 years R million	Total R million
Commercial paper	1/04/08	46							46
Commercial paper	1/04/08	40							40
Loan	31/03/28							640	640
Loan	15/06/27						9	273	282
Loan	31/03/28							155	155
Loan	15/03/28							107	107
Loan	1/03/28							873	873
Term funding	2/05/08	56							56
Term funding	22/04/08	50							50
		192					9	2 048	2 249

The above contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the balance sheet date.

Loan commitments

As at 31 March 2009, VRESAP has unutilised facilities of R287 million (2008: R1 413 million).

5.2 Credit risk

This is the risk of loss resulting from the failure of a counterparty to honour its obligations. The risk is managed by:

- ensuring that TCTA deals with reputable counterparties;
- allocating counterparty investment limits;
- liaison with credit-rating agencies;
- continuous monitoring of the financial status of counterparties;
- review of credit limits on a semi-annual basis;
- monitoring of counterparty limit utilisation; and
- use of master netting agreements for mitigating credit risk associated with derivative instruments.

Credit limits are allocated based on the following:

- Limits are allocated to counterparties with a minimum credit rating of A1.
- The allocated limits should not exceed 5% of the counterparty's shareholders' funds.
- The maximum limit allocated to each counterparty is R1 000 million.
- The limits are limited to counterparties where 5% of shareholders' funds exceed R100 million.
- The credit limit consumption of FECs with commercial banks are determined according to the Risk Policy whereby the maximum of a calculated risk weighting value or the mark-to-market value of an instrument will be used as the consumption against the credit limit of a specific counterparty.

In order to further mitigate against the credit risk associated with derivative instruments, TCTA has negotiated ISDA agreements with the various market makers.

LHWP

The table below reflects the utilisation per counterparty against the credit limit at 31 March 2009:

2009

Short term	Rating (Fitch – ABCA) Long term	Credit limit R million	Total utilisation R million	Available R million
F1+	AA+	1 000	850	150
F1+	AA-	1 000	543	457
F1+	AA	1 000	608	392
F1+	AA+	1 000	445	555
F1+	AA	1 000	1	999
F1+	AA-	1 000	326	674
F1+	AAA	1 000	439	561
F1+	AAA	1 000	342	658
		8 000	3 554	4 446

2008

Short term	Rating (Fitch – ABCA) Long term	Credit limit R million	Total utilisation R million	Available R million
F1+	AA+	1 000	935	65
F1+	A+	1 000	221	779
F1+	AA-	1 000	326	674
F1+	AA+	1 000	6	994
F1+	AA	1 000	2	998
F1+	AAA	1 000	321	679
		6 000	1 811	4 189

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

5. Financial risk management (continued)

5.2 Credit risk (continued)

BWP

The table below reflects the utilisation per counterparty against the credit limit at 31 March 2009:

2009

Short term	Rating (Fitch – ABCA) Long term	Credit limit* R million	Total utilisation R million	Available R million
F1+	AA-	1 000		1 000
F1+	AA	1 000	2	998
F1+	AAA	1 000	50	950
F1+	AA-	1 000	14	986
F1+	AA+	1 000	2	998
		5 000	68	4 932

2008

Short term	Rating (Fitch – ABCA) Long term	Credit limit* R million	Total utilisation R million	Available R million
F1+	A+	1 000		1 000

VRESAP

The table below reflects the utilisation per counterparty against the credit limit at 31 March 2009:

2009

Short term	Rating (Fitch – ABCA) Long term	Credit limit* R million	Total utilisation R million	Available R million
F1+	A+	1 000	1	999
F1+	AA-	1 000	6	994
		2 000	7	1 993

2008

Short term	Rating (Fitch – ABCA) Long term	Credit limit* R million	Total utilisation R million	Available R million
F1+	A+	1 000		1 000

* This limit is the total for all three projects.

5.3 Market risk

Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to change in market prices. Market risk reflects currency risk, interest rate risk and other price risks.

(a) Currency risk

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. TCTA has a policy to cover 100% of its foreign capital commitments and 75% of interest and fees.

TCTA makes use of forward exchange contracts (FECs) for hedging purposes. The table on the opposite page shows the foreign exchange cover as at 31 March 2009.

Foreign exchange contracts maturity profile

	2009 Euro million	2009 USD million	2008 Euro million	2008 USD million
<1 year	11	1	7	2
1 – 2 years	10		10	2
2 – 3 years		1	9	1
3 – 4 years		1		1
4 – 5 years		1		1
>5 years				1
	21	4	26	8

Foreign currency sensitivity

The following table illustrates the sensitivity of the net result for the year with regard to the financial liabilities and financial assets, and the USD-ZAR and the EUR-ZAR exchange rates.

It assumes a 25% change of the EUR-ZAR exchange rate for the year ended 31 March 2009 (2008: 25%). A 15% change is considered for the USD-ZAR exchange rate (2008: 15%). Both of these percentages have been determined based on the average market volatility in exchange rates in the previous 12 months. The sensitivity analysis is based on foreign currency financial instruments held at each balance sheet date and also takes into account forward exchange contracts that offset effects from changes in currency exchange rates.

If the rand had weakened against the US dollar and euro by 25% (2008: 25%) and 15% (2008: 15%) respectively, then this would have had the following impact:

	2009 Change in Euro R million	2009 Change in USD R million	2008 Change in Euro R million	2008 Change in USD R million
Increase in rates				
(Saving)/loss	5	(3)	(23)	(8)

If the rand had strengthened against the US dollar and euro by 25% (2008: 25%) and 15% (2008: 15%) respectively, then this would have had the following impact:

	2009 Change in Euro R million	2009 Change in USD R million	2008 Change in Euro R million	2008 Change in USD R million
Decrease in rates				
(Saving)/loss	33	(3)	(14)	(3)

BWP

The BWP is currently not exposed to currency risk as it does not have any foreign exchange liabilities.

VRESAP

The VRESAP is currently not exposed to currency risk as it does not have any foreign exchange liabilities.

(b) Interest rate risk

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.

TCTA manages interest rate risk through the following:

- Achievement of optimal capital structure given the nature of the project.
 - Appropriate fixed to floating ratios.
 - Evaluation of foreign versus local funding.
- Matching duration of liabilities with free cash flows.
- Redemption strategies.

TCTA does not have any derivative hedging interest rate risk, instead attainment of the optimal capital structure and the proactive interest rate risk management strategies are applied.

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

5. Financial risk management (continued)

5.3 Market risk (continued)

LHWP

Fixed vs variable rate loans

The optimal capital structure based on the sensitivity simulation is 70% fixed and 30% floating. This ensures limited fluctuation of the cumulative debt curve.

The proportional interest rate exposures on total outstanding debt of the project can be summarised as follows:

	Fixed rate 2009 %	Fixed rate 2008 %	Variable rate 2009 %	Variable rate 2008 %
Euro	1	1	1	1
USD			1	1
Rand	66	70	31	27
Total liabilities	67	71	33	29

Refinancing risk

The duration of liabilities can be viewed as the rate at which liabilities will reprice when refinanced. In terms of duration analysis, liabilities with short duration stand to gain by repricing at lower levels on refinancing date in a downward trending environment. But, since managing interest rate risk is more complex than increasing or decreasing the duration mismatch, duration matching is used as a guiding principle. In TCTA, duration is used in conjunction with other interest rate risk mitigation measures such as the sensitivity of the debt curve to changes in the capital structure, water demand, inflation and interest rates.

Weighted average duration for bonds

TCTA strives to achieve an optimal capital structure of 70% fixed and 30% floating rate ratios. Although this ratio does not protect TCTA from repricing and refinancing risk, implied through duration analysis, it does protect the debt curve from volatility in interest rates. As repricing risk implies both liquidity and interest rate risk, the frequency of repricing duration must be in line with the interest rate view. Since interest rates are unpredictable, TCTA further manages interest rate risk through redemption strategies. Hence, interest rate risk is managed by establishing risk-sensitive funding strategies, which apply concepts such as duration and capital structure in the long term, and redemption, derivative and other hedging instruments in the short term.

TCTA further minimises its exposure to both refinancing and repricing risk associated with large maturities (bonds and commercial paper) by matching its assets and liabilities. 100% of the debt issued by the end of March 2009 supports asset and liability matching.

The table below shows the weighted/modified average duration of bonds as at 31 March 2009:

Bonds	Amount issued R million	Maturity date	Duration (years)	Weighted average duration	Modified duration
WS03	2 585	15/09/10	1,36	0,46	1,31
WS04	7 917	30/05/16	4,96	5,18	4,75
WS05	3 525	1/08/18	7,70	3,58	7,60
WSP1	400	28/05/15	4,72	0,25	4,53
WSP2	400	28/05/17	5,81	0,31	5,57
WSP3	400	28/05/19	6,65	0,35	6,36
WSP4	400	28/05/20	7,03	0,37	6,72
WSP5	990	28/05/21	7,38	0,96	7,06
	16 617		45,61	11,46	43,90

Currently TCTA does not have any derivative hedging interest rate risk. Interest rate risk is managed through achievement of optimal capital structure, and continuous monitoring of short-, medium- and long-term interest rates exposures.

Interest rate sensitivity

The following table illustrates the sensitivity of the net result for the year to a reasonably possible change in interest rates of +100 bps and -100 bps (2008: +/-100 bps) and +200 bps and -200 bps (2008: +/-200 bps), with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on LHWP's financial instruments (liabilities and assets) held at each balance sheet date. All other variables are held constant.

LHWP

	2009 (1,00%) R million	2009 1,00% R million	2008 (1,00%) R million	2008 1,00% R million
Liabilities				
Saving/(loss)	6	(48)	20	(4)

	2009 (2,00%) R million	2009 2,00% R million	2008 (2,00%) R million	2008 2,00% R million
Liabilities				
Saving/(loss)	34	(73)	39	(21)

	2009 (1,00%) R million	2009 1,00% R million	2008 (1,00%) R million	2008 1,00% R million
Financial assets				
Saving/(loss)	(15)	15	(10)	10

	2009 (2,00%) R million	2009 2,00% R million	2008 (2,00%) R million	2008 2,00% R million
Financial assets				
Saving/(loss)	(30)	29	(21)	21

BWP**Fixed vs variable rate loans**

The ratio of fixed to floating debt as at 31 March 2009 was 46% (2008: 42%) fixed and 54% (2008: 58%) floating.

	ZAR values		% of total debt book	
Borrowings	Fixed	Variable	Fixed	Variable
ZAR	493	578	46	54

Refinancing and repricing risk

The weighted average money market duration as at 31 March 2009, was 74 days (2008: 32 days).

Interest rate sensitivity

The following table illustrates the sensitivity of the net result for the year to a reasonably possible change in interest rates of +100 bps and -100 bps (2008: +/-100 bps) and +200 bps and -200 bps (2008: +/-200 bps), with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on BWP's financial instruments held at each balance sheet date. All other variables are held constant.

	2009 (1,00%) R million	2009 1,00% R million	2008 (1,00%) R million	2008 1,00% R million
Liabilities				
Saving/(loss)	14	1	6	(8)

	2009 (2,00%) R million	2009 2,00% R million	2008 (2,00%) R million	2008 2,00% R million
Liabilities				
Saving/(loss)	24	(7)	12	(14)

	2009 (1,00%) R million	2009 1,00% R million	2008 (1,00%) R million	2008 1,00% R million
Financial assets				
Saving/(loss)	-	-	-	-

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

5. Financial risk management (continued)

5.3 Market risk (continued)

	2009 (2,00%) R million	2009 2,00% R million	2008 (2,00%) R million	2008 2,00% R million
Financial assets				
Saving/(loss)	-	-	-	-

VRESAP

Fixed vs variable rate loans

The split as at 31 March 2009 between fixed and floating interest rates was 58% fixed and 42% floating. According to policy, projects still under construction are not expected to meet the 70% to 30% guideline.

Borrowings	ZAR values Fixed	Variable	% of total debt book	
			Fixed	Variable
ZAR	1 235	964	58	42

Refinancing and repricing risk

As at 31 March 2009, VRESAP had no term paper in issue.

Interest rate sensitivity

The following table illustrates the sensitivity of the net result for the year to a reasonably possible change in interest rates of +100 bps and -100 bps (2008: +/-100 bps) and +200 bps and -200 bps (2008: +/-200 bps), with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on VRESAP's financial instruments held at each balance sheet date. All other variables are held constant.

Liabilities	2009 (1,00%) R million	2009 1,00% R million	2008 (1,00%) R million	2008 1,00% R million
Saving/(loss)	16	(9)	8	(9)

Liabilities	2009 (2,00%) R million	2009 2,00% R million	2008 (2,00%) R million	2008 2,00% R million
Saving/(loss)	28	(21)	16	(18)

Financial assets	2009 (1,00%) R million	2009 1,00% R million	2008 (1,00%) R million	2008 1,00% R million
Saving/(loss)	-	-	-	-

Financial assets	2009 (2,00%) R million	2009 2,00% R million	2008 (2,00%) R million	2008 2,00% R million
Saving/(loss)	-	-	-	-

5.4 Operational risk management

Operational risk is the potential for loss caused by fraud, error, systems failure or other unexpected occurrences. Risks of this nature are mitigated 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. Property, plant and equipment

6.1 LHWP

	Works in South Africa R million	Other R million	Total 2009 R million	Total 2008 R million
Cost as previously stated	2 091	16	2 107	2 130
Accumulated depreciation	(29)	(14)	(43)	(43)
Carrying amount at the beginning of the year	2 062	2	2 064	2 087
<i>During the year:</i>				
Additions	–	4	4	1
Disposals	–	–	–	–
Reversal of revaluation	–	–	–	(24)
Accumulated depreciation adjusted against NDR	–	–	–	5
Depreciation	(2)	(2)	(4)	(5)
Cost/depreciated replacement value	2 091	20	2 111	2 107
Accumulated depreciation	(31)	(16)	(47)	(43)
Carrying amount at the end of the year	2 060	4	2 064	2 064

6.2 BWP

	Works capitalised R million	Other R million	Total 2009 R million	Total 2008 R million
Cost as previously stated	1 128	1	1 129	901
Accumulated depreciation	–	(1)	(1)	(1)
Carrying amount at the beginning of the year	1 128	–	1 128	900
Adjustment due to change in estimate in water consumption figures for previous periods	(46)	–	(46)	–
Water tariff adjustment ¹	(46)	–	(46)	–
Depreciation on adjustment	–	–	–	–
<i>During the year:</i>				
Additions	165	–	165	228
Disposals	(30)	–	(30)	–
Depreciation	(6)	–	(6)	–
Cost/depreciated replacement value	1 217	1	1 218	1 129
Accumulated depreciation	(6)	(1)	(7)	(1)
Carrying amount at the end of the year	1 211	–	1 211	1 128

1 TCTA recognises revenue on a monthly basis based on budgeted water demand volume projections and invoice City of Cape Town (CCT) based thereon. These budgeted amounts are then adjusted by the actual water volumes based on metre readings provided by DWA. DWA is responsible for collecting water revenue from the Western Cape Water System and is therefore also responsible for the completeness and accuracy of invoicing and revenue collection. TCTA capitalised all directly attributable income and expenditure to the project until water delivery commenced and capitalisation ceased as at 31 March 2008. During 2008, TCTA was unable to obtain the actual water consumption figures up to the end of March and did an adjustment based on the confirmed consumption for year-end purposes. During the current financial year-end, TCTA obtained the actual consumption for the years ended 31 March 2008 and 31 March 2009. This resulted in an adjustment of R46 330 106 to the cost of works as previously stated on 31 March 2008. The impact on the depreciable portion of the works amounts to R11 429 938,89 over the period of 45 years.

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

6. Property, plant and equipment (continued)

6.3 VRESAP

	Works capitalised R million	Other R million	Total 2009 R million	Total 2008 R million
Cost as previously stated	2 269	–	2 269	1 407
Accumulated depreciation	–	–	–	–
Carrying amount at the beginning of the year	2 269	–	2 269	1 407
<i>During the year:</i>				
Additions	526	–	526	862
Recovery ¹	(46)	–	(46)	–
Disposals	–	–	–	–
Depreciation	–	–	–	–
Cost/depreciated replacement value	2 749	–	2 749	2 269
Accumulated depreciation	–	–	–	–
Carrying amount at the end of the year	2 749	–	2 749	2 269

1 The recovery relates to the receipt of delay damages by the contractor for not achieving the Ready for Commissioning (RFC) contractual milestone date. A corresponding debtor was raised and is included in loans and receivables (note 10).

6.4 MMTS2

	Works capitalised R million	Other R million	Total 2009 R million	Total 2008 R million
Cost as previously stated	–	–	–	–
Accumulated depreciation	–	–	–	–
Carrying amount at the beginning of the year	–	–	–	–
<i>During the year:</i>				
Additions	2	–	2	–
Disposals	–	–	–	–
Revaluation of depreciable portion	–	–	–	–
Accumulated depreciation adjusted against NDR	–	–	–	–
Accumulated depreciation on disposal adjusted against cost	–	–	–	–
Depreciation	–	–	–	–
Cost/depreciated replacement value	2	–	2	–
Accumulated depreciation	–	–	–	–
Carrying amount at the end of the year	2	–	2	–

6.5 TOTAL

	Works capitalised R million	Other R million	Total 2009 R million	Total 2008 R million
LHWP	2 060	4	2 064	2 064
BWP	1 211	–	1 211	1 128
VRESAP	2 749	–	2 749	2 269
MMTS	2	–	2	–
	6 022	4	6 026	5 461

A register of land and buildings is available for inspection at TCTA's registered office.

6.6 Works in South Africa

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.

Background

In terms of the accounting policy, TCTA has undertaken a full technical revaluation of the works in South Africa during the 2008 financial year. This revaluation was performed by SSI Engineers and Environmental Consultants (Pty) Limited (SSI) during March 2008. SSI was the project managers and responsible for data collection and preparation of schedules of quantities and subcontractor David Easton & Associates (DEA) was responsible for the rates and the costing part of the schedules of quantities as appointed technical subcontractors. SSI has a team of engineers, environmental consultants and technicians with the relevant experience to provide the support information upon which the cost estimations were based, and DEA formed the costing team. The technical revaluation indicated no impairment.

The revaluation was performed on the physical construction of the works and excludes borrowing costs capitalised, as well as other income and expenditure capitalised during the construction phase. The revaluation report indicated that the depreciation and depreciation period do not need to be adjusted but that it should be reassessed at each revaluation period.

Based on the 2008 technical valuation focusing only on the physical structure, a decision was taken to opt for a valuation based on the fair value of the future cash flow streams using an appropriate discount rate. The exercise indicated that the carrying value reflected at the end of the 2009 financial year does not need to be impaired. Future valuations will be based on the fair value of future cash flow streams as determined by management on an annual basis. A qualified valuer would be performing these calculations every three years. This valuation exercise, combined with the five yearly physical (technical) revaluations (as the National Pricing Strategy requires regular technical reviews of infrastructure assets), will provide evidence of the fair value of the works as stated.

See note on the critical accounting estimates and judgements for details of the process followed to perform the fair value calculation and discount rates calculated.

BWP

The BWP comprises the Berg River Dam and supplement scheme located in the upper reaches of the Berg River near Franschoek. The project can be divided into the following components: a concrete-face rock fill dam and inlet tower; the supplement scheme allows for additional water to be abstracted from the Berg River below the confluence with the Dwars River. The project also includes infrastructure assets such as access roads to the dam and 80 units of construction housing. The BWP is governed by two agreements: an implementation agreement between DWA and TCTA, and a raw water supply agreement between DWA and CCT.

The BWP will be revalued based on the fair value of the future cash flow streams using an appropriate discount rate. Future revaluations will be based on the fair value of the future cash flow streams by management on an annual basis. A qualified valuer would be performing these calculations every three years. This exercise will be combined with the five-yearly physical (technical) revaluations, as the National Pricing Strategy requires regular technical reviews of infrastructure assets. These technical and fair value valuations will provide evidence of the fair value of the works as stated.

See note on the critical accounting estimates and judgements for details of the process followed to perform the fair value calculation and discount rates calculation.

6.7 Works in South Africa/Works capitalised

	LHWP		BWP		VRESAP		MMTS2	
	2009 R million	2008 R million	2009 R million	2008 R million	2009 R million	2008 R million	2009 R million	2008 R million
The carrying amount consists of:								
Costs capitalised	2 207	2 207	1 706	1 571	2 750	2 270	2	–
Levies/income received	(253)	(253)	(443)	(443)	(1)	(1)	–	–
Depreciation	(31)	(29)	(6)	–	–	–	–	–
Berg water capital charge adjustment	–	–	(46)	–	–	–	–	–
Revaluation	137	137	–	–	–	–	–	–
	2 060	2 062	1 211	1 128	2 749	2 269	2	–

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

6. Property, plant and equipment (continued)

6.8 Costs capitalised

	BWP		VRESAP		MMTS2	
	2009 R million	2008 R million	2009 R million	2008 R million	2009 R million	2008 R million
Costs capitalised comprise:						
Engineering and construction	1 466	1 331	2 234	2 008	2	–
Fixed assets	–	–	–	–	–	–
Finance costs	199	199	499	246	–	–
Directly attributable costs	41	41	17	16	–	–
	1 706	1 571	2 750	2 270	2	–

6.9 Carrying amount if works had been carried at the cost model

	Cost R million	Accumulated depreciation R million	Carrying amount 2009 R million	Carrying amount 2008 R million
LHWP	1 953	(23)	1 930	1 932
BWP	1 211	–	1 211	1 128
VRESAP	2 749	–	2 749	2 269
MMTS2	2	–	2	–
	5 915	(23)	5 892	5 329

7. Intangible assets

7.1 Enduring benefit

	Total 2009 R million	Total 2008 R million
LHWP		
Cost as previously stated	13 258	13 287
Accumulated amortisation	(185)	(155)
Carrying amount at the beginning of the year	13 073	13 132
Repayment to World Bank	–	(9)
Proceeds on disposal of project assets	–	(10)
Compensation	64	(10)
Amortisation	(30)	(30)
Cost/depreciated replacement value	13 322	13 258
Accumulated amortisation	(215)	(185)
Carrying amount at the end of the year	13 107	13 073

The enduring benefit comprises water storage and the conveyance system and appurtenances in Lesotho.

The enduring benefit has been completed in two phases, namely Phase 1A and Phase 1B. The amortisation periods remaining as at 31 March 2009 are 34 and 40 years respectively for Phase 1A and for Phase 1B.

The carrying amount of the indefinite portion of the enduring benefit as at 31 March 2009 is R11 989 391 892 (2008: R11 932 003 796).

Enduring benefit

	Carrying amount		Capitalised/(recovered) for the year	
	2009 R million	2008 R million	2009 R million	2008 R million
LHWP				
Cost-related payments (borrowing costs)	7 367	7 367	–	–
Cost-related payments (capital)	3 983	3 919	64	(29)
Capital market funds utilised by the LHDA	3 640	3 640	–	–
Levies received from DWA	(1 435)	(1 435)	–	–
Protocol V refund on previously charged taxes	(233)	(233)	–	–
Amortisation	(215)	(185)	(30)	(30)
	13 107	13 073	34	(59)

7.2 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.

7.3 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.

7.4 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.

8. Investment property

LHWP

	Total 2009 R million	Total 2008 R million
Land and buildings		
Carrying amount at the beginning of the year	15	4
Additions	–	12
Depreciation	(1)	–
Cost/depreciated replacement value	15	16
Accumulated depreciation	(1)	(1)
Carrying amount at the end of the year	14	15

Investment properties, comprising houses at Khubetswana and a building in Pietersdal were initially acquired for use during construction.

TCTA constructed a number of residential houses for its employees and contractors during the implementation of the Lesotho Highlands Water Project (LHWP) in the area known as Khubetswana Township in Clarens in the Free State (Khubetswana). After completion of LHWP, TCTA donated and transferred some of the houses within the project area, eg in Fouriesburg to the then Mashae-Fourie Transitional Local Council. However, the houses in Khubetswana were never disposed of by TCTA.

TCTA let out the remaining properties to the residents of Khubetswana. The properties are managed and rental collected on behalf of TCTA. It seems that rental of the houses is not market-related but based within the affordability range of the Khubetswana community.

From the operational point of view, TCTA has to conduct a due diligence to determine the following (to the extent that such information is not readily available):

* The value of the properties, by appointing a professional valuator in order to determine the market value of the houses.

* The criteria for the disposal of the properties, the criteria to be based on the current socio-economic conditions including the intended date of transfer.

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

8. Investment property (continued)

The estimated useful life of the buildings has been estimated as 50 years as at 31 March 2005 and depreciation is written off over the estimated useful life of the buildings at a rate of 2% per annum. Post-construction, the houses at Khubetswana have been rented out to the local community and will continue as such until a disposal strategy has been finalised. However, no fair value can be determined as there is no active market for the buildings.

The additions during the 2008 year consists of the Lesotho Bank Towers purchased by the LHDA from Standard Lesotho Bank at a cost of M20 million. TCTA paid 50% towards the cost and administrative and maintenance cost during the year. Rental income received from the leasing of office space to external parties has been included in other income.

Total rental received for the 2009 financial year amounts to R1 116 140 (2008: R1 024 517). The fair value of the building is estimated at R60 million (2009); R57 million (2008).

9. Financial instruments

9.1 Capital management

TCTA is a specialised liability management body, whose mission is to fund bulk raw water infrastructure in the most cost-effective manner and within an acceptable risk framework. Liability management extends from funding to financial risk management.

Due to the high credit quality of the money market instruments (financial assets), management believes that the value of these assets will not be impaired.

In terms of clause 26(a) of TCTA's revised Notice of Establishment published in *Government Gazette* Notice No 21017, dated 24 March 2000, the Minister of Water and Environmental Affairs, with the concurrence of the Minister of Finance, is required to approve any adjustment in TCTA's borrowing limit. The borrowing limit is based on TCTA's borrowing requirement in order to fulfil the Republic of South Africa's financial obligations in terms of, or resulting from, the Treaty or from any other function that the Minister of Water and Environmental Affairs may require in terms of section 103(2) of the National Water Act.

The liability is managed in a very prudent and conservative manner, which is further underscored by the adoption of the following portfolio approach and objectives:

- Asset and Liability Matching: TCTA strives to minimise both refinancing and repricing risks associated with maturing debt by matching the maturity dates of debt issued with free cash generated by the project.
- Optimal Capital Structure: TCTA has statistically determined that an optimal capital structure of 70% fixed and 30% floating rate debt is the most appropriate for the structure and nature of out projects. This furthermore ensures that there is less volatility on the debt curve.
- Redemption Portfolio Management: Refinancing and repricing risks are further managed by the creation of redemption portfolios. TCTA runs redemption portfolios over a three-year period prior to maturity of a bond. This approach furthermore ensures that the interest rate risk is spread over a three-year horizon.
- Proactive (IR) Risk Management: The following market risks are actively managed and monitored on a continuous basis:
 - Liquidity risk
 - Interest rate risk
 - Credit risk
 - Currency risk

Furthermore, debt raising and the management of liabilities is conducted through the continuous application of Board-approved strategies and tactics that seek to minimise the overall cost of funding.

The Treasury Department has taken a more proactive approach to short-term cash management than in prior years. All future financing requirements are tabled for the next three months and funds are raised to match those maturities. Furthermore, in order to promote interest in the commercial paper programme, funds are raised ahead of any financing requirement and invested until the specific need for funding arises. Consequently, TCTA has maintained a strong presence in the commercial paper markets and has been able to secure funding at competitive prices.

The set guiding principles and objectives have been applied consistently over the years.

9.2 Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

Financial assets

	Assets at fair value through profit and loss: Designated upon initial recognition R million	Held-to- maturity investments R million	Loans and other receivables R million	Carrying amount R million	Fair value R million
Assets as per balance sheet at 31 March 2009					
Derivative financial instruments	23	–	–	23	23
Trade and other receivables	–	–	868	868	868
Redemption/investment assets	–	3 819	–	3 819	3 819
Other financial assets at fair value through profit or loss	–	–	–	–	–
Cash and cash equivalents	–	–	–	–	–
Total	23	3 819	868	4 710	4 710
Assets as per balance sheet at 31 March 2008					
Derivative financial instruments	16	–	–	16	16
Trade and other receivables	–	–	397	397	397
Redemption assets	–	1 908	–	1 908	1 908
Other financial assets at fair value through profit or loss	–	–	–	–	–
Other financial assets	–	–	–	–	–
Cash and cash equivalents	–	–	–	–	–
Total	16	1 908	397	2 321	2 321

Financial liabilities

	Liabilities at fair value through profit and loss R million	Other financial liabilities R million	Carrying amount R million	Fair value R million
Liabilities per balance sheet at 31 March 2009				
Borrowings	–	26 358	26 358	33 644
Derivative financial instruments	79	–	79	79
Total	79	26 358	26 437	33 723
Liabilities per balance sheet at 31 March 2008				
Borrowings	–	23 463	23 463	25 781
Derivative financial instruments	72	–	72	72
Total	72	23 463	23 535	25 853

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

9.3 Financial instruments in time buckets

Financial instruments	Current (one year and less) 2009 R million	Current (one year and less) 2008 R million	(1 to 5 years) R million
Financial assets			
LHWP			
Held-to-maturity investments carried at amortised cost	1 745	794	2 000
Other financial assets			
Financial assets carried at fair value through profit or loss (FVTPL)			
* Held for trading	–	–	–
Repos borrows	–	–	–
Due for settlement – Repos	–	–	–
Financial assets carried at fair value through profit or loss (FVTPL)			
* Designated upon initial recognition	6	2	17
Derivative asset	6	2	17
Total	1 751	796	2 017
BWP			
Other financial assets	68	–	–
Total	68	–	–
VRESAP			
Other financial assets	6	–	–
Total	6	–	–
Total financial assets	1 825	796	2 017
Financial liabilities			
Liabilities at fair value through profit or loss			
LHWP			
* Designated upon initial recognition			
Derivative liability	36	27	43
Total liabilities at fair value through profit or loss	36	27	43
Other financial liabilities			
LHWP			
Local debt			
Issued bonds	(306)	377	2 537
LHDA	–	–	974
Repos	(306)	(422)	–
TCTA	–	799	1 563
Other loans	2 196	618	369
TCTA	2 149	570	158
LHDA	47	48	211
Foreign debt			
Debt translated at spot rates	58	58	168
TCTA	–	–	–
LHDA	58	58	168
Repo carries	531	337	–
Other financial liabilities	2 479	1 390	3 074
BWP			
Local debt	314	187	235
Other loans	314	187	235
VRESAP			
Local debt	253	192	66
Other loans	253	192	66
Total other financial liabilities	3 046	1 769	3 375
Total financial liabilities	3 082	1 796	3 418
Net financial market liabilities	1 257	1 000	1 401

* Of the R16 617 million bonds in issue, with TCTA being the legal issuer, R938 million has been allocated to the LHDA to meet its funding requirements. A register of loans is available for inspection at TCTA offices.

Non-current (5 to 10 years) R million	(10 years and longer) R million	Non-current 2009 R million	Non-current 2008 R million	Total 2009 R million	Total 2008 R million
-	-	2 000	1 114	3 745	1 908
-	-	-	-	-	-
-	-	-	-	-	-
-	-	17	14	23	16
-	-	2 017	1 128	3 768	1 924
-	-	-	-	68	-
-	-	-	-	68	-
-	-	-	-	6	16
-	-	-	-	6	16
-	-	2 017	1 128	3 842	1 924
-	-	43	45	79	72
-	-	43	45	79	72
14 484	1 819	18 840	17 681	18 534	18 058
-	-	974	960	974	960
-	-	-	-	(306)	(422)
14 484	1 819	17 866	16 721	17 866	17 520
251	27	647	735	2 843	1 353
158	-	316	356	2 465	926
93	27	331	379	378	427
43	-	211	271	269	329
-	-	-	-	-	-
43	-	211	271	269	329
-	-	-	-	531	337
14 778	1 846	19 698	18 687	22 177	20 077
284	474	993	961	1 307	1 148
284	474	993	961	1 307	1 148
400	2 155	2 621	2 046	2 874	2 238
400	2 155	2 621	2 046	2 874	2 238
15 462	4 475	23 312	21 694	26 358	23 463
15 462	4 475	23 355	21 739	26 437	23 535
15 462	4 475	21 338	20 611	22 595	21 611

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

9. Financial instruments (continued)

9.4 Interest rates

LHWP

	2009 %	2008 %
Loans bear effective interest at rates ranging from	*7,4 to 21,7	9,0 to 22,0
TCTA funded at a weighted average rate of	10,30	10,24
Project funded at a weighted average rate of	10,61	10,61

* The interest rate applicable to one of the development funding foreign loans is 7,4%. This is a euro loan facility drawn as ZAR funding. The 21,7% relates to an EIB loan for Matsuko Diversion, valued at spot at R91 million (2008: R101 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 21,7% (2008: 22,0%).

BWP

	2009 %	2008 %
The project funded at a weighted average rate of	9,53	9,14

VRESAP

	2009 %	2008 %
The project funded at a weighted average rate of	9,76	9,29

9.5 Exchange rates (closing rates)

LHWP

The following are exchange rates utilised by TCTA as at 31 March:

Foreign currency	Bid 2009 Rand	Offer 2009 Rand	Bid 2008 Rand	Offer 2008 Rand
US dollars	9,473	9,492	8,130	8,135
Euros	12,608	12,633	12,857	12,865

9.6 Bonds

LHWP

TCTA is the legal issuer of the following LHWP local registered bonds:

Loan number	Type	Redemption date	Interest rate %	Authorised nominal/principal value R million	Nominal/capital indexed issued R million
WS03	Nominal	Wednesday, 15 September 2010	13,00	4 500	2 585
WS04	Nominal	Monday, 30 May 2016	12,50	10 000	7 917
WS05	Inflation indexed	Wednesday, 1 August 2018	5,00	7 000	5 438*
WSP01	Nominal	Thursday, 28 May 2015	9,00	1 000	400
WSP02	Nominal	Sunday, 28 May 2017	9,00	1 000	400
WSP03	Nominal	Tuesday, 28 May 2019	9,00	1 000	400
WSP04	Nominal	Thursday, 28 May 2020	9,00	1 000	400
WSP05	Nominal	Friday, 28 May 2021	9,00	4 000	990

* Inflation-indexed bond reflected at CPI value.

Value of bonds	Fair value 2009 R million	Nominal value 2009 R million	Fair value 2008 R million	Nominal value 2008 R million
Authorised		29 500		26 500
Issued	21 838*	18 530**	20 715*	18 042**
Unrealised premium to be amortised over the life of the loan		1 508		1 315
Unrealised discount to be amortised over the life of the loan		(134)		(169)
Unrealised amortisation of CPI upliftment for WS05		(1 064)		(708)

* 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.

9.7 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 below. The amounts are stated in the currency of the issued guarantee to indicate the utilisation.

Currency	Amount guaranteed 2009 million	Amount utilised 2009 million	Amount guaranteed 2008 million	Amount utilised 2008 million
TCTA loans:				
Euro	101	27	101	30*
Rand	26 100	18 933	26 100	18 576
LHDA loans:				
USD	51	3	51	4
Euro	94	51	94	58**
Rand	600	58	600	88

* Included in the euro amount is the European Investment Bank facility, which was drawn in rands, R218 million (2008: R242 million) and will be repaid in rands.

** Included in the euro amount is the European Investment Bank facility, which was drawn in rands, R237 million (2008: R251 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 2009 R million	Amount guaranteed 2008 R million
Eskom	Permanent power supply for construction of the dam as well as the Daspoort Tunnel	2	2
Drakenstein Municipality	For electricity consumption on the supplement scheme	(1)	(1)
Emirate: Emira Property Fund	Rental deposit	(2)	(2)
Stellenbosch Municipality	Cost of new sewer pipeline to be replaced by contractor at TCTA's cost	1	4
Stellenbosch Municipality	Costs to be borne by TCTA should electrical works not be in terms of the municipality's standards.	—	1

(1) The amount of the guarantee is R24 800.

(2) The amount of the guarantee is R90 000.

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

9. Financial instruments (continued)

9.7 Guarantees (continued)

VRESAP

On VRESAP, guarantees have been provided by TCTA as follows:

In favour of	Nature	Amount guaranteed 2009 R million	Amount guaranteed 2008 R million
Department of Minerals and Energy	Guarantees provided for rehabilitation of burrow pits	5	5

9.8 Derivative exposures

LHWP

The table below details derivative values, which are included in financial market assets and liabilities:

	Current 2009 R million	Non-current 2009 R million	Current 2008 R million	Non-current 2008 R million
Assets				
Fair value amount	6	17	2	14
Liabilities				
Fair value amount	36	43	27	45
	Foreign amount 2009 million	Rand amount 2009 R million	Foreign amount 2008 million	Rand amount 2008 R million
Forward exchange contracts				
EUR	21	359	26	454
USD	4	21	8	67

Net foreign exchange contracts are stated at fair value and match specific underlying commitments recorded on the balance sheet at year-end.

Derivatives are used to hedge currency exposures.

Fair value is the current mark-to-market value of all the derivatives outstanding.

9.9 Interest rate risk management

Maturity periods: Interest exposure

Liabilities	LHWP		BWP		VRESAP	
	2009 R million	2008 R million	2009 R million	2008 R million	2009 R million	2008 R million
Floating						
<1 month	1 044	400	221	96	253	136
1 – 3 months	1 090	61	–	74	–	56
3 – 12 months	325	100	73	16	–	–
1 – 2 years	126	108	39	33	–	–
2 – 3 years	83	110	39	33	–	–
3 – 4 years	78	82	39	33	10	–
4 – 5 years	64	76	38	33	32	9
>5 years	5 022	4 224	458	430	1 015	841
	7 832	5 161	907	748	1 310	1 042
Fixed						
<1 year	56	858	20	–	–	–
1 – 2 years	2 694	57	20	20	–	–
2 – 3 years	31	3 738	10	20	–	–
3 – 4 years	24	29	20	10	–	–
4 – 5 years	17	24	30	20	23	–
>5 years	11 602	10 282	300	330	1 541	1 196
	14 424	14 988	400	400	1 564	1 196

Assets	LHWP		BWP		VRESAP	
	2009 R million	2008 R million	2009 R million	2008 R million	2009 R million	2008 R million
Floating						
<1 month	–	–	–	–	–	–
1 – 3 months	–	–	–	–	–	–
3 – 12 months	6	2	–	–	–	–
1 – 2 years	5	3	–	–	–	–
2 – 3 years	5	3	–	–	–	–
3 – 4 years	5	3	–	–	–	–
4 – 5 years	2	3	–	–	–	–
>5 years	–	2	–	–	–	–
	23	16	–	–	–	–
Fixed						
<1 year	1 745	794	68	–	6	–
1 – 2 years	2 000	–	–	–	–	–
2 – 3 years	–	1 114	–	–	–	–
3 – 4 years	–	–	–	–	–	–
4 – 5 years	–	–	–	–	–	–
>5 years	–	–	–	–	–	–
	3 745	1 908	68	–	6	–

10. Loans and other receivables

Non-current	LHWP		BWP		VRESAP		Total	
	2009 R million	2008 R million	2009 R million	2008 R million	2009 R million	2008 R million	2009 R million	2008 R million
Other debtors	–	–	5	–	–	–	5	–
Total	–	–	5	–	–	–	5	–

Current	LHWP		BWP		VRESAP		Total	
	2009 R million	2008 R million	2009 R million	2008 R million	2009 R million	2008 R million	2009 R million	2008 R million
Water income receivables ¹	643	380	110	–	–	–	753	380
Other debtors	10	1	–	–	46	–	56	1
Loan account: BWP	1	7	–	–	–	–	1	7
Loan account: VRESAP	3	9	–	–	–	–	3	9
Loan account: MMTS2	22	–	–	–	–	–	22	–
Loan account: KWSAP	7	–	–	–	–	–	7	–
Loan account: ORWRDP2	15	–	–	–	–	–	15	–
Loan account: MCWAP	6	–	–	–	–	–	6	–
Total	707	397	110	–	46	–	863	397

1 Water income receivable for LHWP is 60 days and BWP is 30 days.

1 Water income receivable for LHWP.

1 Current indications are that VRESAP will not be ready to commence with the delivery of the full project yield of 5,4 m³ per second before mid-May 2009, and thus the declaration of the project by DWA as operational was delayed by the same period. Previously the target date for commencement of water delivery was December 2008; a similar failure of two variable speed drives (VSDs) was experienced during December 2008 resulting in a deferral of the expected date to March 2009. The consequential loss to TCTA is a delay in the receipt of revenue from the project amounting to approximately R18 million per month.

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

10. Loans and other receivables (continued)

	2009 R million	2008 R million
Total		
Non-current		
BWP	5	–
Total	5	–
Current		
LHWP	707	397
BWP	110	–
VRESAP	46	–
Total	863	397

11. Prepaid expenditure

	LHWP		BWP		VRESAP		MMTS2		Total	
	2009 R million	2008 R million	2009 R million	2008 R million	2009 R million	2008 R million	2009 R million	2008 R million	2009 R million	2008 R million
Prepayments	46	61	1	4	39	5	2	–	88	70
Total	46	61	1	4	39	5	2	–	88	70

12. Non-distributable reserves

	2009 R million	2008 R million
Balance at the beginning of the year	121	141
Movement during the year	(1)	(20)
Amounts released to deficit during the year	–	–
Reversal of revaluation	–	(24)
Accumulated depreciation adjusted against NDR	–	5
Realisation of revaluation surplus	(1)	(1)
The balance comprises	120	121
Revaluation reserve	120	121
Hedging reserve	–	–

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.

13. Cumulative deficit

	2009 R million	2008 R million
Balance at the beginning of the year	(3 672)	(3 510)
Movement during the year	(77)	(162)
Net deficit for the year	(77)	(162)
Realisation of revaluation surplus	–	–
Balance at the end of the year	(3 749)	(3 672)

14. Trade and other payables

	LHWP 2009 R million	BWP 2009 R million	VRESAP 2009 R million	ADVISORY SERVICES 2009 R million	MMTS2 2009 R million	ORWRDP2 2009 R million	KWSAP 2009 R million	Total 2009 R million
Interest payable								
• TCTA	481	4	15	–	–	–	–	500
• LHDA	10	–	–	–	–	–	–	10
Loan account: LHWP	–	1	3	6	17	15	7	49
Other creditors	50	113	18	–	5	–	–	186
Royalties (see note 22)	52	–	–	–	–	–	–	52
Total	593	118	36	6	22	15	7	797

	LHWP 2008 R million	BWP 2008 R million	VRESAP 2008 R million	ADVISORY SERVICES 2008 R million	MMTS2 2008 R million	ORWRDP2 2008 R million	KWSAP 2008 R million	Total 2008 R million
Interest payable								
• TCTA	458	3	14	–	–	–	–	475
• LHDA	28	–	–	–	–	–	–	28
Loan account: LHWP	–	7	8	–	–	–	–	15
Other creditors	23	30	66	–	–	–	–	119
Royalties (see note 22)	51	–	–	–	–	–	–	51
Total	560	40	88	–	–	–	–	688

	2009 R million	2008 R million
Total	797	688
LHWP	593	560
BWP	118	40
VRESAP	36	88
MMTS2	22	–
ORWRDP2	15	–
Advisory services	6	–
KWSAP	7	–
Total	797	688

15. Non-contractual amounts

	LHWP		BWP		VRESAP		Total	
	2009 R million	2008 R million	2009 R million	2008 R million	2009 R million	2008 R million	2009 R million	2008 R million
Receiver of revenue – VAT	56	50	13	(3)	(4)	(10)	65	37
Receiver of revenue – SDL, PAYE, UIF	–	1	–	–	–	–	–	1
Total	56	51	13	(3)	(4)	(10)	65	38

	2009 R million	2008 R million
Total	65	38
LHWP	56	51
BWP	13	(3)
VRESAP	(4)	(10)
Total	65	38

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Payments to the office of the South African Revenue Service is governed by law and are in essence, not a contractual obligation but a legal obligation. The non-contractual amounts disclosed, were previously included in the financial instruments, trade and other payables.

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

16. Provisions Provision for leave pay

	LHWP 2009 R million	BWP 2009 R million	VRESAP 2009 R million	Total 2009 R million	Total 2008 R million
Balance at the beginning of the year	3	–	–	3	3
Leave accrued during the year	4	–	–	4	4
Leave utilised or paid	(4)	–	–	(4)	(4)
	3	–	–	3	3

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.

17. Long-term liabilities

The long-term liabilities are in respect of provision for compensation payments payable on LHWP. This is in respect of households that were resettled during the construction of the dam infrastructure.

Reconciliation of long-term liability	R million
Balance at 31 March 2008	244
– Long-term portion of future compensation	227
– Short-term portion of future compensation ¹	17
Payment in current year	(12)
Adjustments made based on findings from external report	23
Increase in provision based on revised rates	53
Balance at 31 March 2009	308
– Long-term portion of future compensation	282
– Short-term portion of future compensation ¹	26

¹ Short-term portion has been included in trade and other payables.

18. Cash and cash equivalents

	LHWP		BWP		VRESAP		Advisory services		Total	
	2009 R million	2008 R million	2009 R million	2008 R million	2009 R million	2008 R million	2009 R million	2008 R million	2009 R million	2008 R million
Bank ¹	(6)	–	16	–	–	–	–	–	10	–
	(6)	–	16	–	–	–	–	–	10	–
Total									2009 R million	2008 R million
LHWP									(6)	–
BWP									16	–
VRESAP									–	–
Advisory services									–	–
									10	–

¹ On 31 March 2009, TCTA dealt with a counterparty who in turn dealt with a fund in the UK. TCTA was to receive the funds in exchange for the issue of commercial paper. TCTA's settlement agent only acts on instructions received from TCTA as well as the fund. The relevant person in the UK was not available, and the instructions were not sent. As a result, the deal only settled the following day, resulting in the bank balance being in overdraft. This was outside TCTA's control.

19. Revenue

	Note	LHWP		BWP		Advisory services		Total	
		2009 R million	2008 R million	2009 R million	2008 R million	2009 R million	2008 R million	2009 R million	2008 R million
Bulk raw water tariff	19.1	2 283	2 087	202	–	–	–	2 485	2 087
Advisory services ¹	19.2	–	–	–	–	8	1	8	1
		2 283	2 087	202	–	8	1	2 493	2 088
Total								2009 R million	2008 R million
LHWP								2 283	2 087
BWP								202	–
Advisory services								8	1
								2 493	2 088

1 Advisory services have been delivered to ORWRDP and Springrove.

19.1 Bulk raw water tariff

Income in LHWP is based on the part of the bulk raw water tariff due to TCTA at 157,00 cents per m³ (2008: 147,60 cents per m³), based on 1 454 million m³ (2008: 1 413 million m³) of water sales from the Vaal River system.

BWP income is based on the part of the bulk raw water tariff due to TCTA at 0,7350 cents per m³ (April 2007 to June 2007); 0,5935 cents per m³ (July 2007 to March 2008); 0,5935 cents per m³ (April 2008 to June 2008) and 0,6315 cents per m³ (July 2008 to March 2009).

19.2 Advisory services

TCTA assists DWA in an advisory capacity on the following projects: ORWRDP2 and MMTS2 (prior to receiving mandates for the implementation) as well as LHWP2 and MCWAP.

20. Other income

	LHWP		BWP		Total	
	2009 R million	2008 R million	2009 R million	2008 R million	2009 R million	2008 R million
Rental income ¹	2	1	–	–	2	1
Recovery – La Motte ²	–	–	5	–	5	–
Other income	1	–	–	–	1	–
	3	1	5	–	8	1

Rental income

1 Rental income includes rental derived from leasing office space in the LHDA office building, to external parties, amounting to R1 116 140,18 (2009), R1 024 516,66 (2008). Income received from the leasing of the houses at Khubetswana, is also included in rental income.

2 TCTA has handed the management and control of the La Motte Village extensions over to the Stellenbosch Municipality, the effective date being 7 January 2009. The municipality shall pay TCTA for the costs incurred pertaining to the construction of Wemmershoek/La Motte Link Service Sewer Line as well as costs paid to the municipality for the establishment of the La Motte Village extension. The amount payable is R5 526 236,60, paid in three annual instalments starting April 2009. The present value R5 069 090,61. (Refer to critical accounting estimates and judgements.)

21. Finance income and costs

21.1 Finance income

	LHWP		BWP	
	2009 R million	2008 R million	2009 R million	2008 R million
Interest income on financial assets carried at amortised cost	599	329	1	–
Fair value gains on forward exchange contracts held for trading	23	116	–	–
Translation gain on foreign currency financial liabilities designated at fair value	16	6	–	–
Finance income	638	451	1	–

Finance income is mainly comprised of interest received from the WSO3 redemption investments, repurchase agreements (repos), income and premium on WS bonds amortised and interest on short-term investments.

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

21. Finance income and costs (continued)

21.2 Finance costs (continued)

Finance costs for the years ended may be analysed as follows:

	LHWP		BWP	
	2009 R million	2008 R million	2009 R million	2008 R million
Interest expense for borrowings at amortised cost	2 354	2 040	131	–
– Locally issued bonds	1 982	1 800	–	–
– Other local debt	372	240	131	–
Interest expense for borrowings at fair value				
– Foreign debt	67	68	–	–
Total interest expense for financial liabilities	2 421	2 108	131	–
Loss on foreign currency financial liabilities designated at fair value	14	85	–	–
Fair value losses on forward exchange contracts held for trading	38	17	–	–
Finance costs	2 473	2 210	131	–

21.3 Financial result by category of financial instrument

Net gains/losses from financial assets and financial liabilities by category of financial instruments are set out below:

	LHWP		BWP	
	2009 R million	2008 R million	2009 R million	2008 R million
Financial instruments held for trading	80	48	–	–
Financial liabilities designated at fair value through profit or loss	–	–	–	–
Held-to-maturity financial assets	(599)	(329)	(1)	–
Loans and receivables	–	–	–	–
Financial liabilities measured at amortised cost	2 354	2 040	131	–
Net result from financial assets and liabilities	1 835	1 759	130	–
Net amounts reported in:				
Statement of comprehensive income	1 835	1 759	130	–
Equity	–	–	–	–

22. Royalties paid

LHWP

Royalties are paid to the Government of Lesotho in accordance with the Treaty for the benefit of receiving water from the LHWP. The royalties are based on the calculated net benefit of the construction of LHWP compared to a transfer scheme based entirely inside South Africa. The royalties comprise a fixed component and a variable component. The variable royalties are based on 766 million m³ (2008: 780 million m³) of water delivered.

	2009 R million	2008 R million
Fixed royalties	158	142
Variable royalties	167	160
Total royalties	325	302

23. Other operating expenses

Other operating expenses include the following:

	2009 R million	2008 R million
Operating lease payments	6	3
Audit fees [§]	2	2
Other operating expenditure	23	15
Total other operating expenditure	31	20

[§] Audit fee of R1 413 200 (2008: R1 585 000).

Allocated project hours are billed at the actual staff rates.

Shared costs incurred by LHWP are allocated to the projects based on an average recovery rate of 12% for 2009 for BWP (2008: 26%) and 24% for 2009 for VRESAP (2008: 33%); and in 2009: 18% for MMTS2; 15% for ORWRDP2; 7% for KWSAP; 5% for CMWAP; and 1% for VRESAP2.

Shared costs include, but are not limited to, the following:

- Office overheads
- Directors' remuneration
- Human resources
- Audit fees
- Annual report costs
- Training, seminars and conferences
- Local area network development
- Rental of computer systems
- Rental of lines
- Strategic workshops
- Internal audit and compliance
- Insurance
- Human resources consulting fees

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

23. Other operating expenses (continued)

23.1 Directors' remuneration: Non-executive directors 2009

Names	Retainer fees R'000	Ad hoc fees* R'000	Attendance fees REMCO R'000	Attendance fees ALCO R'000
Board 1/04/2008 to 31/03/2009				
S Khoza	294	374	48	–
L Thotanyana	241	12	36	31
A Makwetla	189	25	–	–
S Kondlo	189	51	31	–
R Mbwana	189	11	10	–
E Malefane	190	–	–	–
P Makhsha	189	12	–	–
Board 1/09/2008 to 31/03/2009				
G White	119	37	21	21
J Geenen	119	–	–	21
M Mosidi	119	4	–	–
Total non-executive directors	1 838	526	146	73

* The directors' remuneration increased from 1 October 2008 in line with the directors' remuneration policy and framework that was aligned to the Department of Public Enterprises SoE guidelines on non-executive directors' remuneration and approved by the Minister.

* Ad hoc fees comprise all additional TCTA work done outside scheduled meetings in line with the aforementioned policy and include: time spent on project site visits, project inaugurations, strategy sessions, Board and subcommittee mandates and stakeholder engagements.

2008

Names	Retainer fees R'000	Board Committee attendance fees R'000	ALCO attendance fees R'000	Audit Committee attendance fees R'000
Board 1/07/2006 to 31/03/2007				
M Gantsho (late)	185	62	–	–
L Mthembu	158	48	25	38
L Thotanyana	173	60	26	–
S Kondlo	173	70	–	–
P Mothibi	173	41	–	–
E Malefane	173	54	–	23
T Sithole (late)	158	49	–	11
L Maarsdorp	173	23	32	–
A Pillay ¹	–	–	–	–
Board 1/04/2006 to 31/03/2007				
R Mbwana	173	47	–	–
A Makwetla	173	50	–	–
Board 1/04/2006 to 30/06/2006				
C Maynard	–	–	–	–
O Latiff	–	–	–	–
S Lushaba ¹	–	–	–	–
P Hadebe ¹	–	–	–	–
M Muller	–	–	–	–
Board 14/02/2008 to 31/03/2008				
S Khoza	33	–	–	–
O Ayaya ¹	–	–	–	–
Total non-executive directors	1 745	504	83	72

¹ TCTA does not pay remuneration to those non-executive directors that are in public service employment.

Audit Committee attendance fees R'000	Human Resources and Transformation committees attendance fees R'000	Board meeting attendance fees R'000	BWP Technical and Technical committees attendance fees R'000	VRESAP Technical Committee attendance fees R'000	Total attendance fees R'000	Grand total R'000
-	-	214	-	-	262	930
48	70	194	-	11	320	573
-	-	50	-	-	120	334
-	-	26	47	31	135	375
-	-	52	41	42	145	345
31	46	38	40	31	140	330
-	-	42	-	-	88	289
-	30	34	-	-	106	262
21	-	(14)	-	-	28	147
-	-	34	21	-	34	157
100	146	649	149	115	1 378	3 742

Human Resources Committee attendance fees R'000	Transformation Committee attendance fees R'000	Chairs Committee attendance fees R'000	BWP Technical Committee attendance fees R'000	VRESAP Technical Committee attendance fees R'000	Total attendance fees R'000	Grand total R'000
-	-	16	-	-	78	263
-	8	13	-	-	132	290
-	-	-	30	41	157	330
-	-	9	16	22	117	290
36	-	5	-	-	82	255
-	-	5	32	36	150	323
44	-	5	-	-	109	267
-	-	13	-	-	68	241
-	-	-	-	-	-	-
-	-	-	28	50	125	298
39	5	13	-	-	106	280
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	33
-	-	-	-	-	-	-
119	13	79	106	149	1 125	2 870

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

23. Other operating expenses (continued)

Executive director

Exco member	CTC 2009 R'000	Termination benefit R'000	Incentives 2008 R'000	Incentives 2009 R'000	Total 2009 R'000	CTC 2008 R'000
Executive 1/04/2008 to 31/07/2009 L Mthembu (Chief Executive Officer)	1 018	92	–	–	1 110	847
Executive 1/11/2008 to 31/03/2009 MJ Ndlovu (Chief Executive Officer)	1 106	–	–	350	1 456	–
Total executive director	2 124	92	–	350	2 566	847

23.2 Executive management remuneration

Exco member	Designation	Date appointed or resigned	Incentives for 2008 rolled over for		Incentives for 2009	Total 2009	Total 2008
			CTC payment in 2009	2009			
J Claassens	Executive: Capital Investments	Contractual appointed April 2007	1 762	256	704	2 722	2 104
H Nazeer	CFO	1/09/2007	1 855	109	606	2 570	992
F Amod	CFO	Resigned 31/08/2007	–	–	–	–	548
R Matabane	Executive: Human Capital and Transformation	1/01/2006	1 596	221	495	2 312	1 515
E Motsatsing	Executive: Business Support	2/01/2007	1 272	189	406	1 867	1 137
N Rapoo	Head: Assurance	Resigned 31/10/2008	1 431	–	–	1 431	1 300
J Nhlapo	COO	8/06/2007	2 162	155	684	3 001	1 312
Z Mbele	Executive: Business Development	11/01/2007	1 652	113	579	2 344	628
L Malema	Executive: Governance	1/11/2008	761	–	176	937	–
			12 491	1 043	3 650	17 184	9 536

TCTA operates on a total cost to company (TCTC) package basis whereby the executives are expected to make their own arrangements regarding retirement fund, medical aid and a Group Life insurance scheme. The Executive Management remuneration is also based on the Department of Public Enterprises SoE guidelines.

24. Net deficit for the year

As income is first used to cover operating expenditure, depreciation and royalties, the net deficit of R77 million (2008: R162 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.

25. Commitments

Capital expenditure works in South Africa
 Capital expenditure contracted by
 TCTA in respect of BWP and VRESAP

	2009 R million	2008 R million
Expenditure will be financed from borrowings and is expected to be incurred as follows:		
BWP		
2008 – 2009	79	21
2009 – 2010	14	3
2010 – 2011	5	2
Total	98	26
VRESAP		
2008 – 2009	412	256
2009 – 2010	81	29
2010 – 2011	10	–
Total	503	285
MCWAP		
2008 – 2009	–	–
2009 – 2010	503	–
2010 – 2011	3 273	–
Total	3 776	–
ORWRDP2		
2008 – 2009	–	–
2009 – 2010	171	–
2010 – 2011	936	–
Total	1 107	–
KWSAP		
2008 – 2009	19	–
2009 – 2010	242	–
2010 – 2011	592	–
Total	853	–
MMS2		
2008 – 2009	24	–
2009 – 2010	275	–
2010 – 2011	369	–
Total	668	–

26. Critical accounting estimates and judgements

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:

26.1 Fair value and impairment of enduring benefit and works in South Africa

TCTA previously revalued its works in South Africa and the enduring benefit every five years based on the assumptions underlying the National Water Pricing Strategy, which states that the depreciable portion for dams and tunnels is based on the proportion of the mechanical components which are subject to replacement. The useful life of the civil component is therefore deemed to have an indefinite life.

During the 2008 financial year, TCTA had reassessed the depreciable portion relating to the mechanical components to be 5% of completed works. This resulted in change in estimate of the amortisation and revaluation of the enduring benefit and of the depreciation of the works in South Africa. The estimated useful life of the enduring benefit is 45 years, which is also based on the National Water Pricing Strategy.

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

26 Critical accounting estimates and judgements (continued)

26.1 Fair value and impairment of enduring benefit and works in South Africa (continued)

In 2008 it was decided that full technical revaluations will be carried out every five years as required by the National Water Pricing Strategy as published in *Government Gazette* 20615, dated 12 November 1999. The remaining useful lives of assets and the depreciable portion will also be reassessed during the revaluations. The recoverable amount is determined annually. As there is no active market for the works, it is difficult to determine the fair value less cost to sell. The value in use is calculated based on the estimated future cash flows that are expected to flow from the asset, using an appropriately adjusted risk-free discount rate. Future revaluations will be based on the fair value of the future income streams and an appropriately qualified independent expert will be sourced to perform these fair value calculations every three years.

The cash flows are discounted at present value using the pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset/cash-generating unit (CGU). As long as either the fair value less cost to sell or value in use exceeds the carrying amount of an asset/CGU, then the asset is not impaired and is not necessary to calculate the other amount.

The cash flows used are the cash flows as per the Business Development division's funding model, which is used in calculating the tariffs. These are updated annually in June in consultation with DWA. The income agreement with DWA specifically states that the Berg Water Capital Charge "is to repay all project costs within a reasonable period determined on the debt profile and acceptable growth and level of debt of the project" (Income Agreement, Clause 7.1.1) and that the income received prior to the commencement of water delivery, would thus decrease the total cost of BWP.

Discount rates used in determining the fair value.

LHWP

Revenue cash flows

Revenue is received from government (Department of Water Affairs). The bond curve, specifically the Bonds Perfect Fit (BondsPf, as issued by BESA), is used for the discounting future water income received from DWA.

Expenditure cash flows

Royalties and other operating expenditure are discounted based on the BondsPf, adjusted for TCTA's liquidity premium. The fairest representation is the mark-to-market for the WS04 bond as at 31 March of 60 basis points.

TCTA also performs an income-sensitivity analysis to determine the possible impact of a decrease in the income stream on the recoverable amount of the intangible asset to assess the possible consequence of the crack in the Mohale dam wall.

26.2 Incentive provision 2009/10

The estimation of the incentive for the 2009/10 financial year is based on observed and measured staff turnover but is subject to various variables that cannot be determined with absolute certainty at the balance sheet date.

26.3 Provision for compensation

This provision relates to compensation payments being paid on the LHWP over a 50-year period. The recipients have the option to receive compensation as a lump sum, annual payments made in cash or a set amount of maize grain. Due to the nature of the maize grain option, TCTA is exposed to fluctuations in the commodity price of maize grain. Management continuously monitors this exposure and will make adjustments in future periods if future market prices indicate that such adjustments are appropriate. Amounts disclosed in note 17 are based on the latest available information.

TCTA is reliant on the LHDA for the calculation of this provision. In 2007 certain issues were identified by the LHDA auditors relating to the accuracy of the data used in the calculation. LHDA performed a detailed exercise to perform to verify such data. This exercise was completed during the 2009 financial year. The LHDA's financial statements have been based on the results of the exercise and Ernest & Young gave LHDA an unqualified audit report for the year ended 31 March 2008.

For the 2009 provision, TCTA has obtained the detailed calculations for the 2008 provision. This was used as basis for the calculation of the 2009 provision after taking the following changes in inputs into consideration. The remaining number of years for compensation payment was reduced by one year and the 2008/09 compensation rates were used.

26.4 Berg water capital charge

The monthly invoice to the City of Cape Town is based on the budgeted consumption figures. At year-end TCTA received the best estimate of the actual water consumption for the year and this resulted in refinements in the revenue capitalised for the year.

26.5 Transfer of La Motte Village extension

TCTA established and developed the La Motte Village extension to approved accommodation for contractors and employees during the construction phase of the BWP. In August 2008, TCTA came to an agreement with the Stellenbosch Municipality that the 80 houses will be handed over to the municipality. The land is currently registered in the name of the state. The DPW on behalf of the state, has granted TCTA permission to occupy and build on the land. TCTA has requested DPW, to give its final approval and instruct the state attorney to transfer the land to the municipality. The effective date of the handover, subject to the approval of DPW, was 7 January 2009. The municipality acknowledged the management and control of the village as from the effective date.

The agreement stipulates that the municipality will pay TCTA for certain costs incurred by TCTA, namely:

- * the costs pertaining to the construction of the Wemmershoek/La Motte Link Service Sewer Line; and
- * all costs paid by TCTA to the municipality for the establishment of the La Motte Village extensions.

The municipality shall pay TCTA a total sum of R5 526 236,60 in three instalments, commencing in the 2010 financial year. IAS 16.23 states that the cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit. TCTA's loans and receivables are normally current – thus being paid within 12 months. The terms of the recovery from the municipality are therefore beyond TCTA's normal credit terms, and the deferred receivable is accounted for at amortised cost using the effective interest method. IAS 39

Management derecognised the assets transferred as all risks and rewards have been transferred to the municipality. Moody's Investors Service assigns A1.za rating to the Stellenbosch Municipality. On available information it seems that there is insufficient data to build a credit yield curve for the ratings categories. That being said, the second best source of information would be the average yield spread for the category of debt. For Stellenbosch it is A and the year to date number is 241 basis points NACS above the government curve. TCTA obtained the 2008 zero curve report for 31 March 2009 from BESA and used the Perfect Bonds Fit curve, adjusted to 241 basis points for Stellenbosch Municipality's rating. This resulted in a present value for the receivable of R5 069 090,61.

27. Contingent liability

27.1 Expropriation of Dewdale Farms (Pty) Limited

TCTA paid this entity compensation in terms of the Expropriation Act in 2004. Dewdale Farms (Pty) Limited has disputed the compensation and submitted final claims totalling R23,9 million (excluding R10 million already paid) for additional compensation in terms of the Expropriation Act. With regard to Dewdale Farms (Pty) Limited, a dispute on the compensation offered and paid to date has been declared and the legal process stipulated in the Expropriation Act is being followed. TCTA submitted its plea to the claim in June 2007. The matter has been set up for arbitration on 24 August 2009. The trial date set down for 3 September 2009 has been kept open until parties decide otherwise.

27.2 Costs of repairs on the Mohale Dam

A panel of experts met in September 2007 to review video footage of underwater inspections conducted on the cracked slab in the Mohale Dam. They concluded that it is not necessary to empty the reservoir to do the repairs, but that the damaged areas can be repaired as soon as the water levels allow it. Hindel Mason, a medium-sized construction company was awarded the tender for the repairs and work commenced on 17 March 2009 and is expected to be completed by end of September 2009. Construction cost of repairs will be R1,2 million (M1,2 million) and the consultancy costs of investigating, design and supervision is R3 million (M3 million). Additional scenario testing was built into the impairment model to assess at what stage the enduring benefit would become impaired. Results indicate that the volumes of water delivered would have to decrease by 44,8% before impairment is evident. Due to the inherent low risk of this scenario materialising, no impairment was done to the enduring benefit during this financial year.

The safety of the Mohale Dam is fully satisfactory. All operating monitoring instruments show a general trend to stabilisation of movements and deformations. Leakage maintains a constant relationship to reservoir water levels. The rupture along vertical joint 17/18 and the horizontal rupture at EL.1975.0, between joint 17/18 and the right abutment, are not a dam safety issue. Continuous monitoring of leakage and corresponding reservoir level is the most effective way to assess the constancy of leakage conditions. Repairing of the compression cracks is not an urgent task. The temporary repairs of the vertical joint can be left to periods of low reservoir levels and limited to the portion above water level to avoid underwater construction. Eventual repair of the horizontal crack should be left for a time the reservoir approaches minimum operating level at EL.2005.0. The POE urges, however, that the open joint between the top of the face slab and the parapet wall heel and the open joints in the parapet wall be sealed. Deformation and movements of the dam are well within precedent. Instrumentation readings should, however, be maintained and attention paid to the continuity of the process, particularly if the reservoir attains levels above the historical high mark of EL.2075.54. It is recommended, however, to maintain an operational philosophy to minimise the possibility of spilling at EL.2075.0.

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

27. Contingent liability

27.3 Zebulon

TCTA disposed of 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. The purchaser substituted attorneys in November 2007. The plaintiff has since withdrawn the claim against TCTA. Each party is liable to bear their own legal costs.

27.4 Incentives for 2008 rolled over for payment in 2010

The incentives approved for the 2007/08 financial year was approved by the Board of Directors on 30 May 2008. Based on the rolling payment rules of the incentive scheme, the third rolling payment will be paid to the employees in accordance with the terms and conditions of the incentive scheme. The banking and rolling incentive scheme was discontinued at the end of the 2009 financial year and there is no rolling for the current financial year.

28. Operating lease

2009	<1 year R million	1 – 5 years R million	>5 years R million	Total R million
LHWP				
Buildings ¹	5	–	–	5
Equipment	–	–	–	–
Total	5	–	–	5

¹ Building lease amounting to R4 902 945 (1 year) R54 000 (1 to 5 years).

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 Franschoek, 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.

29. 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 comprehensive income statement on page 73. In terms of Protocol VI to the Treaty, signed on 4 June 1999, these amounts are separately identified and reported on:

LHWP	2009 R'000	2008 R'000
Revenue	854	741
Operating costs	854	741
	–	–

30. Employee benefits

30.1 Short-term employee 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.

30.2 Termination benefits

Termination benefits do not provide the entity with future economic benefits and have been recognised as an expense immediately. Included in the executive directors' emoluments, note 23.1, are termination benefits paid to the Chief Executive Officer upon termination of services during the current year.

31. Events after the balance sheet date

31.1 Incentives

The incentives for employees for the 2008/09 financial year were approved by the Board of Directors on 29 May 2009. The banking and rolling system (where applicable) has been discontinued. The Board decided that incentives awarded will be paid in a single tranche.

32. Compliance with the PFMA Irregular, fruitless and wasteful expenditure

Section 51(1)(d)(i) of the PFMA requires that a public entity discloses any material losses through criminal conduct. No irregular, fruitless or wasteful expenditure was reported for the financial year in question in terms of section 51(b)(ii) of the Act.

33. Going concern

The long-term solvency of TCTA is determined by its tariff methodology, income agreements and guarantees (explicit and 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. The income agreements allow for a CPI-adjusted increase on an annual basis. Furthermore, additional increases are provided for in the income agreements for any changes in the input assumptions, including changes in water demand and operations costs. TCTA will thus show a deficit, after interest, in the first number of years after completion of an infrastructure project. However, when matched with the income stream, underwritten by government guarantees, both explicit (LHWP) and implicit (BWP and VRESAP), and the useful life of the projects, it is clear that the debt will be repaid over the planned repayment period and that the organisation is a going concern. The directors confirm that TCTA is a going concern.

34. 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.

Total cost of the project	BWP		VRESAP		MMTS2	
	2009 R million	2008 R million	2009 R million	2008 R million	2009 R million	2008 R million
Capitalised						
Engineering and construction	1 466	1 331	2 234	2 008	2	–
Water income	(443)	(443)	(1)	–	–	–
Depreciation	(6)	–	–	–	–	–
Berg water capital charge adjustment	(46)	–	–	–	–	–
Fixed assets	–	–	–	–	–	–
Finance costs	199	199	499	246	–	–
Directly attributable costs	41	41	17	16	–	–
	1 211	1 128	2 749	2 270	2	–
Expensed						
	(26)	21	24	24	–	–
	1 185	1 149	2 773	2 294	2	–

35. Additional segmental information

35.1 Operating segments

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of TCTA that are regularly reviewed by the chief operating decision-maker in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor standard (IAS 14: *Segment Reporting*) required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's 'system of internal financial reporting to key management personnel' serving only as the starting point for the identification of such segments. As a result, following the adoption of IFRS 8, the identification of the TCTA's reportable segments has had no major influence on the segmental disclosure.

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

35. Additional segmental information (continued)

35.2 Business activities from which reportable segments derive their revenues

TCTA is a state-owned entity established to:

- finance and implement bulk raw water infrastructure; and
- act as an advisor in the water sector with regard to project initiation, restructuring of treasury activities and to review water tariffing methodologies.

Each project is governed by a directive from the Minister of Water and Environmental Affairs. The different projects and the extent of TCTA's involvement is as follows:

- Lesotho Highlands Water Project: TCTA was mandated with the implementation, operation and maintenance, as well as liability management of the project.
- Berg Water Project: TCTA was directed to fund and implement the BWP.
- Vaal River Eastern Subsystem Augmentation Project: This project was declared an emergency project in 2004. The funding and implementation of the project had been mandated to TCTA.
- Mooi-Mgeni Transfer Scheme phase 2.
- Vaal River Eastern Subsystem Augmentation Project phase 2.
- Komati Water Scheme Augmentation Project.
- Olifants River Water Resource Development Project phase 2.

35.3 Major customers

LHWP

TCTA entered into an income agreement with DWA in August 2001, which determines the Vaal River raw water tariff for augmentation schemes. LHWP revenue consists of receipt of these tariffs from DWA.

BWP

In terms of the National Water Policy (1997) water development projects should be funded by users, if possible. Water users in the City of Cape Town will repay this scheme through a Berg Water capital charge. The City of Cape Town pays a water tariff based on WCWS usage to DWA, which pays TCTA to cover the costs and repay the debt incurred for funding the project.

35.4 Segment revenues and results

The following is an analysis of TCTA's revenue and results by reportable segment:

The accounting policies of the reportable segments are the same as that of TCTA accounting policies described in note 4. Segment deficit represents shared costs incurred by LHWP allocated to the project.

2009	LHWP R million	Advisory services R million	ORWRDP2 R million	MMTS2 R million	BWP R million	KWSAP R million	VRESAP ¹ R million	Total R million
Revenue								
Revenue from external customers	2 283	8	–	–	202	–	–	2 493
Other income	3	–	–	–	5	–	–	8
Total income	2 286	8	–	–	207	–	–	2 501
Interest income ¹	638	–	–	–	1	–	–	639
Finance costs ¹	(2 473)	–	–	–	(131)	–	–	(2 604)
Net finance costs	(1 835)	–	–	–	(130)	–	–	(1 965)
Depreciation and amortisation	(35)	–	–	–	(5)	–	–	(40)
Deficit for the year	(33)	(6)	(15)	(18)	26	(7)	(24)	(77)
Other information								
Capital expenditure for property, plant and equipment	4	–	–	–	165	–	480	651
Capital expenditure for intangible assets	–	–	–	–	–	–	–	–
Assets and liabilities								
Assets	19 706	–	–	–	1 411	–	2 844	23 965
Liabilities	19 706	–	–	–	1 411	–	2 844	23 965

¹ Interest income and expenditure are capitalised until end of construction.

2008	LHWP R million	ORWRDP2 R million	BWP ² R million	VRESAP ² R million	Total R million
Revenue					
Revenue from external customers ¹	2 087	–	–	–	2 087
Other income	1	–	–	–	1
Total income	2 088	–	–	–	2 088
Interest income ³	451	–	–	–	451
Finance costs ³	(2 210)	–	–	–	(2 210)
Net finance costs	(1 759)	–	–	–	(1 759)
Depreciation and amortisation ³	(35)	–	–	–	(35)
Deficit for the year	(117)	–	(21)	(24)	(162)
Other information					
Capital expenditure for property, plant and equipment	2	–	228	953	1 183
Capital expenditure for intangible assets	–	–	–	–	–
Revaluation of works in South Africa	(24)	–	–	–	(24)
Assets and liabilities					
Assets	17 534	–	1 135	2 284	20 953
Liabilities	17 534	–	1 135	2 284	20 953

1 There is no intersegmental 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.

3 Interest income and expenditure are capitalised until end of construction. The same principle would apply to VRESAP.

Glossary of terms and definitions

ALBI	All Bond Index	NWRIA	National Water Resource Infrastructure Agency
BBBEE	Broad-based black economic empowerment	NWRI	National Water Resource Infrastructure
BE	Black enterprise	OD	Organisational Development
BEE	Black economic empowerment	O&M	Operations and Maintenance
BESA	Bond Exchange of South Africa	ORWRDP	Olifants River Water Resource Development Project
BRC	Berg River Consultant	PAIA	Public Access to Information Act
BRPJV	Berg River Project Joint Venture	PFMA	Public Finance Management Act
BWCC	Berg Water Capital Charge	PIM	Project Implementation Methodology
BWP	Berg Water Project	PM	People Management
CEO	Chief Executive Officer	PPI	Producer price index
CFO	Chief Financial Officer	PPP	Public Participation Programme
CFRD	Concrete-faced rockfill dam	PPPFA	Preferential Procurement Policy Framework Act
CoCT	City of Cape Town	Q1	Quarter number 1
COO	Chief Operating Officer	RoD	Record of Decision
COSO	Committee of Sponsoring Organisations of the Treadway Commission	RSA	Republic of South Africa
CPIX	Consumer price index (excluding home loans)	SAAWU	South African Association of Water Utilities
DEAT	Department of Environmental Affairs and Tourism	SAM	Strategic Alignment Management
DPE	Department of Public Enterprises	SARB	South African Reserve Bank
DWA	Department of Water Affairs	SARS	South African Revenue Service
ECO	Environmental Control Officer	SAWiC	South African Women in Construction
EIA	Environmental Impact Assessment	SEMP	Standard Environmental Management Plan
EIB	European Investment Bank	SLA	Service Level Agreement
EIR	Environmental Impact Report	SMME	Small, medium, micro-enterprise
EMC	Environmental Monitoring Committee	SoE	State-owned Enterprise
EMP	Environmental Management Plan	SUP	Sustainable Utilisation Plan
EMPR	Environmental Management Plan Report	TCTA	Trans-Caledon Tunnel Authority
ERM	Enterprise Risk Management	TPCC	Third-party capital charge
EWRM	Enterprise-wide Risk Management	USD	United States dollar
FFP	Franschhoek First Policy	UW	Umgeni Water
GAAP	Generally Accepted Accounting Practice	VRESAP	Vaal River Eastern Subsystem Augmentation Project
GBP	Pound sterling	VRESS	Vaal River Eastern Subsystem
GOL	Government of Lesotho	WCWS	Western Cape Water System
GOP	Growing Our People	WEA	Water and Environmental Affairs
GOT	Growing Our Teams	WS04	Water stock number 4
HDI	Historically disadvantaged individuals		
ICM	Integrated Catchment Management		
IETC	Integrated Employment and Training Committee		
IFRS	International Financial Reporting Standards		
IIA	Institute of Internal Auditors		
IWUA	Impala Water Users Association		
JPY	Japanese yen		
KWSAP	Komati Water Scheme Augmentation Project		
LHDA	Lesotho Highlands Development Authority		
LHWC	Lesotho Highlands Water Commission		
LHWP	Lesotho Highlands Water Project		
m ³	Cubic metres		
MCWAP	Mokolo Crocodile Water Scheme Augmentation Project		
MMTS-2	Mooi-Mgeni Transfer Scheme phase 2		
MoA	Memorandum of Agreement		
MWB	Must Win Battles		





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