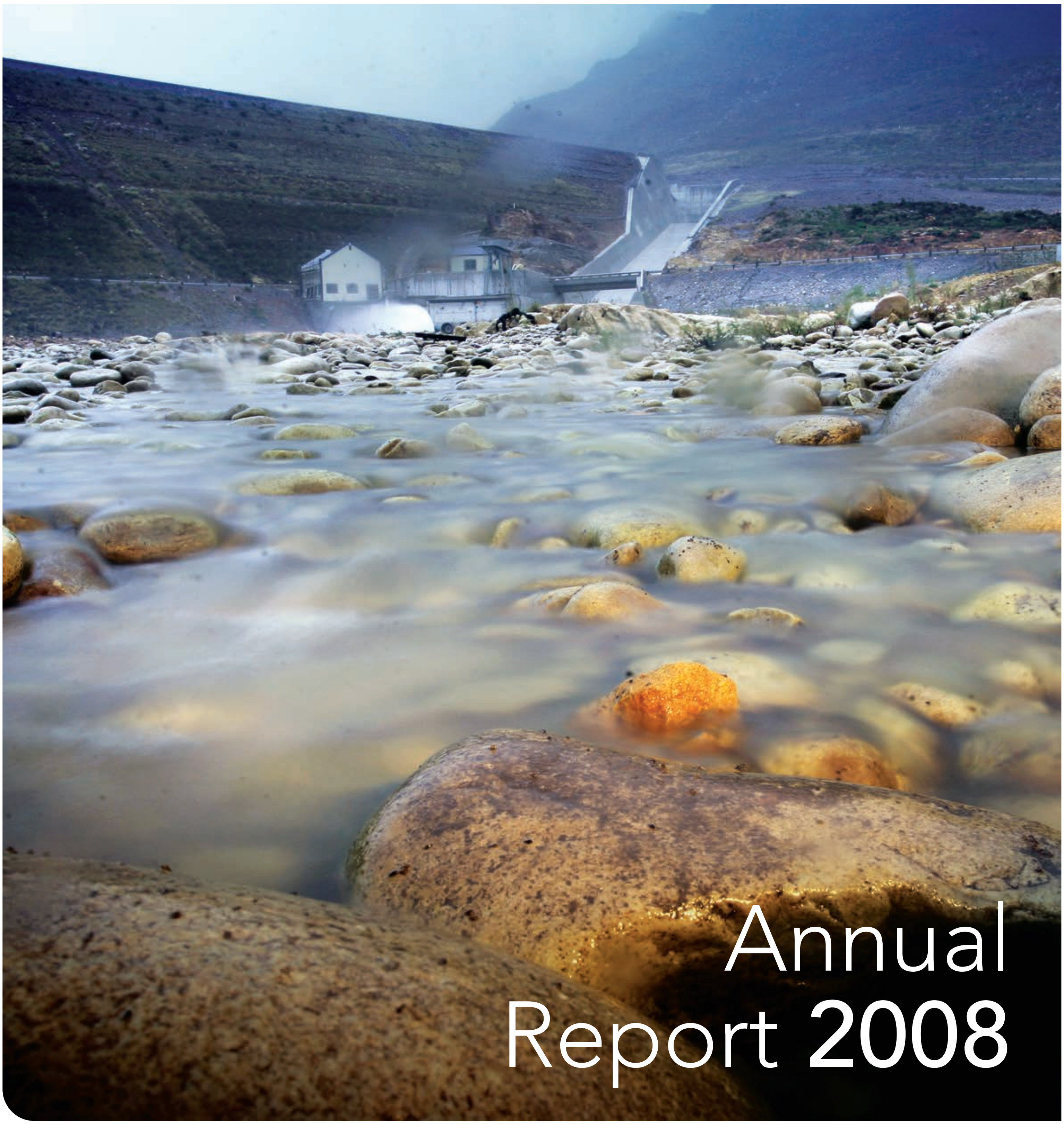
TCTA

A new word for water

vision delivery future



Annual Report 2008

Our business

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

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

TCTA 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.

To the Minister of Water Affairs and Forestry

TCTA's 21st Annual Report

31 March 2008

Vision

- TCTA's contribution to a better life for communities, the nation and region through the application of lessons learnt over the past 20 years
- TCTA's participation in long-term government initiatives such as Asgisa and global programmes such as the UN's Millennium Development Goals
- TCTA's journey towards the NWRIA

Delivery

- on government's agenda for sustainable development through the creation of bulk raw water resource infrastructure
- on TCTA's mandate to implement projects

Future

- TCTA's transformation to achieve its vision internally and externally

Contents

3 Footprint
4 Defining TCTA
6 Chairperson's report
8 CEO's report
12 Board of Directors
14 Corporate governance
20 Executive Committee
24 Performance measurement

Sustainability report
34 Economic performance
44 Environmental performance
45 Social performance
50 Human capital performance

Project updates
54 Lesotho Highlands Water Project
56 Berg Water Project
58 Vaal River Eastern Subsystem Augmentation Project
60 Mooi-Mgeni Transfer Scheme Phase 2
62 Advisory services

65 **Annual financial statements**
126 **List of terms and definitions**

Footprint

TCTA

Liability management for bulk raw water infrastructure development

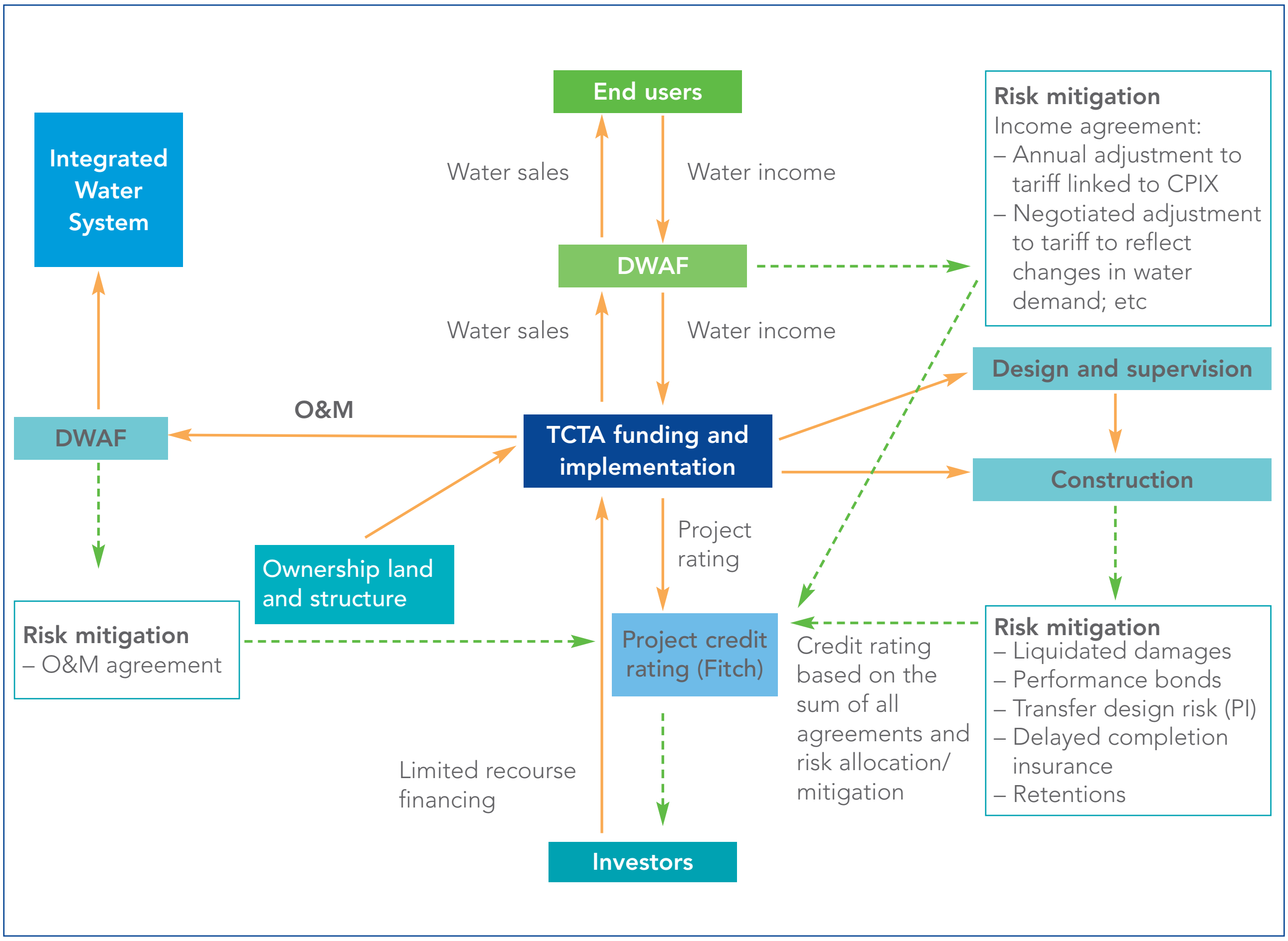
LHWP	BWP	VRESAP	MMTS-2	DWAF ADVISORY
• Funding and risk management • Government guaranteed • Operations and management of assets	• Implementation, funding and risk management • Recourse to income stream of BWP	• Implementation, funding and risk management • Recourse to income stream of VRESAP	• Implementation, funding and risk management • Recourse to income stream of MMTS-2	• Review national raw water pricing strategy • Olifants River Water Resource Development Project • Komati Water Scheme Augmentation Project
Debt book R19,8 billion	Debt book R1,1 billion	Debt book R2,2 billion	Debt book R0 billion	

Construction

	LHWP	BWP	VRESAP	MMTS-2
Commenced	1986	2003	2005	Still to commence
Completed	2001	2008	2010	
Repayment of debt	2025	2028	2029	

Defining TCTA

Project packaging and risk management



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 core business

TCTA is a specialised liability management body set up to finance and oversee the creation of bulk raw water infrastructure for the government on behalf of the people of South Africa. It does so:

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

Approximately 90% of our core business is liability management, with advisory services making up the rest. (See the liability management structure on page 3.)

The projects for which TCTA undertakes liability management are the:

- Lesotho Highlands Water Project;
- Berg Water Project;
- Vaal River Eastern Subsystem Augmentation Project; and
- Mooi-Mgeni Transfer Scheme Phase 2

TCTA regards liability management as a multi-disciplinary function comprising funding, debt management, risk management and project implementation activities. (See the above structure.)

The skills and experience of our people enable TCTA to play a leading role within the country's water sector through the structuring, funding and implementation of projects.

Our mandates

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

Managed projects

Lesotho Highlands Water Project (LHWP)

TCTA was initially established to manage the implementation, operation and maintenance of the LHWP works within South Africa. Ten years after the delivery of water from this project began in 1998, TCTA continues to operate and maintain in good order the LHWP structures in South Africa as prescribed in Protocol VI of the Treaty governing the project.

Berg Water Project (BWP)

Located in Franschhoek, Western Cape, the project supplies water to the City of Cape Town and has increased the yield of the Western Cape Water System (WCWS), by 81 million m^3 (18%) to 523 million m^3 per year from December 2007.

BWP is a ring-fenced project without a government guarantee. Borrowings are in TCTA's name, with recourse against the income stream from the project.

Vaal River Eastern Subsystem Augmentation Project (VRESAP)

VRESAP augments the water supply of the Vaal River Eastern Subsystem to meet the increasing demand for water from Eskom and Sasol in the Mpumalanga Highveld region. It transfers water through a 115 km buried pipeline from the Vaal Dam to the Knoppiesfontein diversion structure near Secunda, which then directs water according to needs into either the nearby Trichardtsfontein Dam for Eskom's power plants or the Bosjesspruit Dam for Sasol.

VRESAP augments the yield of the Vaal River Eastern Subsystem (VRESS) by 160 million m^3 a year.

VRESAP is a ring-fenced project without a government guarantee. Borrowings are in TCTA's name with recourse against the income stream from the project.

Mooi-Mgeni Transfer Scheme Phase 2 (MMTS-2)

On 29 November 2007, the Minister mandated TCTA to fund and implement this project. 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 from the scheme.

The scheme consists of a dam on the Mooi River and a transfer system to the Umpofana outfall. The water will benefit three municipalities in particular the eThekwini Metropolitan Municipality, uMgungundlovu District Municipality and the Msunduzi Local Municipality.

Construction is expected to commence early 2010 and water delivery is expected to commence by mid-2012. Project debt will be repaid over a 20-year period.

Advisory services

Komati Water Scheme Augmentation Project (KWSAP)

TCTA is advising DWAF on the implementation options and is expected to be directed to fund and implement the project.

KWSAP involves the extended Rietfontein pump station to transfer 1,6 m^3 of water per second through a new 50 km pipeline to the Duvha and Matla power stations.

Olifants River Water Resource Development Project (ORWRDP)

TCTA was mandated by DWAF to advise on proposed institutional arrangements and a funding strategy for ORWRDP Phase 2 in Limpopo.

The project comprises the construction of the De Hoop Dam on the Steelpoort River with bulk distribution systems to some 800 000 people residing on the Nebo plateau and to mines in the area.

DWAF is in the final stages of issuing the implementation and funding mandate for the bulk distribution system. TCTA will source the funding for the commercial portion of the project in the private sector on the basis of off-budget funding. The social portion of the project will be funded by Government to ensure social upliftment in the area.

Water boards

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

National Water Resources Infrastructure Agency

The 1997 White Paper on a National Water Policy for South Africa considered whether it would be appropriate to establish a national water utility to manage the national infrastructure.

The transfer of the functional component of bulk water resource development and operation to an organisation managed on business principles was considered feasible since most of the large catchment development and interbasin transfer projects already operate on a cost-recovery basis and are financially viable.

In June 2005, the business case was presented for the establishment of the National Water Resources Infrastructure Agency, which would involve the creation of the Agency through the merger of TCTA and the National Water Resources Infrastructure (NWRI) branch of DWAF. However, only national water infrastructure will be transferred to the Agency. Local schemes and water services infrastructure will be transferred to Water Boards, municipalities and other water sector institutions.

In March 2007, the draft bill for the formation of the National Water Resources Infrastructure Agency was published for comment and it is currently (June 2008) in the process of being referred to the Portfolio Committee on Water Affairs and Forestry for consideration. TCTA submitted numerous comments on the bill, primarily to ensure that the merger would not affect the current loan agreements and that TCTA could continue to raise finance for new projects whilst the merger proceeded.

In order to prepare the NWRI branch for the merger, DWAF has initiated a number of projects to reconcile the trading accounts, and update the moveable and immoveable asset registers. Since January 2008, TCTA has been actively participating in these projects and visiting different schemes around the country to gain a greater understanding of the operations of the NWRI and the impact that the merger would have on the staff.

Chairperson's report

I am greatly honoured to be able to deliver my first review as Chairperson of TCTA, having been appointed by the Honourable Minister of Water Affairs and Forestry, Mrs Lindiwe Hendricks with effect from 14 February 2008.

At the outset I would like to pay tribute to my predecessor, Advocate Malixole Gantsho, whose untimely death deprived this organisation of a fine leader. He, together with the TCTA Board and the management team, built this strong and flexible undertaking with its invaluable pool of specialised knowledge and talents to serve government's social and economic objectives in this vital water sector.

Last year, it was reported that TCTA had renewed the focus on its mission and mandate to be a leading change agent for socio-economic development in the water sector. This has continued, with results that are recounted in this annual report.

Progress on our two main projects, the Vaal River Eastern Subsystem Augmentation Project and Berg Water Project, illustrates that TCTA in its activities continues to help eradicate poverty, develop skills, boost economic growth, create jobs, and generally assist transformation and economic empowerment in our country and region.

When the new Board of Directors was appointed on 1 July 2006 by the Minister, it articulated the view that TCTA was a transformation vehicle of government to deliver its projects and resources to the cabinet-approved National Water Resources Infrastructure Agency (NWRIA).

The strategy was to enhance TCTA's readiness to be integrated into the future National Water Resources Infrastructure Agency as we participated in the National Task Team for Water Services Institutional Reform.

TCTA submitted numerous comments on the draft bill for the formation of the NWRIA, published for comment in March 2007, primarily to ensure that the merger would not affect the current loan agreements and that TCTA could continue to raise finance for new projects whilst the merger proceeded.

In order to prepare the NWRI branch for the merger, DWAF has initiated a number of programmes to reconcile the trading accounts and update the moveable and immoveable asset registers. Since January 2008, TCTA has been actively participating in these projects and visiting different schemes around the country to gain a greater understanding of the operations of the NWRI and the impact that the merger would have on the staff.

Broadly, we believe that the experience gained by TCTA in its pivotal role in the water sector over the past 20 years, in particular its knowledge of water resource development funding and liability management, will be valuable resources for the NWRI.

In conclusion, I wish to thank my deputy, Mr Lebohang Thotanyana, and my fellow directors for their support and wise counsel. I would like to express particular gratitude to the outgoing Chief Executive Officer, Mrs Londiwe Mthembu whose contract will end on 31 July 2008. A special word of appreciation goes to the executive team and hard-working staff for their loyalty and commitment to our future.

Dr Snowy Khoza
Chairperson

CEO's report

It was a great honour for me to have received from the Minister the appointment as Chief Executive Officer of TCTA after serving for nearly two years as Deputy Chairman of the Board.

I am already enjoying the challenges of leading a strong executive team and serving the Ministry of Water Affairs and Forestry and, indeed, the people of South Africa in this way. My appointment was only effective for the last two months of the year under review, however, I have relied for the detailed operational data contained in this document on the reports submitted by the responsible members of my executive team. I thank them sincerely for their support.

I would like to commend you to the sustainability report contained in this document. It relates the progress that TCTA made last year in the economic sphere and in the vital social and physical environments.

A pleasing milestone of considerable significance to TCTA happened shortly before I took office. This was the impoundment of the Berg Water Project in July 2007. Also, in December 2007 the project began to deliver water for irrigation purposes from Theewaterskloof Dam, through a newly constructed pipe network and irrigation water release structure into the Berg River, 5 km below the dam wall. The project is the first to have been funded off-budget and to have been initiated and delivered by the democratically elected government of South Africa.

Economic performance in managed projects

LHWP

The project debt for LHWP reached R19,8 billion in the year under review. This is after taking into account income from water tariffs and annual shortfalls arising from interest after completion of construction. We are satisfied that revenue generated from the sale of water from the Vaal River system will be sufficient to repay the project debt. Calculations based on the current debt curve show that outstanding liabilities will peak in 2013 at R19,7 billion and that all debt will be repaid by 2025.

TCTA recorded an operating surplus of R1,6 billion on the project for the year and a net deficit of R162 million after accounting for the shortfall in covering interest.

LHWP transferred 780 million m^3 of water to South Africa in the reporting year, bringing the total volumes transferred since the project's inception to 5,7 billion m^3 and the total royalties paid to the government of Lesotho to R2,3 billion.

A close review of the economic performance confirms that the funding model developed and implemented by TCTA guarantees affordable water to drive economic and urban development, while ensuring public health.

BWP
As at the end of the reporting year, total debt for BWP amounted to R1 148 million after taking into account water tariff income.

The project's excellent credit ratings of AA+ (zaf) long term and F1+ (zaf) short term by Fitch were confirmed at the end of the review period.

VRESAP
The total debt of VRESAP was R2 238 million as at March 2008, after taking into account interest capitalised during construction.

The tariff payable to the department and TCTA will redeem development costs only and applies from December 2008 for the next 20 years. The tariff is based on the total water required by Eskom and Sasol from VRESS and not from VRESAP.

As a result of various unforeseen delays, water delivery is now expected to commence from December 2008 while construction on the permanent abstraction works will be completed in May 2010, with costs expected to remain within the revised approved budget of R2,7 billion.

MMTS-2
On 29 November 2007, we received a mandate from the Minister for phase 2 of the Mooi-Mgeni Transfer Scheme. This scheme poses interesting challenges in that it incorporates an existing transfer scheme. Consideration must be given to the merits of pumping over the watershed compared to gravitating through a tunnel. Full life-cycle costing will be undertaken to determine the best option.

Performance in advisory services
We continued to fulfil government mandates to provide advisory services in respect of the Olifants River Water Resource Development Project and the Komati Water Scheme Augmentation Project. It is gratifying to know that TCTA has accumulated a large reservoir of skills, knowledge and experience that can be deployed in this way for the material benefit of South Africa and its people.

Social and environmental performance
Social sustainability is central to the way in which we implement and manage our projects. An essential part of our mandate is to fund and develop water supply schemes that directly benefit the local or regional social communities and society in general.

Our people have developed a social and environmental framework that yields a systematic information system. This in turn is used to analyse TCTA's conformance with national and international policy objectives on sustainable development and our success in uplifting communities.

The analytical model we have developed goes further than calculating jobs created or income generated by our projects. It enables us to see how much social, productive and human capital we create.

We set up independent environmental monitoring committees under independent chairpersons for each project. These representative committees closely monitor compliance with the environmental management plans and conditions necessary for sustainability.

In the LHWP we continued to monitor and evaluate the river management plan for the Ash River and in the BWP our water monitoring programme showed that contractors complied fully with water quality standards during the review period. In addition, the dam embankment and disturbed areas were landscaped and revegetated. In the VRESAP, environmental approvals were received for borrow pits and spoil areas and finances provided for their rehabilitation.

In pursuing our social objectives we are mindful of the government's economic empowerment agenda and we apply broad-based black economic empowerment principles to our projects.

We are pleased to note that in the reporting period BWP created more than 1 200 jobs for local people. VRESAP has created 1 685 jobs of which 1 315 were in local communities. BWP provided skills training in construction related disciplines for 484 local people, equivalent to almost 3 100 person-days. The project also trained 1 430 people for the R21 million contract under the working for water programme to clear alien vegetation from the land surrounding the project area.

VRESAP has trained 438 residents from the local community in steel fixing, concrete batching, land surveying and machine operating.

As part of its sustainable utilisation plan for the area around BWP, in the year under review, TCTA moved further along the way in transferring 80 houses built for contractors at La Motte to the Stellenbosch Municipality for sale to the local community.

VRESAP advanced the agenda of women empowerment in its Women in Construction initiative. Six companies owned by women were appointed to install air valve chambers and their workers were trained in a course specially run for them by the SA Federation of Civil Engineering Contractors.

Transformation at TCTA
The Board of Directors and management continue to drive transformation within TCTA by focusing on employment equity at all levels of the organisation and advancing BBBEE wherever possible at corporate and project levels.

The TCTA Employment Equity Forum helps to set and drive our transformation agenda, manage diversity and

CEO's report (continued)

ensure gender balance. In recruiting staff, for example, we give preference to HDIs. Currently 64% of staff are black and 47% are in management. Black women comprise 29% of management.

The diversity management programme introduced two years ago has had a positive effect on our transformation processes, creating awareness of our shared strengths and common challenges.

Our leadership development programme continues to play an important part in strengthening our human capital resources. During the period under review TCTA leadership, including senior and middle managers were exposed to a variety of skills development programmes in their respective areas of expertise. The organisation spent R594 620 on training black employees and R351 339 of that was spent on training courses for black women.

TCTA's spend on BBBEE through direct procurement in 2007/08 was R875 million. Spending by contractors, as stipulated in our contractual agreements, exceeded targets.

A significant part of TCTA's activities in promoting transformation has been directed at preparing the organisation for the planned rationalisation of the country's water sector by merging or teaming up with the NRWI branch at DWAF.

Whatever the precise dynamics of this process should turn out to be, we are confident that we at TCTA will be able to share scarce skills resources as well as our innovative methodologies, systems and processes to enable the water sector to deliver on the development of infrastructure and strategic asset management.

In conclusion, I wish to thank the Minister and her department for their support. I welcome our new chairperson, Dr Snowy Khoza, and look forward to her tenure. Lastly, I thank my management team and the staff of TCTA for their support and hard work during the past year and for their commitment to a productive future.

Londiwe Mthembu
Chief Executive Officer

Board of Directors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The appointment of the Board of Directors is conducted by the Minister of Water Affairs and Forestry.

The Board of Directors, appointed by the Minister of Water Affairs and Forestry (the Minister) in July 2006, lost three of its members in January and February 2008. The previous Chairperson, Advocate Malixole Gantsho, died on 28 January 2008, Mrs Thami Sithole died on 11 February 2008, and Mr Leslie Maasdorp resigned on 12 February 2008.

With effect from 14 February 2008, the Minister appointed Dr Snowy Khoza as the new Chairperson, Mr Lebohang Thotanyana as the Deputy Chairperson and Mr Onesmus Ayaya as the Board member to represent DWAF as a shareholder. The Minister is in the process of appointing additional directors.

On 31 January 2008, the contract of the previous Chief Executive Officer, Mrs Martie Janse van Rensburg came to an end and she was succeeded by Mrs Londiwe Mthembu, who was appointed as Acting Chief Executive Officer with effect from 1 February 2008. In line with the TCTA Board Charter, the Chief Executive Officer becomes an *ex officio* member of the TCTA Board of Directors.

The term of office of the Board of Directors expires at the end of June 2009. The following table sets out the current reconstituted Board of Directors of TCTA:

1. Dr Snowy Khoza (50)

Chairperson

PhD Social Policy (Brandeis University USA), MA Social Science (Unisa), BA Hons Social Work (University of Fort Hare), BA Social Work (University of the North), Economics and Public Finance Certificate (Unisa), Finance for Executives (INSEAD France), Utility Regulation and Strategy (University of Florida USA), Global Programme for Management Development (University of Navarra, Spain) Executive MBA (University of Cape Town)

Current position
Group Executive Manager: Group Strategy and Communication (DBSA)

Other directorships/memberships
Mali Trust Presidency (Trustee)
National Housing Finance Corporation (Board member)
Panel of Advisors – Ministry of Housing
Mintirho Investments (Pty) Ltd (non-executive director)
Tiisani Construction (Pty) Ltd (non-executive director)
Ka-Manowi Manor (CC) (non-executive director)

Board Committees
Board Chairs

2. Lebohang Thotanyana (34)

Deputy Chairman

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

Current position
Chairman and Managing Director: Mafube Investment Holdings (Pty) Ltd and subsidiaries

Other directorships/memberships
Standard Bank of Lesotho
International Federation of Accountants – DNC
C4 Seed JV

Board Committees
Audit and Risk (Chairman)
ALCO
VRESAP Technical
BWP Technical

3. Patricia Makhesha (34)

MBA Milpark Business School
Dip Public Relations Management (Technikon SA)
Management Development Programme (UCT Business School)
Executive Education – Strategy (Harvard University Business School)
Executive Development Programme (Wits Business School)

Current position
CEO: Mothibi Multi-Media Services

Other directorships/memberships
Inkomati Water Catchment Management Agency
Rand Water
Mpumalanga Economic Growth Agency

Board Committees
HR
Transformation

4. Robert Mbwana (44)

BSc Civil Eng (Polytechnic University – Malawi)
Dip Eng (Polytechnic University – Malawi)

Current position
Managing Director: Inhlakanipho Management Services CC

Other directorships/memberships
None

Board Committees
VRESAP Technical (Chairman)
BWP Technical
Board Chairs

5. Evodia M Malefane (58)

BCom Acc (National University of Lesotho)
Graduate Certificate, Development Finance (Harvard Graduate School)
AGA (SA)

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

Other directorships/memberships
None

Board Committees
Audit and Risk
ALCO
VRESAP Technical
BWP Technical

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6. Onesmus Ayaya (45)

MBA (University of Nairobi Kenya), CPA (K) – Certified Public Accountant, ACMA, BCom (Hons), Dip (Law and Taxation)

Current position
Deputy Director General (Chief Financial Officer): Department of Water Affairs and Forestry

Other directorships/memberships
The Chartered Institute of Management Accountants
NEMVSHON CC

Board Committees
None

7. Angie Makwetla (61)

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

Current position
Chairperson: Makwetla & Associates

Other directorships/memberships
Education Africa (Chairperson)
Market Theatre Foundation (Trustee)
Business Women's Association
Concerned Professional Women's Forum
Basadi Ba Tiro
Makwetla & Associates

Board Committees
HR Chairperson
Transformation
Board Chairs

8. Simphiwe Kondlo (41)

MSc Eng Management (Pretoria University)
BSc Agric Eng – (KZN University)
Dip Project Management (Executive Education)
Dip Civil Eng (Durban Institute of Technology)
Certificate as Commercial Property Practitioner (Pretoria University)

Current position
CEO: East London Industrial Development Zone (Pty) Ltd

Other directorships/memberships
JIPSA Council – EC
Amathole Economic Development Agency
Border-Kei Chamber of Business

Board Committees
BWP Technical (Chairman)
VRESAP Technical
Board Chairs

9. André Pillay (39)

BSc Maths (Pretoria University)

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 Deposits, South African Reserve Bank

Board Committees
ALCO
Audit and Risk Committee

10. Londiwe Mthembu (47)

BCompt (Hons) (Unisa)

Current position
CEO: TCTA

Other directorships/memberships
Managing Director: Ulwazi Consulting Associates
Foskor
State Info Technikon
KZN Tourism
NIA Secret Agency
KZN Provincial Gaming Board

11. Lahlane Malema (36)

Company Secretary

B Proc (University of the North), LLB (University of the North), Admitted Attorney of the High Court

Specialist committee members

Mr Buyani Zwane (43)

B Admin (Public Admin), Graduate Certificate (Services Marketing and Strategic HRM)

Current position
Executive Chairman – FranklinCovey South Africa
CEO Buyani Networks
Part-time lecturer – Gordon Institute of Business Science (GIBS)
CEO – Breakthrough Development CC

Other directorships/memberships
Dynamic Leadership Solutions (Pty) Ltd
Magnificent Mile (Pty) Ltd

Board Committees
HR Committee
Specialist member

Mr Lumkile Mondi (44)

Advanced Management Programme, (INSEAD, Fontainebleau, France)
MA Econ (Eastern Illinois University Charleston, USA)
BCom (Hons) Economics, (Wits University)
BCom Econ, Bus Econ, Comm Law, (Wits University)

Current position
Chief Economist: Industrial Development Corporation

Other directorships/memberships
Mittal SA
Yard Capital
KWV Limited
Phetogo Investments

Board Committees
ALCO
Specialist member

Dr Paul Roberts (68)

DSc Civ Eng (MIT, USA), Pr Eng

Current position
Independent Consultant in Water Resources Management

Other directorships/memberships
None

Board Committees
BWP Technical
VRESAP Technical
Specialist member

Corporate governance

The objectives and mandate of TCTA, the powers of the Board as well as the relationship between TCTA 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 1 of 1999 (the PFMA).

The South African Government through the Minister of Water Affairs and Forestry plays an oversight role in relation 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 Sector. In this regard we are constantly reviewing our policies and practices in order to comply as fully as possible with King II recommendations.

TCTA's directors, management and employees are committed to transparent, sound and ethical business practices as expressed in its Code of Conduct. There is a clear delineation of responsibilities between the Board, Board committees and the Executive Management Committee; and the Board has delegated some of its responsibilities in writing to executive management in compliance with section 56 of the PFMA.

The Chief Executive Officer and the Head of the Assurance Division are responsible for monitoring compliance within the organisation.

Role and functions of the Board

The Board operates within a unitary structure that provides for interaction among all Board members 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.

Independence of the Board

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

- the Minister appoints the members of the Board for a term of three years;
- the positions of Chairperson and Chief Executive Officer are kept separate;
- the Chairperson is an independent non-executive member of the Board; and
- all Board committees are chaired by independent non-executive members and specialist skills (where needed) are provided by independent advisers who are members of the committees.

Board Charter

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

The charter confirms the Board's accountability, fiduciary duties, duty to declare conflict of interests, appointment of committees and relationship with TCTA staff and meeting procedures.

Furthermore, the charter defines the Board's responsibility to:

- report on integrated sustainability;
- monitor operational performance and management; and
- determine policy and processes to ensure the integrity of TCTA.

Remuneration of the Board

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

The non-executive members of the Board, barring those who are in the public service or employed by state-owned entities, are remunerated on the basis of a monthly retainer and Board meeting attendance, including attendance at committee meetings.

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

Board effectiveness

The Board operates within an established structure, which ensures that 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.

In the year under review, the Board conducted a performance appraisal facilitated by an external specialist. Appropriate measures were taken to address gaps identified through this process.

Board committees

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

- Board Chairs Committee (BCC);
- Audit and Risk Committee (A&RC);
- Assets and Liabilities Committee (ALCO);
- Transformation Committee (TC);
- Human Resources Committee (HRC);
- BWP Technical Committee (BWP); and
- VRESAP Technical Committee (VRESAP).

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 their members are appointed by the Board. Furthermore, the committees are chaired by a Board member who reports to the Board, ensuring transparency and full disclosure.

Table 1: An overview of the Board committees

Board committees

Human Resources HRC	Audit and Risk A&RC	Board Chairs BCC	Transformation TC	Asset and Liabilities ALCO	BWP Technical BWP	VRESAP Technical VRESAP
Membership	Membership	Membership	Membership	Membership	Membership	Membership
Three non-executive directors, chaired by a non-executive director Independent specialist committee member Chief Executive Officer	Three non-executive directors, chaired by a non-executive director Independent specialist to be appointed in the 2008/2009 period Chief Executive Officer	Non-executive directors who chair Board committees, chaired by a non-executive director Chief Executive Officer	Three non-executive directors, chaired by a non-executive director Chief Executive Officer	Four non-executive directors, chaired by a non-executive director Independent specialist committee member Chief Executive Officer	Five non-executive directors, chaired by a non-executive director Independent specialist committee member Chief Executive Officer	Five non-executive directors, chaired by a non-executive director Independent specialist committee member Chief Executive Officer
Objectives Ensures that:	Objectives Ensures that:	Objectives Ensures that:	Objectives Ensures that:	Objectives Ensures that:	Objectives Ensures that:	Objectives Ensures that:
TCTA's remuneration is linked to performance, based on achievement of goals; labour laws are adhered to; management and staff receive market-related remuneration; human resource policies are adhered to; and succession plans are in place and are periodically reviewed.	adequate internal, financing and operating controls are in place; significant risks are identified and managed appropriately; appropriate standards of governance, reporting and compliance are in place; and enterprise-wide risk management is applied and high risks are appropriately addressed.	specialist committee members are appointed; guidance on dispute resolution is provided to committees; and matters not included in any of the other committees' mandates are attended to.	Board is advised about emerging issues on transformation that could affect TCTA; transformation issues are coordinated; and operating guidelines are established in the monitoring of transformation issues.	financial risks are appropriately managed; appropriate funding and risk strategy is formulated to meet business requirements; financial policies are adhered to; and the financial performance of TCTA is measured and reported.	terms of the mandate to implement the BWP project are adhered to; appropriate policies and processes are in place for the award of tenders on contracts; policies for capital expenditure are adhered to; appropriate technical consideration is given on independent technical reviews; and project risks are appropriately monitored.	terms of the mandate to implement VRESAP project are adhered to; appropriate policies and processes are in place for the award of tenders on contracts; policies for capital expenditure are adhered to; appropriate technical consideration is given on independent technical reviews; and project risks are appropriately monitored.

Corporate governance (continued)

Human Resources HRC	Audit and Risk A&RC	Board Chairs BCC	Transformation TC	Asset and Liabilities ALCO	BWP Technical BWP	VRESAP Technical VRESAP
Invitees	Invitees	Invitees	Invitees	Invitees	Invitees	Invitees
HoD: People Management and Organisational Development Chief Operating Officer Chief Financial Officer	HoD: Assurance Chief Operating Officer Chief Financial Officer Head: Internal Audit, Risk Manager External auditors	No invitees	HoD: People Management and Organisational Development Chief Operating Officer Chief Financial Officer	Chief Operating Officer Chief Financial Officer HoD: Business Development Financial Controller Treasury Manager HoD: Capital Investment	HoD: Capital Investment HoD: Business Development Chief Operating Officer Chief Financial Officer Risk Manager Stakeholder representatives from: DWAF City of Cape Town	HoD: Capital Investment HoD: Business Development Chief Operating Officer Chief Financial Officer Risk Manager Stakeholder representatives from: DWAF Sasol Eskom

The company secretariat

The company secretariat provides support to Board and Board committees in line with the guidelines of the King II Report.

Directors have unrestricted access to the company secretariat services, guidance and advice on their responsibilities and the discharge thereof.

The Board resolved in March 2008 to change the reporting lines of this function from the Assurance Division to the Board functionally and the Chief Executive Officer administratively.

Meeting attendance

Table 2: TCTA Board Committee members and attendance (1 April 2007 to 31 March 2008)

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

Meetings	Board	Strategy session	Board Chairs	Audit and Risk	ALCO	HR	Transformation	BWP	VRESAP
Meetings held	10	3	2*	6*	5	9*	2	6	8
Board of Directors									
Malixole Gantsho[1] (Chairman)	7	3	1	–	–	1*	–	–	–
Londiwe Mthembu (Deputy Chairperson)	7	2	1	6*	4	1	2	–	2
Leslie Maasdorp[2]	4	1	1	–	4	–	–	–	–
Angie Makwetla	8	3	2	–	–	8	2	–	–
Simphiwe Kondlo	8	3	2	–	–	–	–	4	4
Robert Mbwana	6	2	0	–	–	–	–	6	8
Thami Sithole[3]	6	2	1*	3*	–	8	1	0	0
Patricia Makhesha	7	3	1*	–	–	7	2	–	–
Evodia Malefane	10	2	1*	6*	–	–	–	6	7
Lebohang Thotanyana[4]	10	2	0	2	5	–	–	6	8
André Pillay	6	1	0	1	5	–	–	–	–
Martie Janse van Rensburg[5]	7	1	1	4*	4	7	1	5	5
New Board directors									
Dr Snowy Khoza[6]	2	1							
Onesmus Ayaya[7]	2	2							
Specialist members									
Paul Roberts[8]	–							6	7
Buyani Zwane[9]	–					2			
Lumkile Mondi[10]	–				4				

1 *Adv Malixole Gantsho passed away on 28 January 2008.*
2 *Mr Leslie Maasdorp resigned on 12 February 2008.*
3 *Mrs Thami Sithole passed away on 11 February 2008.*
4 *Mr Lebohang Thotanyana was appointed Deputy Chairman on 14 February 2008.*
5 *Ms Martie Janse van Rensburg's contract came to an end on 31 January 2008.*
6 *Dr Snowy Khoza was appointed Chairperson on 14 February 2008.*
7 *Mr Onesmus Ayaya was appointed Non-executive Director on 14 February 2008.*
8 *Dr Paul Roberts is a specialist member of the BWP and VRESAP technical committees.*
9 *Mr Buyani Zwane is a specialist member of the HR and Transformation Committee.*
10 *Mr Lumkile Mondi is a specialist member for the Assets and Liabilities Committee.*
* *Represents attendance of special meetings/workshops.*

Corporate governance (continued)

Stakeholder engagement

As TCTA we recognise that our activities do not exist in a vacuum and that a wide range of stakeholders will both affect and be affected by the organisation. We embrace the range of interests of our various stakeholder groups, while continually seeking to maintain and enhance social, economic and environmental value.

We remain committed to a policy of effective communication and engagement with all our stakeholders and welcome dialogue with them. 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.

Table 3: Stakeholder representative attendance at Technical Committee meetings
(1 April 2007 to 31 March 2008)

Meetings	BWP	VRESAP
Meetings held	4	4
Project implementation partners		
DWAF: Willie Croucamp	3	3
DWAF: Vusi Kubheka[1] (alternate member)	–	–
BWP CCT: Letlhogonolo Motlhodi	3	N/A
Arne Singels[1] (alternate member)	3	N/A
Sasol: Loekie Pretorius (only VRESAP)	N/A	3
Sasol: Fritz Weilbach[1] (alternate member) (only VRESAP)	N/A	–
Eskom: Nanda Govender (only VRESAP)	N/A	3
Ian Midgeley[1] (alternate member effective from 12 March 2007) (only VRESAP)	N/A	–

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

Compliance function

The legal compliance function provides the Board of Directors and TCTA management with monitoring mechanisms for identifying risks and assessing controls appropriate to managing such risks.

The organisation's internal control systems facilitate the effectiveness and efficiency of operations and help to ensure the reliability of internal and external reporting, whilst also assisting with general compliance with the regulatory framework. This assists in ensuring that TCTA is not adversely exposed to legislative and financial risks, and that financial and non-financial information utilised within the organisation is reliable.

In the year under review, nothing has come to the attention of the Board of Directors to indicate the existence of any material non-compliance in this regard.

Public Finance Management Act

The Board is the Accounting Authority in terms of the PFMA, in which TCTA is listed as a schedule 2 public entity.

The PFMA focuses on financial management with related outputs and responsibilities. TCTA has an ongoing process of awareness, education and advice on the PFMA to the business.

Directors comply with their fiduciary duties as set out in the PFMA. The responsibilities of the Board, in terms of the PFMA, include taking appropriate action to ensure that:

- economic, efficient, effective and transparent systems of financial and risk management and internal control are in place;
- a system is maintained for properly evaluating all major capital projects prior to making a final decision on each project;
- appropriate and effective measures to prevent irregular or fruitless and wasteful expenditure, expenditure not complying with legislation, or losses from criminal conduct, are implemented;
- all revenues due to TCTA is collected;
- available working capital is managed economically and efficiently; and
- the objectives and allocation of resources are defined in an economic, efficient, effective and transparent manner.

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

King Report on corporate governance for South Africa 2002 (King II)

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

Promotion of access to information

TCTA complied with the requirements of the Promotion of Access to Information Act of 2000.

The manual is available on TCTA's website and intranet and to date it is reported that no requests for information has been received by TCTA.

Code of conduct

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

Enterprise-wide risk management (ERWM)

ERWM defined

Enterprise-wide Risk Management within TCTA is a formal response to organisation-wide risks.

TCTA's philosophy of risk management is conservative, with a low appetite for risks as well as a low tolerance level in the interest of preventing the erosion of shareholder value.

Strategic changes during 2007/08

During 2008, TCTA introduced a strategic risk management process which is directly linked to the Must Win Battles (2007/08) as the risk drivers and which further strengthened the risk management framework and philosophy. The organisation continued to manage operational risks at both divisional and departmental levels with frequent reports to the Board of Directors and the various committees.

Responsibilities and reporting

The risk management function facilitates and assists with the identification of risks as well as the management and reporting of those risks, together with monitoring compliance with mitigation plans.

All major organisational risks are then independently reported to the Board through the Audit and Risk Committee.

Major risk categories and responses

The major features of the risks that TCTA is exposed to are managed and mitigated on an ongoing basis. Some of the key risks identified, which are closely monitored after extensive mitigating interventions are:

Liquidity risks
The possibility that sufficient cash or liquid assets may not be available, resulting in TCTA defaulting on financial obligations for its projects and failure to settle its debt at the agreed time. TCTA has managed the liquidity risk and ensured that there are sufficient liquid assets to effect settlement at the appropriate times for all the projects.

Interest rate risks
The risk resulting from the negative impact on the interest rate movements, TCTA manages these risks by setting the interest it charges in terms of a fixed and variable interest policy.

Foreign currency risk
The risk resulting from the impact of exchange rate fluctuations on the projects' foreign currency liabilities has been properly accounted for and mitigated through various hedging instruments in line with the policy framework.

Project implementation: Construction risks
The risk of delays in completing the construction of the dams and pipelines might have an adverse impact on the reputation of TCTA's ability to deliver water on time to the stakeholders and further result in the delay of revenue streams. This risk is managed through contractual and commercial agreements with contractors and consultants providing remedies for delays and incentives for early completion.

Assurance
In line with the requirements of the PMFA and good governance, TCTA Assurance Division provides the Board and management with assurance on governance processes and the appropriateness and effectiveness of risk management processes and internal controls. This function is mainly discharged through the internal audit department.

Internal audit

TCTA's internal audit function has a specific mandate from the Board Audit and Risk Committee (A&RC) which is largely to independently appraise the appropriateness, adequacy and effectiveness of TCTA's systems, financial internal controls, and accounting records, as well as identify corrective actions and suggested enhancements to the controls and processes, reporting its findings to management and A&RC.

The three-year risk-based audit plan covers major risks emanating from TCTA's integrated risk management process. The audit plan, as approved by A&RC, is reviewed and updated annually based on changes in TCTA's risk profile as this ensures that the audit coverage is focused on and identifies areas of high risk.

The external auditors are responsible for independently auditing and reporting on the financial statements as conforming to the International Financial Reporting Standards.

Nothing has come to the attention of the Board to indicate that any material breach of controls has occurred during the year under review.

Executive Committee

Londiwe Mthembu (47)
Chief Executive

Jeanette Nhlapo (38)
Chief Operating Officer

Halima Nazeer (39)
Chief Financial Officer

Johann Claassens (47)
HOD: Capital Investments

Nomini Rapoo (43)
HOD: Assurance

Zodwa Mbele (36)
HOD: Business Development

Evelyn Motsatsing (35)
HOD: Business Support

Rathata Matabane (42)
HOD: Organisational Development and People Management

TCTA balanced scorecard 2007/08

Strategic perspectives and key performance indicators 2007/08

The review of the environment in which we operate and the required responsiveness resulted in the following strategic perspectives outlined in a Must Win Battle methodology, which guides the strategic objections for the next business period. The scorecard relating to 2007/08 is contained in section 2.5.

The liability manager of choice for bulk water infrastructure

We will implement the total transformation strategy in a committed and responsible manner

21%

1. Transformation

1.1 Implement our transformation framework inclusive of preferential procurement, enterprise development, employment equity and organisational culture by:

- actively pursuing skills development;
- implementing our socio-economic development plan; and
- implementing TCTA's bursaries and scholarships scheme.

We will deliver on mandates in an effective and efficient manner to stakeholder expectations

50%

2. Mandates

2.1 To manage liabilities optimally
2.2 Enhance TCTA's governance environment, comply with legislation and manage enterprise-wide risks
2.3 Accurate and timeous receipt of income and payment of expenditure
2.4 Successfully execute current mandates
2.5 Successfully develop and structure new projects and DWAF advisory assistance (if applicable)
2.6 To improve business processes and manage risk
2.7 To introduce new systems that streamline internal functioning

We will constructively engage with key stakeholders in the establishment of an effective and appropriate NWRIA

5%

3. NWRIA

3.1 Proactively create a state of readiness for the formation of the NWRIA by designing and implementing a change management roadmap for TCTA's integration into the Agency
3.2 Streamline TCTA's internal processes and develop systems as value propositions for the NWRIA
3.3 Engage DWAF at a divisional level to share experiences and know-how
3.4 Conduct a risk assessment and complete legal due diligence project
3.5 Participate in developing a vision as well as financial and legal framework for the NWRIA

We will enhance TCTA's organisational and leadership framework to ensure the successful implementation of our strategic imperatives

4%

4. Leadership

4.1 Design and implement an organisation leadership framework to achieve:

- growth, exposure, development and alignment to empower resources to creatively and proactively participate in implementing strategy;
- the development of effective systems to capture learning and knowledge; and
- effective management of people, expertise and knowledge in order to increase capacity.

We will implement TCTA's talent management strategies by creating an EVE to attract, retain and develop key staff

5%

5. Talent management

5.1 Implement recruitment and selection plan to attract
5.2 Develop and implement an activation plan
5.3 Develop and implement an assimilation plan
5.4 Develop and implement a retention plan

We will consciously build collaborative relationships with both internal and external key stakeholders

15%

6. Customer and stakeholders relationships

6.1 Through inclusive liability management we will maintain regular, continued and effective communication with stakeholders
6.2 Create awareness of TCTA internally and externally
6.3 Improve service to stakeholders
6.4 Meet shareholder expectations

Performance measurement

Scorecard for the year ended 31 March 2008

1. Transformation: Weight 21%

We will implement the total transformation strategy in a committed and responsible manner.

Strategic objectives	Measurement	Target	Performance to 31 March 2008
1.1 Implement TCTA's transformation framework inclusive of preferential procurement, enterprise development, employment equity and organisational culture by: • actively pursuing skills development • implementing our socio-economic development plan • implementing TCTA's bursary and scholarship scheme	Compliance with targets on employment equity	80% black people – senior management level 50% black women – senior management level 80% black people – other management 50% black women – other management 4% people with disabilities – all management levels	• All legislative requirements regarding employment equity have been met. We will continue to ensure that we improve and succeed in all our endeavours to ensure an employee staff profile that is representative of South African demographics. • In the last three years our staff profile has changed from 36% black staff in 2005 to 65% presently. Of the 24 new recruits, 23 are EE candidates. • 58% of our staff is female. Female representation at senior management level has increased from 35% last year to 41% in the period under review.
	Compliance with training and skills development plan	For BBBEE rating: • 2% of payroll spent on training per annum • 60% of payroll spent on training black people • 40% of payroll spent on training black women	• The skills plan was developed and implemented in collaboration with the staff. • As a result our workplace skills plan (WSP) was submitted and accepted by our SETA.
	Achievement of targets set for BEE procurement	Achieve status of minimum level 4 contributor % of total procurement on BBBEE enterprises • % of the total on small and micro-enterprises • % of the total on South African manufactured products	TCTA scored 1,7% out of the potential 20% due to the fact that huge contracts were awarded before the new BBBEE codes were implemented, resulting in the mismatch of the measurement used.
	Development of enterprise development strategy	Development of enterprise development strategy	• Implemented the enterprise development strategy by: • Supporting black female employee to start a consulting business • Two black organisations were each awarded a tender of R500 000 to conduct HR audits during October 2007
	Achievement of targets set for enterprise development	Quantifiable support to qualifying small enterprises and exempt micro-enterprises Quantifiable support which contributes directly to domestic capacity building	• Early payments processed for the year amount to R189 190. • The Empowerdex verified scorecard reflects a score of 10 out of 15 • Target = 0,375% of operating budget (R114 million) = R427 500

Strategic objectives	Measurement	Target	Performance to 31 March 2008
	Compliance with corporate social investment plans and socio-economic targets for each project including socio-economic development programmes eg women empowerment, development of black suppliers, poverty alleviation and job creation	BWP *Employment local labour* Dam – 75%, supplement scheme: DWAF – 65%, Cycad – 40% WFW – 100% *HDI employment* Dam – 85% Supplement scheme DWAF – 85% Cycad – 85% *Training* Dam – spend R3,7 million *Procurement* BE – 15%, BEE – 20% LE – 5%, SMME – 10% VRESAP *Local employment* Pipeline – 45% Civils – 40% *HDI employment* Pipeline – 75% Civils – 75% *Training* Spend R400 000 *Procurement* Pipeline BE – 10% BEE – 15% LE – 2,5% SMME – 7,5% Civils BE – 10% BEE – 15% LE – 2,5% SMME – 7,5%	BWP *Employment local labour* Dam – 93% Supplement scheme DWAF – 62% Cycad – 59% WFW – 100% *HDI employment* Dam – 92% DWAF – 93% Cycad – 91% *Training* Dam – R3,401 million *Procurement* BE – 57%, BEE – 26% LE – 12%, SMME – 37% VRESAP *Local employment* Pipeline – 63% Civils – 70% *HDI employment* Pipeline – 93% Civils – 84% *Training* Spend: R100 000 of R300 000 on ECO contract *Procurement* Pipeline BE – 19,5% BEE – 8% LE – 2,4% SMME – 7,5% Civils BEE – 2,55% SMME – 6,57%
		Project Naledi • 10 bursaries for HDI students at tertiary level • 10 HDI interns in finance; project management; accounting; IT; communications and HR	• Ten bursaries have been awarded to students from previously disadvantaged communities. • Six interns have been recruited for the period under review. Further appointments will be concluded during the month of April 2008. • Retention of such talent is still a concern, however the development of these skills has always been in support of government's JIPSA programme.

Performance measurement (continued)

<table>
<tr><th>Strategic objectives</th><th>Measurement</th><th>Target</th><th>Performance to 31 March 2008</th></tr>
<tr><td></td><td></td><td>Women empowerment initiatives
– policies
social initiatives</td><td>• Established the Women Empowerment Forum.
• Women empowerment programme for 2007/08 developed and approved by Transformation Committee.
• Participation in 16 Days Activism against Women and Child Abuse
• Women leadership courses identified and were attended by selected women in the organisation (including Board members).
• Review and input into company policies – Maternity Leave Policy.
• Hosted girl students as part of the Take a Girl Child to Work initiative.
• Women's Day celebration activities.</td></tr>
<tr><td></td><td>Management and control</td><td>– % of voting rights by black people
– % of members of the Board who are black people
– Black senior executive representation
– Black women senior executive representation</td><td><table>
<tr><th>Category</th><th>Management control indicator</th><th>Weight points</th></tr>
<tr><td>Board participation</td><td>Exercisable voting rights of black Board members using the adjusted recognition of gender</td><td>3</td></tr>
<tr><td></td><td>Black executive directors using adjusted recognition for gender</td><td>2</td></tr>
<tr><td>Top management</td><td>Black senior executives</td><td>5</td></tr>
<tr><td>Bonus point</td><td>Black independent non-executive members</td><td>1</td></tr>
<tr><td>Total</td><td></td><td>6</td></tr>
</table></td></tr>
<tr><td></td><td>Developing a transformed internal culture</td><td>– Baseline survey executed by March 2007
Follow up survey to be executed by January 2008 with a minimum 90% satisfaction rate</td><td>• The survey results showed that 64% of TCTA employees are at high risk of leaving the organisation.
An internal staff forum web page has been designed and launched to provide staff with an opportunity to share ideas on how to address their concerns.</td></tr>
</table>

2. Mandates: Weight 50%

We will deliver on mandates in an effective and efficient manner.

<table>
<tr><th>Strategic objectives</th><th>Measurement</th><th>Target</th><th>Performance to 31 March 2008</th></tr>
<tr><td>2.1 To manage liabilities optimally</td><td>Benchmarking</td><td>Cost of funding (Current year funding)
LHWP – 8,77%
BWP – 9,39%
VRESAP – 9,44%
Funding amount
LHWP – R1 756 million
BWP – R395 million
VRESAP – R933 million</td><td><table>
<tr><th></th><th>LHWP</th><th>BWP</th><th>VRESAP</th></tr>
<tr><td>Benchmark*</td><td>9,55%</td><td>10,45%</td><td>10,33%</td></tr>
<tr><td>Actual</td><td>9,11%</td><td>10,17%</td><td>10,21%</td></tr>
</table>
The cost of funding achieved was below the benchmark rates</td></tr>
</table>

Strategic objectives	Measurement	Target	Performance to 31 March 2008
	Optimal capital structure	**LHWP** Fixed – 70% Floating – 30% **BWP** (due to where we are in project cycle) Fixed – 60% Floating – 40% **VRESAP** (due to where we are in project cycle) Fixed – 70% Floating – 30%	LHWP – 72%:28% VRESAP – 66%:34% BWP – 64%:36% Envisaged benchmark targets cannot be achieved on BWP and VRESAP until construction has been completed.
	Asset/liability matching (supporting of ALCO principles)	90% of funding requirements for LHWP and 100% for BWP and VRESAP to meet asset/ liability matching	• Shape of the yield curve is monitored on an ongoing basis. 100% of new debt issued to date supportive of asset and liability matching. • 100% funding raised in current year meets asset and liability matching for all projects.
	Credit rating annual review	Maintain AA+ credit rating for projects	• TCTA has maintained the AA+ credit rating for BWP and VRESAP. This is the highest local credit rating and is a notch below government's credit rating of AAA.
	Revenue management and tariff setting	LHWP tariffs set by Aug 2007 BWP and VRESAP by Dec 2007	• LHWP met the Aug 2007 target • VRESAP and BWP exceeded target of Dec 2007
2.2 Enhance TCTA's governance environment, comply with legislation and manage enterprise-wide risks	Clean internal and external audit reports	Unqualified external audit report No unresolved audit recommendations No material internal audit findings	• 2006/07 external audit report clean • No significant unadjusted errors • No significant items reported • No significant unresolved audit recommendations. • No material internal audit findings.
2.3 Accurate and timeous receipt of income and payment of expenditure	Revenue management	Meet internal benchmarks	• Debtors days outstanding within targets • LHWP: 60 days • BWP: 30 days

Performance measurement (continued)

Strategic objectives	Measurement	Target	Performance to 31 March 2008
2.4 Successfully execute current mandates	Projects implemented on schedule within budget and to acceptable specifications **NB: Programme dates and budgets may change due to approved extensions of time and cost variances**	BWP – impoundment end Jun 2007, water delivery Dec 2007, substantial completion Mar 2008 Environment 95% compliance (ECO audit) Budgets – within approved budget (R1 552 million) Meet technical specifications as per panel of expert reports VRESAP – commissioning Jan 2008, water delivery May 2008 Environment 95% compliance (ECO audit) Budgets – within approved budget (R2 446 million) Meet technical specifications – as per panel of expert reports **NB: Programme dates and budgets may change due to approved extensions of time and cost variances**	BWP • Within budget • Impoundment Jul 2007 • Ready for water delivery Dec 2007 • Substantial completion: March 2008 • ECO: December 2007 audit report indicate a 96,36% compliance with the EMP. • POE March 2008 inspection confirms adherence to best practice and commends project achievements. VRESAP • Project budget increased with R217 million to R2 698 million including R100 million contingency. • Target date of water delivery of May 2008 not met due to delays. • Completion of permanent abstraction works delayed by one year to Oct 2009. • ECO audit revealed an increase in compliance to the EMP from 86% to 91%. • POE: Quarterly reviews by POE indicated adherence to best practices and specifications with noticeable improvement in quality of work delivered by contractors
2.5 Successfully develop and structure new projects and DWAF advisory assistance (if applicable)	Institutional and funding arrangements	ORWRDP – Negotiate offtake agreements by Sept 2007 – Approved funding strategy by Sept 2007 MMTS-2 – Negotiate implementation and offtake agreements by 12 months from mandate – Approved funding strategy by 12 months from mandate	ORWRDP • Audited the ORWRDP tariff models in line with MOA – received a clean audit report. • Achieved Ministerial approval of MOA and 80% of the Mines' Boards obtained approval to sign the MOA. • Progressed on the draft off-take agreement – 90% complete as it is dependent on the conclusion of the MOA. • Funding strategy was finalised for the water resources. MMTS-2 Mandate received, consultation process with various stakeholders has commenced.

Strategic objectives	Measurement	Target	Performance to 31 March 2008
2.6 To improve business processes and manage risk	Internal audit compliance and best practice EWRM	90% execution of internal audit plan Implementation of internal audit findings Risk registers updated and reported bimonthly Annual Board risk workshop Implement risk software technology by 31 May 2007	• 90% of the draft audit plan was implemented. • 90% of plan achieved. • 90% of findings implemented. • No significant outstanding findings. • Monthly updated, alignment of divisional registers to the strategic risk to follow after workshop. • Workshop held with management, strategic register developed, submitted to Audit and Risk Committees and approved by Board.
2.7 To introduce new systems that streamline internal functioning	Projects	Project Implementation Methodology (PIM) – Complete phase 1 by Jul 2007 – Tender phase 2 by Aug 2007 – Completion by Feb 2008	Phase I and Phase II of the PIM have been combined and completed.
	Financial reporting implementation	Alchemex Financial Reporting Pilot (interim solution) – rolled out Apr 2007 Final solution to be based on IT systems implementation milestones below	The Alchemex reporting tool was implemented and rolled out.
	Cost allocation and budgeting model	Develop and propose a model Progress report next meeting Project completed Sept 2007	• Revised document was resubmitted to the Board strategy session and it was well received.
	IT systems implementation	Implement business processes analysis project by Jun 2007 Develop strategic plan for systems implementation by Sept 2007 Implement strategic plan	• Asset tracking system implemented. • HR system update and implementation. • Treasury system upgrade. • Voice and meeting recording system upgrade.
	Implement knowledge management strategy	Write up of lessons learnt (organisational, project implementation and financing strategies) plan approved by Jul 2007	• Knowledge management strategy developed and approved. • Lessons learnt documented. • Centralisation of information in shared drive. • Paper documentation scanned into electronic format.

Performance measurement (continued)

3. NWRIA: Weighting of 5%

We will constructively engage with key stakeholders in the establishment of an effective and appropriate NWRIA.

Strategic objectives	Measurement	Target	Performance to 31 March 2008
3.1 Proactively create a state of readiness for the formation of the NWRIA by designing and implementing a change management roadmap for TCTA's integration into the Agency	Compliance with plan	Develop plan in consultation with DWAF by May 2007	• Plan on TCTA's transfer to the new Agency approved by Board in Sept 2007.
3.2 Streamline TCTA's internal processes and develop systems as value propositions for the NWRIA	Compliance with plan	Development and compliance to the Agency integration plan	• The integration and implementation plan was not in place as it was dependent on the Agency bill being submitted to parliament and the Ministerial advisory council being in place.
3.3 Engage DWAF at a divisional level to share experiences and know-how	Number of interactions with DWAF	Develop an interaction plan with DWAF by May 2007 Arrange at least six interactions in line with alignment plan	• The terms of reference for the working group/steering committee is still under development by DWAF. • The capital investment team has been working closely with the Infrastructure branch team on projects. • TCTA participated in the verification and quantification of the fixed asset register and the associated liabilities in order to formulate the balance sheet of the Agency. • TCTA submitted alignment plans as required by DWAF project manager regarding the configuration of TCTA.
3.4 Conduct a risk assessment and complete legal due diligence project	Compliance with plan	Rollout of recommendations in due diligence report Risk assessment to be completed by middle Aug	• Legal due diligence report received on 7 Feb 2008 regarding rights and obligations, triggers, etc, on project specifics when TCTA transfers into the Agency. • Legal due diligence undertaken on funding agreements and all risks pertaining to the agreements in preparation for the Agency identified. Report tabled at Board meeting of April 2007.
3.5 Participate in developing a vision and financial and legal framework for the NWRIA	Against project plan	Develop plan in consultation with DWAF by May 2007	• Two visioning sessions were held with DWAF during the period under review.

4. Leadership: Weighting of 4%

We will enhance TCTA's organisational and leadership framework to ensure the successful implementation of our strategic imperatives.

Strategic objectives	Measurement	Target	Performance to 31 March 2008
4.1 Design and implement an organisational leadership framework for TCTA to achieve: • growth, exposure, development and alignment to empower resources to creatively and proactively participate in implementing strategy; • development of effective systems to capture learning and knowledge; and • effective management of people, expertise and knowledge in order to increase capacity	Execute the plans: SAM GOT GOP See knowledge management MWB	Refine plan tabled at the February Transformation Committee by Apr 2007 Execute the plan as follows: SAM: Sept/Oct/Nov GOT: according to team requirements GOP: Performance management cycle	• SAM: Business plans and budgets were approved by the Board in Mar 2008. • GOT: Team effectiveness average for 2007/08 was 70%. • GOP: The final stages of GOP kicked off on 3 Mar 2008. 360 degree reviews, performance reviews, increases and incentive roll out will bring this cycle to a close. • Aligned our performance management system to the National Treasury guidelines and framework.

5. Talent management: Weighting of 5%

We will implement TCTA's talent management strategies to attract, retain and develop key staff.

Strategic objectives	Measurement	Target	Performance to 31 March 2008
5.1 Implement recruitment and selection plan to attract and retain staff	Percentage of offers accepted	100% of offers extended accepted by candidates	• Analysed and monitored trends regarding employee departure from the organisation in order to react proactively to any identifiable risks regarding staff retention. • Preference was given to internal appointments as part of our focus on the development and growth of our staff. • Best practice psychometrics and assessment tools are there to enhance the recruitment process.
5.2 Develop and implement an activation plan	Successfully completion of a three-month probation period	100% of new employees complete probation within the stipulated period and are rated as proficient in their jobs	• Four induction programmes were out this year. • A post-entrance snap-shot survey was conducted in the second quarter of 2007. • Action plans were put in place to ensure that "sticky" areas for respective divisions were identified to address such areas. • Conducted the Markinor Survey with full participation from all stakeholders. Received valuable insight that will ensure that our plans (strategic and operations) are aligned.

Performance measurement (continued)

Strategic objectives	Measurement	Target	Performance to 31 March 2008
5.3 Develop and implement an assimilation plan	Successful achievement of personal development plan objectives	100% of staff attain a minimum score of 8,5 towards the achievement of their objectives	• All employees were reviewed regularly against these goals and were provided with feedback. • 15% of goals were linked to an HR index that measured progress in employment equity. • Less than 5% of staff members attained a performance score of less than 8,5 during the Sept 2008 reviews. • PDPs were rolled out at the beginning of the calendar year.
5.4 Develop and implement a retention plan for black staff	Staff turnover (industry 15% – 18%)	Retention of staff in the professional skills that have been identified as scarce; key and strategic	• Staff turnover was 18% for the year under review.

6. Customers and stakeholder relationships: Weighting of 15%
We will consciously build collaborative relationships with both internal and external key stakeholders

Strategic objectives	Measurement	Target	Performance to 31 March 2008
6.1 Through inclusive liability management maintain regular, continuous and effective communication with stakeholders	Perception survey	• Baseline survey executed by May 2007 • Follow up survey to be executed by Jan 2008 with a minimum 90% satisfaction rate	Baseline survey conducted Jul/Aug 2007 revealed that: • 67% were truly loyal • 86% would recommend TCTA • 83% would continue to do business with TCTA
6.2 Create an awareness of TCTA's role in infrastructure development and its projects internally and externally	Brand surveys	• Internal and external baseline surveys to be executed by May 2007 • Follow up surveys to be executed. Jan 2008 with a minimum 90% satisfaction rate	There was no separate survey, other than the brand/reputation elements being covered as part of the perception survey. A similar approached will be followed during the following survey.
6.3 To improve service to stakeholders	Regulators • DWAF • National Treasury • DEAT	• Review and update communications strategy by Jun 2007 • Execute strategy according to plan	• Solid relationships with DWAF demonstrated by referral of additional work to TCTA and being the preferred implementation agent. Relationship strategy implemented including site visits and cocktail with NT and DWAF.
	Project and advisory partners • CCT • Sasol • Eskom • DWAF • Advisory	• Review and update communications strategy by Jun 2007 • Execute strategy according to plan	Solid relationships with project partners and DWAF resulting in overall rating of 70% by project partners and 100% by DWAF in service delivery, team interaction and helpfulness.
	Financiers (financial markets, rating agency and auditors)	• Review and update communications strategy by Jun 2007 • Execute strategy according to plan	Corporate communication strategy was updated.

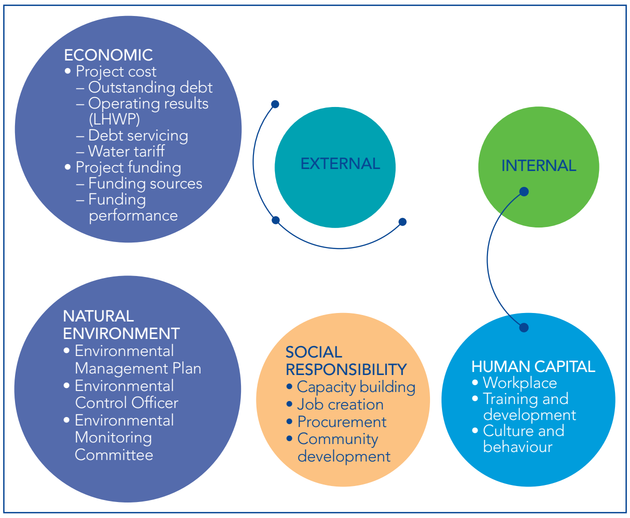
Strategic objectives	Measurement	Target	Performance to 31 March 2008
6.4 To meet shareholder expectations	Performance against baseline	• Approved shareholder compact by May 2007 • Biannual performance reviews – 90% achievement against this scorecard • Shareholder survey – 90% satisfaction rate	• Achieved Feb 2007 • Survey conducted Jul/Aug 2007 • 67% truly loyal • 86% display positive behaviour

Sustainability report

TCTA is acutely aware that its 'product', bulk water infrastructure, lies at the foundation of development in South Africa. Without water, the capacity of a community to develop economically, socially and environmentally is drastically constrained.

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 the design and implementation of environmental management and socio-economic strategies.

Figure 1: The structure of the sustainability report is outlined below:



Economic performance

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

Lesotho Highlands Water Project (LHWP)

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

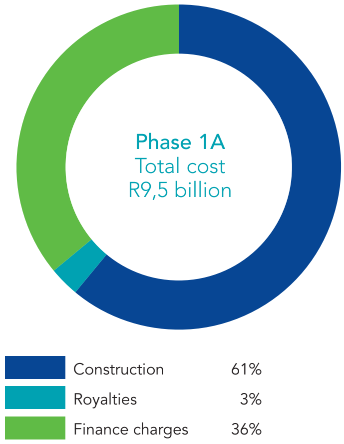
Project cost

Since water delivery began in January 1998, water income and related operating costs for Phase 1A have been recognised in the income statement. Costs on Phase 1B were capitalised until 31 March 2004. The R16,4 billion total project cost of the two phases is split 57: 43.

The full water transfer costs incurred by both TCTA and 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.

Figure 2: Total project cost

Phase 1A

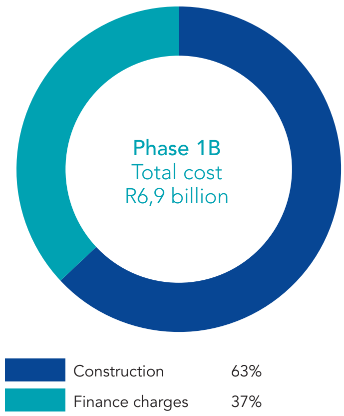


Outstanding debt on the project

The project debt, after taking into account water tariff income and annual shortfalls due to interest after completion of construction, was R19,773 billion at 31 March 2008.

Based on the current debt curve, it is estimated that the outstanding liabilities will peak in 2013 at R19,704 billion and that all debt will be repaid by 2025.

Phase 1B



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

Operating results for TCTA

TCTA reports an operating surplus of R1 597 million for the year under review (2007: R1 451 million). A net deficit for the year amounting to R162 million (2007: R114 million) has been realised, and reflects a shortfall in covering interest.

The 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 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 system will be sufficient to repay the project debt.

Revenue generated from the sale of 1 413 million m^3 (2007: 1 385 million m^3) of raw water amounts to R2 087 million (2007: R1 951 million). This revenue is based on a bulk raw water tariff of 147,6 cents per m^3 (2007: 140,8 cents per m^3) for the year under review. The net higher revenue is due to a 4,8% increase in the water tariff and a 2,01% increase in water volume.

Water tariff

TCTA entered into an income agreement with DWAF in August 2001, which determines the Vaal River raw water tariff for augmentation schemes. TCTA annually sets a constant tariff in real terms over a 30-year period based on agreed input assumptions. The income agreement allows for automatic and negotiated adjustments. (See figure 3.)

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

Other tariff review triggers include:
- adjustments for changes in demand;
- adjustments for further augmentation (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. During the 2000/01 tariff determination, the yield of the Vaal River system was determined to be lower than originally anticipated by DWAF. This resulted in an under-recovery in the tariff of 6,71 cents per m^3, which triggered a negotiated adjustment to be phased in over a three-year period.

During the tariff revision in 2007, the following updated data was received.

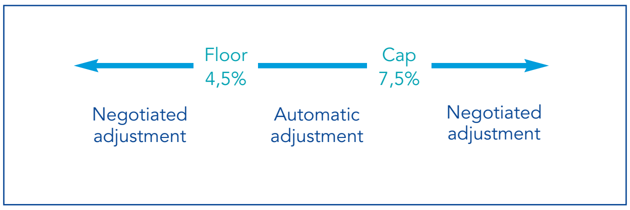
Water related factors from the Vaal River study launched by DWAF in 2006:
- A 4,65% increase in the yield of the Vaal River system.
- An upward revision in water demand to take account of mainly increased economic growth.

Economic input factors from the Bureau of Economic Research (BER):
- Slightly higher inflation over the repayment period from 4,82% to 5,22% on average.
- Lower average real interest rates which declined from 3,76% previously to 3,17%.

The cumulative effect of these three factors, ie the yield, demand and inflation/interest rate forecast, necessitated a CPIX-related increase of only 6,4% (June 2007 year-on-year).

The increase in the Vaal River raw water tariff to TCTA in 2008/09 of 6,4% is in line with the inflation rate parameters as set out in the income agreement between DWAF and TCTA of between 4,5% and 7,5% for an automatic adjustment.

Figure 3: Water tariff adjustment mechanism



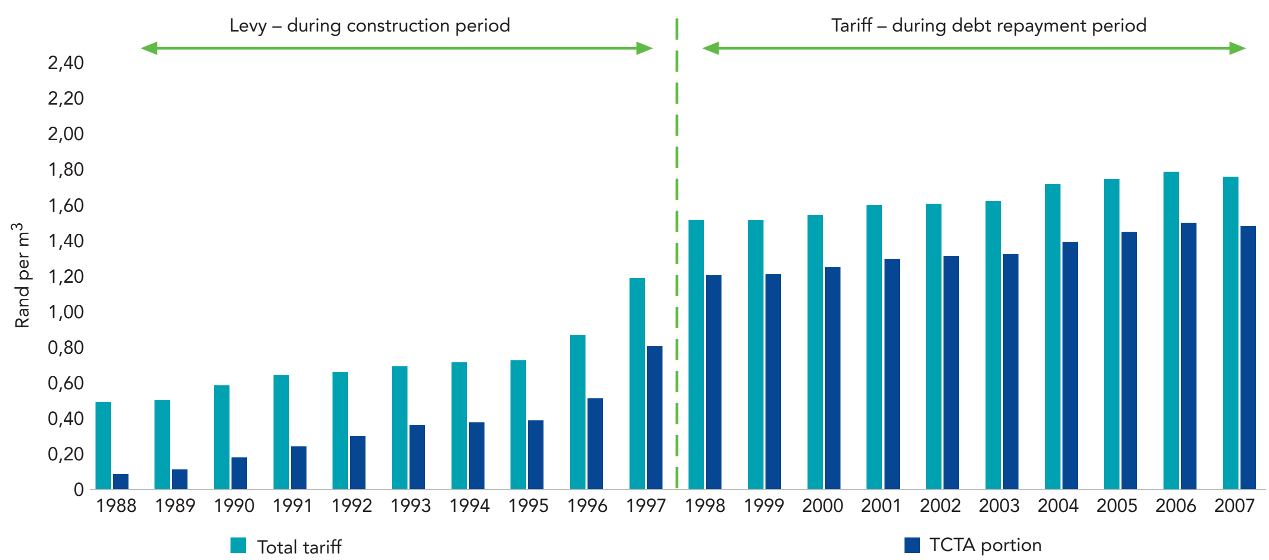
Sustainability report (continued)

The tariff adjustments since the reassessed yield are indicated in table 4.

Table 4: Tariff adjustments

Vaal River tariff for augmentation schemes	Increase c/m^3	% increase due to CPIX	% increase due to triggers	Total % increase
2000/01 tariff:	88,14			
Phase in portion one	2,11		2,39	
CPIX adjustment	7,05	8,00		
2001/02 tariff:	97,30			10,39
Income agreement signed August 2001				
Phase in portion two	2,33		2,53	
CPIX automatic adjustment	5,97	6,00		
2002/03 tariff:	105,60			8,53
Phase in portion three	2,57		2,43	
CPIX negotiated adjustment capped	7,93	7,50		
2003/04 tariff:	116,10			9,93
CPIX automatic adjustment	6,30	5,40		
2004/05 tariff:	122,40			5,40
CPIX automatic adjustment	6,14	5,00		
Phase in portion one of three	3,06		2,50	
2005/06 tariff:	131,60			7,50
CPIX negotiated adjustment	5,92	4,50		
Phase in portion two of three	3,33		2,53	
2006/07 tariff:	140,83			7,03
CPIX automatic adjustment	6,76	4,80		
Phase in portion three of three (waived)	–		–	
2007/08 tariff:	147,59			4,80
CPIX negotiated adjustment	9,45	6,40		
2008/09 tariff:	157,04			6,40

Figure 4: Raw water tariff expressed in 2007 values



In 1988, a levy was introduced to fund part of the development costs of the LHWP until it started to deliver water in 1998. The levy partially financed costs during the initial construction period and started at two cents per m^3 in 1988. The total revenue generated in levies was R1 688 million and in tariffs to date is R14 195 million (2007: R12 108 million).

The royalties are based on the calculated net benefit (1986) of the construction of the LHWP, compared with 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.

Figure 5: Water levy/sales volumes

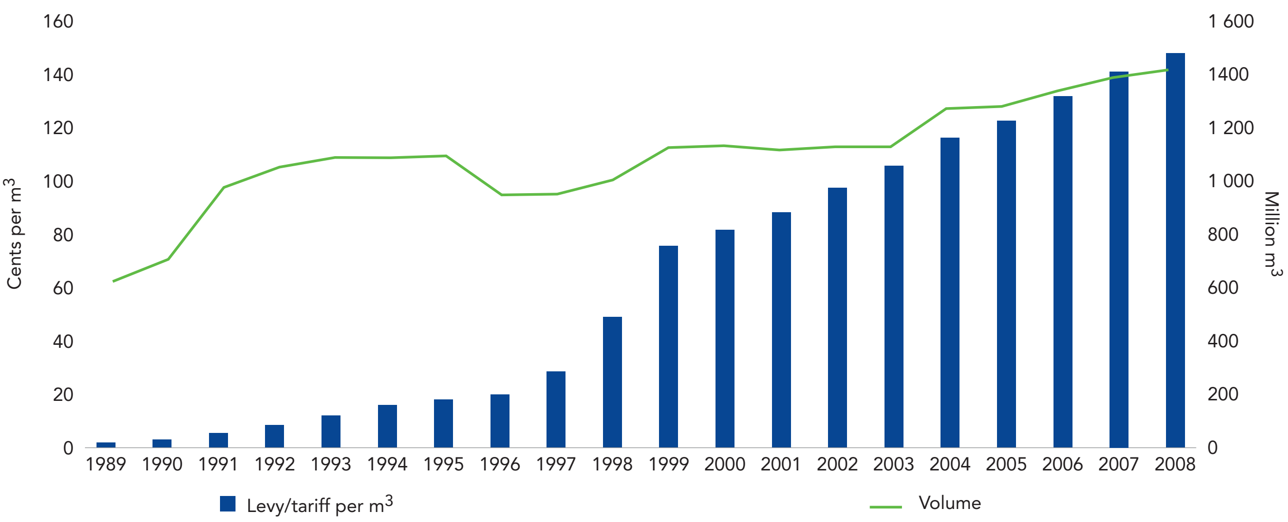
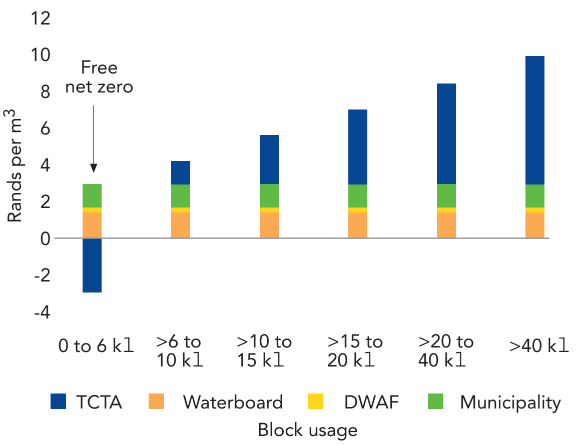


Figure 6: Tariff composition for domestic usage 2007/08 financial year



Tariff composition in a typical urban environment is determined by volume usage per month, as illustrated in figure 6. TCTA has successfully managed debt recovery to strictly 60 days in accordance with the income agreement.

Royalties and water delivery

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

The fixed royalty component started to accrue in 1995 and the first payment was due in October 1996, when the volume of water stored in Katse Dam reached the previously agreed level of 1 993 metres above sea level. The fixed component is payable monthly to Lesotho until 2045.

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

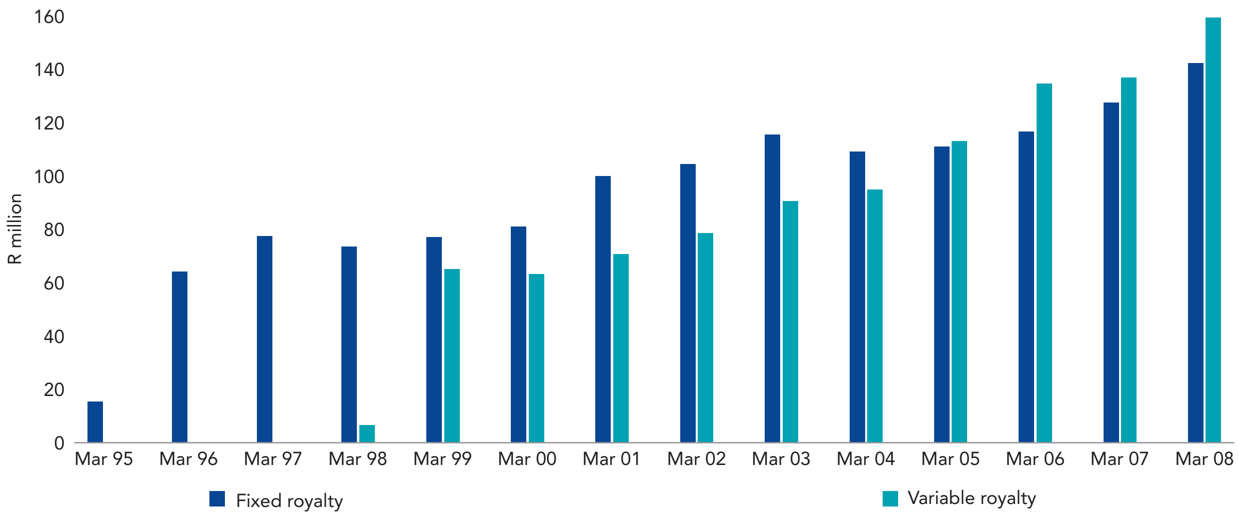
The total amount of royalties paid to date to the government of Lesotho is R2 328 million (2007: R2 026 million). (Please refer to figure 7.)

The 2008 water delivery schedule, as approved by the Lesotho Highlands Water Commission consists of an annual volume of water delivered not exceeding 780 million m^3.

During this financial year, 780,0 million m^3 (2007: 755,6 million m^3) of water were transferred to South Africa. This meets the agreed volume for the year as set out in the treaty. To date, the total volume of water delivered by the project is 6 467 million m^3.

Sustainability (continued)

Figure 7: Royalties paid



Project funding: LHWP

A net amount of R1 684 million was borrowed during the year under review to meet funding and redemption requirements. The table below indicates the composition of funding.

Table 5: Composition of project funding

Funding requirement	R million
Incremental	92
Refinancing	521
Redemption (WS03 maturing 15 September 2010)	1 071
Total	1 684

TCTA funded the requirement through various sources as follows:

Table 7: Sources of funding

Funding sources	Total R million
Capital market	1 978
Money market	(294)
Foreign development financing	
Total	1 684

Capital market

Sentiment in the domestic debt capital markets continued to be gloomy, 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 WSP5s, WS03s as well as the inflation-linked WS05s. Authorised amounts for the various issued bonds were amended, with notable increases in WS04s and WSP5 to R10 billion and R4 billion respectively.

However, after the balance sheet date, TCTA successfully redeemed the principal amount of R800 million on 30 April 2007 for the 8% WS06 bond, which was first issued in November 2004.

Table 6: Total capital market bonds in issue as at 31 March 2008

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	3 585	915
WS04	20 Mar 2001	30 May 2016	12,50	10 000	6 775	3 225
WS05	20 Nov 2001	1 Aug 2018	5,00	4 000	3 075	925
WS06	30 Oct 2004	30 Apr 2008	8,00	2 500	800	1 700
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	950	3 050
Total				29 000	16 785	12 215

Commercial paper programme

Short to medium-term funding in the domestic market is also accessed through a commercial paper programme and other local loans. As at 31 March 2008, TCTA had issued a total of R450 million against an authorised amount of R4 billion. The reduction in the issued commercial paper from the previous year was the result of an increase in the duration of the liability portfolio.

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

Foreign funding

Foreign funding has been on a steady decline over the past few years and currently constitutes less than 3% of the entire project funding.

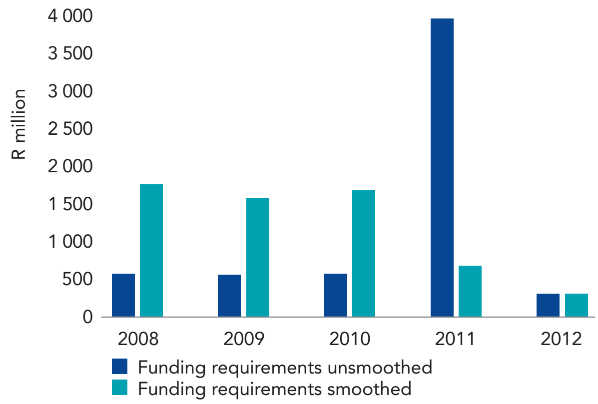
Funding performance

The weighted average borrowing rate for the period under review is 10,61% (2007: 10,51%).

TCTA's domestic capital market performance and funding in figure 8 indicate:

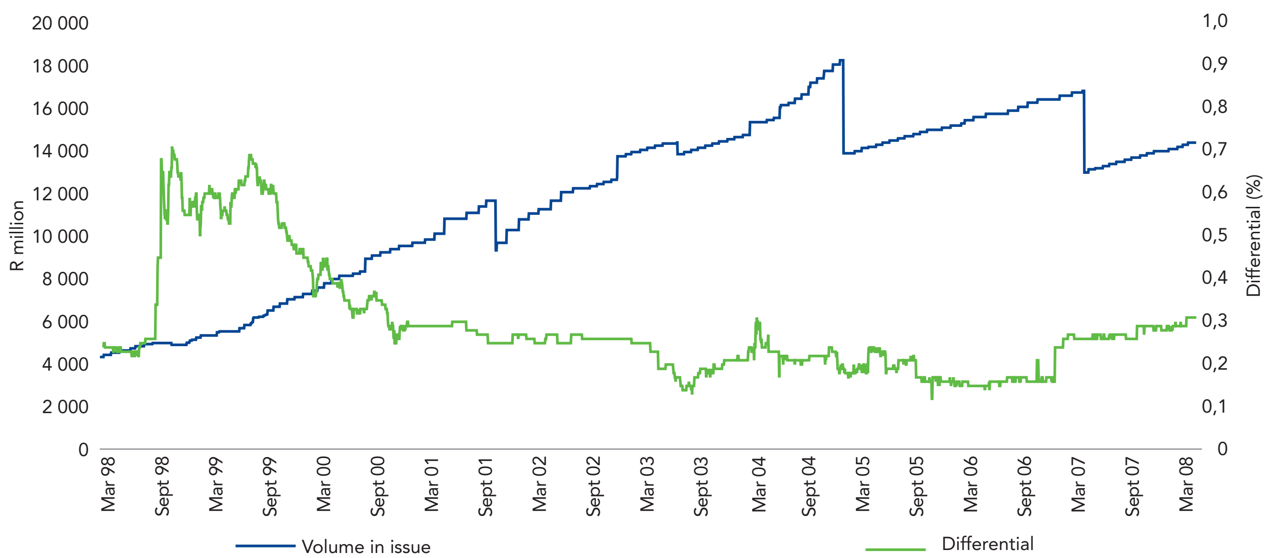
- the growth of debt in issue over the past nine years; and
- the trading differential above the government benchmark bond.

Figure 9: Funding requirements for the next five years before and after smoothing of WS-redemptions



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

Figure 8: Growth in capital market issue versus average daily trading differential



Medium-term funding

TCTA will raise R1 578 million during the 2008/09 financial year under the portfolios as follows:

Table 8: Medium-term funding

Funding requirement	Funding portfolio R million	Redemption portfolio R million	Total funding R million
Incremental funding requirement	289	–	289
Refinancing requirement	269	–	269
Redemption		1 020	1 020
Total 2008/09 funding requirement	558	1 020	1 578

Sustainability (continued)

Berg Water Project (BWP)

Project cost

The capital expenditure on the BWP has been and will continue to be incurred as follows:

Table 9: Capital expenditure on BWP

Date	Escalated value R million
2003	14,7
2004	41,7
2005	265,4
2006	336,6
2007	489,3
2008	274,3
2009	124,5
2010	3,8
2011	2,3
Total	1 552,6

Outstanding debt on the project

The project debt after taking into account water tariff income, was R1 148 million as at 31 March 2008.

Debt servicing

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 economically viable scheme through a Berg Water capital charge to be added to the tariff charged by DWAF on water supplied from the Western Cape Water System (WCWS).

The City of Cape Town pays a water tariff based on WCWS usage to DWAF, which pays TCTA to cover the costs and repay the loans obtained to fund the implementation of the project.

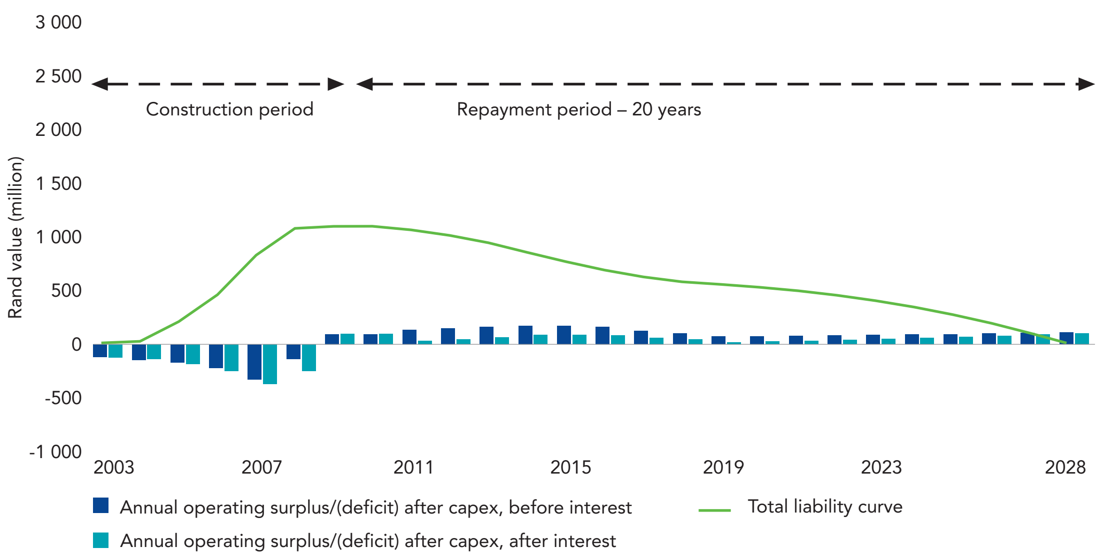
TCTA consults with the City of Cape Town (CCT) on capital charge related issues. The Board Technical Committee, where the city is a voting member, also reviews these matters.

Water tariff

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

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

Figure 10: BWP annual surplus/deficit and liability curve



Project funding

Fitch Ratings gave the project a credit rating of AA+ (zaf) long term and F1+ (zaf) short term. Based on the strength of the income stream and the strong credit rating, TCTA sourced long-term funding (24 years' committed funds) of R1 600 million. The annual credit rating was reviewed by Fitch Ratings in February 2008, and the rating was reaffirmed.

Long-term funding for the BWP is funded through DBSA (R500 million), EIB (R800 million) and Absa (R300 million). The loan signed with the EIB is the single biggest loan agreement signed between EIB and a South African entity to date. A commercial paper programme has been established with an authorised value of R450 million to service working capital requirements.

Funding activities for the year

A net amount of R309 million was borrowed during the year under review to meet the project's funding requirements. A total of R274 million was drawn down from the available long-term facilities while the difference was sourced through the commercial paper programme. The prevailing capital structure mix as at 31 March 2008 is 42% fixed and 58% floating. The targeted mix once the project is completed is an optimal 70% fixed and 30% floating:

The funding activities are summarised in the tables below.

Table 10: Composition of project funding

Funding requirement	March 2008 R million
Incremental	309
Refinancing	–
Redemption	–
Total	309

Table 11: Sources of project funding

Funding source	R million	%
Money market	35	11
Long-term loans	274	89
Redemption	–	–
Total	309	100

The liability arising from the long-term funding has been matched with "free cash" generated from the project.

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

TCTA aims for an optimal financing structure currently estimated at 70: 30, fixed: floating. The current mix between fixed and floating debt is approximately 42%: 58%, which is expected during construction as the ratio will vary due to a drawdown-induced funding variability. The 70: 30 fixed: floating target will be achieved at the end of construction and the ratio will be reviewed by testing the debt curve sensitivity for changes in interest rates, inflation, water demand and capital structures.

Funding performance

The project is funded at a weighted average rate of 9,14% (2007: 8,91%)

Funding requirement

Short-term funding requirement – 2008/09

Below are the details of the project's forecast funding requirement for the 2008/09 financial year:

Table 12: Short-term funding requirement

Funding requirement	R million
Incremental	65
Refinancing	–
Total	65

Medium-term funding requirement – 2009/10

Below are the details of the project's forecasted funding requirement for the 2009/10 financial year:

Table 13: Medium-term funding requirement

Funding requirement	R million
Incremental	51
Refinancing	–
Total	51

Vaal River Eastern Subsystem Augmentation Project (VRESAP)

Project cost

The current estimated construction cost of VRESAP is R2 698 million as at March 2008.

Preliminary budgets indicate that the capital expenditure on VRESAP will be incurred as follows:

Table 14: Capital expenditure on VRESAP

Year	Escalated value R million
2005	9,5
2006	324,41
2007	1 116,06
2008	786,68
2009	263,58
2010	198,13
Total	2 698,36

Outstanding debt

The project debt after taking into account interest capitalised during construction was R2 238 million as at 31 March 2008.

Capital cost allocation

The capital cost allocation between the main users is based on the incremental demand requirement by each user over the period up to 2030.

Sustainability (continued)

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

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

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

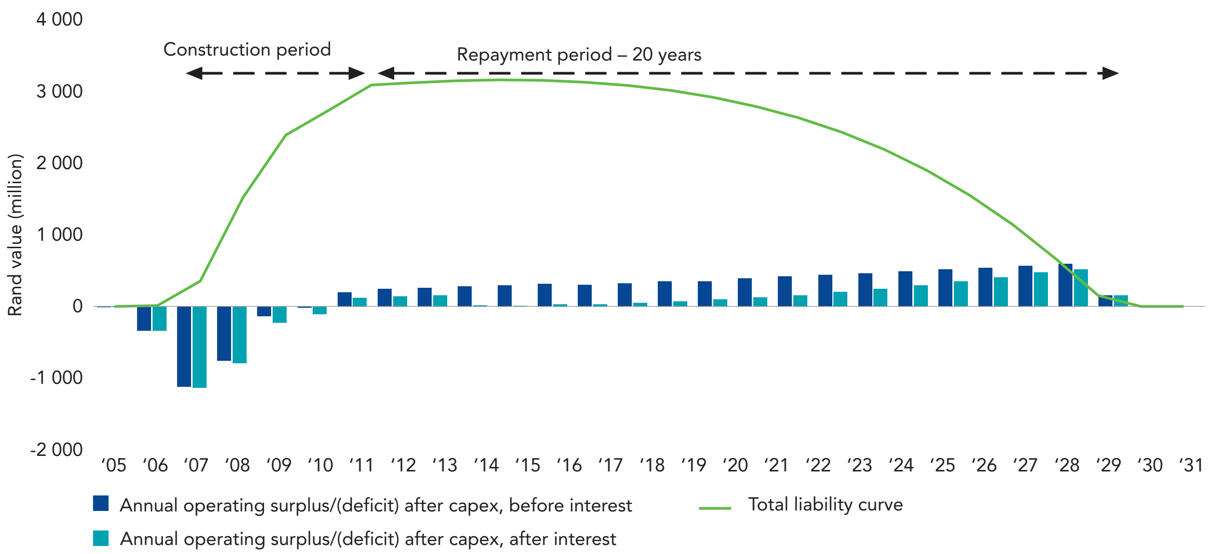
The debt curve is illustrated below.

- The project cost will be repaid within a reasonable period, which should not be longer than the economic life of the asset, determined on the basis of:
  - the anticipated funding requirements of the augmentation of VRESS;
  - the debt profile and acceptable growth and level of debt of the project; and
  - an affordable structure for the offtakers.

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

- The tariff payable by DWAF to TCTA is to redeem development costs and excludes operation and maintenance costs.
- The tariff applies from January 2009 to January 2029.

Figure 11: VRESAP annual surplus/deficit and liability curve



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

- The income to VRESAP is based on sales taken from the entire VRESS. This consists of various subsystems, of which VRESAP will form part, and not on the volume of water delivered from VRESAP in isolation.
- The required tariff will be supplied to DWAF, and will be included in the tariff calculation for raw water from the VRESS.
- The bulk raw water tariff is determined within a pricing policy that strives to peg the price of raw water to present levels in real terms.

As a result of these principles, the following are the basic considerations for determining the tariff:

- The tariff is based on water used by the consumers, not on water delivered into the system.
- The tariff is based on the projected water demand growth of Eskom and Sasol over a 20-year period.
- Annual adjustments to the charge will be made according to the CPIX, changes in water demand, changes in interest cost and allocation of water to third-party users. An upper and lower limit of the CPIX index will be determined after the completion of construction.

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

Provision for other users

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

Project funding

Funding sources

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

Fitch Ratings credit rated the project as AA+ (zaf) long term and F1+ (zaf) short term. TCTA sourced, based on the strength of the income stream and the strong credit rating, long-term funding (22 years committed funds) of R3 300 million. The annual credit rating was reviewed by Fitch Ratings in February 2008, and the rating was reaffirmed.

It is expected that VRESAP will be declared operational in the 2009 financial year and the tariff will be set such that the total outstanding debt will be amortised over the period to 2029. This follows the TCTA principle of repaying the project debt 20 years after completion of construction.

Commercial paper and long-term funding facilities for the VRESAP project are as follows:

Table 15: Long-term loans for VRESAP

Committed facilities	% of total facility	Limit R million
EIB	15,15	500
SCMB	40,91	1 350
Absa	30,30	1 000
Investec	9,09	300
Nedbank	4,55	150
		3 300

Funding activities for the year

A net amount of R801 million was borrowed as at 31 March 2008 to meet the project's funding requirements. A total of R693 million was drawn down from the available long-term facilities while the difference was sourced through the commercial paper programme. The prevailing capital structure mix as at 31 March 2008 is 63% fixed and 37% floating. The targeted mix once the project is completed is an optimal 70% fixed and 30% floating.

Table 16: Composition of project funding

Funding pocket	March 2008 R million
Incremental	801
Refinancing	–
Redemption	–
Total	801

Table 17: Sources of project funding

Funding source	R million	%
Money market	108	13
Long-term loans	693	87
Redemption	–	0
Total	801	100

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

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

Funding performance

The project was funded at a weighted average rate of 9,29% (2007: 9,25%)

A net amount of R1 230 million was borrowed during the year under review to meet the project's funding requirements.

Short-term funding requirements 2008/09

Below are the details of the project's forecast funding requirement for the 2008/09 financial year.

Table 18: Composition of project funding

Funding requirement	R million
Incremental	414
Refinancing	–
Total	414

Medium-term funding requirement – 2009/10

Below are the details of the project's forecast funding requirement for the 2009/10 financial year.

Table 19: Sources of project funding

Funding requirement	R million
Money market	131
Refinancing	–
Total	131

Sustainability (continued)

Environmental performance

Environmental and social sustainability framework

TCTA has started to develop an environmental and social sustainability framework. This framework will provide a systematic information system to enable us to understand our contribution to the international and national policy objectives for sustainable development.

The key drivers for the development of TCTA's social and environmental sustainability framework are international (eg World Commission on Dams, Global Sustainability Reporting Initiative, etc) and national initiatives (eg South Africa's Strategic Framework for Sustainable Development), which require infrastructure development agencies to contribute to South Africa's socio-economic objectives.

Social sustainability

TCTA has gone beyond measuring the social sustainability of development simply in terms of counting the number of jobs created or assessing the income benefiting local communities. It has developed a model for understanding how project implementation impacts on different kinds of capital that are essential for social sustainability.

Box 1: The TCTA framework for social sustainability focuses on three kinds of capital: social, productive and human.

Social capital is the value that people get from their social structure. It consists of two aspects. The first is informal/horizontal social networks, such as family structures and community/neighbourhood relationships. The second is institutional or hierarchical relationships, such as with government institutions, development organisations and employers.

Productive capital concerns access to employment opportunities and access to resources (anything from finances to environmental resources) that are used to sustain livelihoods.

Human capital concerns the resources people need in order to sustain their health and well-being. This includes education and skills, health, safety, housing and basic services.

Environmental sustainability

Cascading the objective of sustainability from policy intent to project decision-making is promoted in the following applications:

- Sustainability reporting for the corporate environment;
- Environmental impact assessment at the project planning stage; and
- Environmental management plans at the project implementation stage.

The sustainability framework seeks to:

- Integrate sustainability into business planning
- Enhance the positive impacts of project implementation
- Internalise negative project impacts as part of project controls in order that it does not become a social cost

Environmental management plan (EMP)

The EMP for each project, as approved by the DEAT, 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 (RoD).

LHWP

One of the requirements of the treaty between the two countries is to ensure the protection of the environment and long-term sustainability of the river system. Within the borders of Lesotho the EMP is implemented by the LHDA, while elements located in South Africa are implemented by TCTA.

River management plan

TCTA has continued to implement, on behalf of DWAF, a river management plan to monitor and evaluate the performance of the erosion protection structures on the Ash River in the eastern Free State. To date, performance has complied with the requirements of the plan.

BWP

Water quality monitoring

Results of the water quality monitoring programme during the period under review show that the contractors have fully complied with the contractual water quality standards.

Rehabilitation

During the past year, rehabilitation of the project area has received focused attention, in particular the revegetation and landscaping of the dam embankment and disturbed areas. To limit the visual impact, indigenous flora have been planted on the embankment.

VRESAP

The requirements of the EMP have been translated into detailed environmental specifications in various contracts to ensure that construction impacts are mitigated. The extension of time granted on the main construction contracts will require extended access to temporary construction areas. Extension of up to two years will be required for rehabilitation of these areas.

Environmental approvals

Environmental approvals for the borrow pits and spoil areas were also received from the Department of Minerals and Energy (DME). Financial provision for the rehabilitation of these borrow pits and spoil areas was made in favour of the DME, as required by the regulations.

Environmental Monitoring Committee (EMC)

An independent EMC was established for each project and facilitated by an independent chairperson. This committee encourages participative monitoring of the conditions specified in the RoD and the performance against and implementation of the EMP, Standard Environmental Management Plan (SEMP) and Environmental Management Plan Reports (EMPR).

The EMC comprises representatives from the project authorities, mandated representatives from local communities, elected officials, interested and affected parties and local stakeholders.

BWP
Over the past year, the EMC met on a quarterly basis. The meetings were facilitated by the independent chairperson, Dr David Venter. During this period the EMC was kept informed on the project status and the implementation of the environmental and social monitoring programmes. Detailed information on the baseline Berg River monitoring programme was also presented to the EMC during this period.

Compliance monitoring
Six monthly audits are undertaken by an independent environmental control officer (ECO) who reports to the EMC. Significant incremental improvements have been achieved over the duration of the project, from the first audit in 2005 where overall compliance with the EMP was 82%, to the recent audit where EMP compliance was rated at 96,%. (See table 20.)

Table 20: EMP compliance performance of the BWP

Audit	Period	Project compliance %
1	Jan – Jun 2005	82
2	Jul – Dec 2005	94
3	Jan – Jun 2006	97
4	Jul – Dec 2006	99,5
5	Jan – Jun 2007	99,36
6	Jul – Dec 2007	96*

* *The compliance level for December 2007 is not the final score as evidence provided by TCTA and the contractors had at the time of writing not been taken into account in the ECO audit report.*

VRESAP
The EMC meets on a quarterly basis, coinciding with the finalisation of the ECO audit report. The meetings are facilitated by an independent chairperson from the local area, Mr Tsietsi Mokoena. The EMC continues to function as DEAT's environmental watchdog. A site visit to the nearby working fronts is invariably part of the agenda for each meeting. This is to keep the members informed on the project status.

Compliance monitoring
The first comprehensive environmental compliance audit by the independent ECO, in which VRESAP achieved 91% compliance, was completed by end March 2008.

Table 21: EMP compliance performance of VRESAP

Audit	Period	Project compliance %
1	Apr – Jun 2007	86
2	Jul – Sept 2007	86
3	Jul – Dec 2007	91
4	Jan – Mar 2008	91

Social performance

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

TCTA's approach is to:
- partner with and support existing local initiatives relevant to the project;
- contribute to the development of local communities through job creation and capacity building; and
- monitor, evaluate and mitigate the social impacts of all projects.

In accordance with the treaty, social development work on LHWP is implemented by the LHDA in accordance with international best practice and World Bank guidelines.

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

Procurement at organisational level
TCTA's direct procurement spend for the year was R923 million, of which R875 million was BEE spend.

Procurement at project level
To support BEE, the contractors appointed at each project are required to establish a joint venture with a black enterprise where the level of black equity ownership in the enterprise meets minimum criteria and continues for the duration of the contract.

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

BWP
All targets and values are expressed as a percentage of 25% of the total contract value.

Sustainability (continued)

Table 22: Achievement against preferential procurement targets at BWP

Contractors	BE[1] (15% target)	BEE[2] (20% target)	LE[3] (5% target)	SMME[4] (10% target)
BRPJV – Dam construction (%)	62,20 R73 569 951	27,79 R32 449 769	12,93 R16 119 682	36,83 R49 174 698
DWAF – Access road (%)	34,6 R18 302 013	89,1 R4 720 498	6,8 R359 815	27,3 R1 447 316
DWAF – Village services (%)	15,36 R390 366	59 R1 516 306	5,31 R134 867	24,76 R629 263
DWAF – Supplement scheme (%)	25,05 R17 138 788	28,62 R19 583 443	25,49 R17 442 752	9,49 R6 496 562
Cycad – Pipelines (%)	34,41 R4 793 763	45,18 R50 344 843	7,34 R1 022 975	38,72 R5 393 610
BIP 632 – Housing (%)	129,19 R1 370 211	17,52 R185 778	57,08 R605 369	196,22 R2 081 148
BIP 611 – Housing (%)	120,45 R241 816	91,01 R182 714	67,66 R135 826	120,88 R242 679
Donico/Power – Housing (%)	131,21 R1 814 963	20,43 R282 626	86,78 R1 200 405	126,23 R1 746 035
Working for water (no procurement targets)			R7 437 823	
Total BWP procurement	R117 621 870	R109 265 977	R44 750 863	R67 211 311

Note Procurement figures still to be verified by an external auditor.
[1] *BE – Black enterprise.*
[2] *BEE – Black empowered enterprise.*
[3] *LE – Local enterprise.*
[4] *SMME – Small, medium and micro-enterprises.*

Table 23: Achievement against employment targets at VRESAP

Contractor	Total person-days worked on VRESAP	Cumulative employment local employment Percentage of total labour (% target)	Person-days	HDI (% target)	March 2007 Number of local people employed
Pipeline (V020)	334 895	219 478	2 807 190	93	1 037
Civil structures and MEIP (V021)	116 198	96 053	864 447	93	278
Total	451 093	315 531	3 671 637	93	1 315

Table 24: Value of preferential procurement by contractors

Contractors	BE[1]	BEE[2]	LE[3]	SMME[4]
BWP procurement (R million)	117	109	44	67
VRESAP procurement (R million)	198	97	25,8	196,5

Note Procurement figures still to be verified by an external auditor.
[1] *BE – Black enterprise.*
[2] *BEE – Black empowered enterprise.*
[3] *LE – Local enterprise.*
[4] *SMME – Small, medium and micro-enterprises.*

Job creation

TCTA's policy is to maximise job and business opportunities in the project community by ensuring that employment, procurement and training opportunities created by project roleplayers benefit the local communities.

To give effect to the policy, each contract awarded at project level stipulates employment and procurement targets. The performance of the contractor against the targets is monitored on a monthly basis.

BWP

During the reporting period, employment peaked at over 1 000 jobs for local people. The Working for Water programme at BWP provided employment for 636 people. Table 25 is an illustration of the contractor's performance against targets.

Integrated Employment and Training Committee (IETC)

The IETC focused on monitoring how the BWP maximised employment, training and procurement for the local communities. The IETC consisted of representatives of the municipal ward committees, community-based organisations (representing people with disabilities and women on farms), the Department of Labour, TCTA, the employment information desk, the environmental control officer, Berg River consultants and BWP contractors.

The IETC has played a useful role in the project by providing a forum where community issues were raised directly with the contractors and TCTA. It has aided in conflict resolution and provided a forum for discussion and information sharing.

Table 25: BWP employment statistics

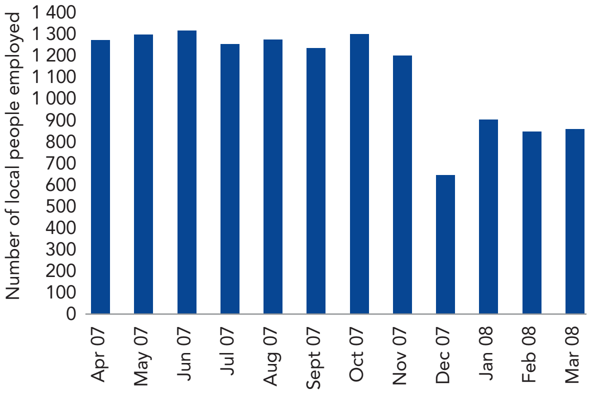
Contractors	Cumulative employment total person hours	Percentage local (% target)	Person hours local	HDI %	Number of local workers (March 2008)
BRPJV – Dam construction	5 322 215	93,05 (75% target)	2 729 408	93,79	112 (cumulative person numbers, 17 379)
DWAF – Supplement scheme	2 323 906	60,37 (65% target)	1 403 032	92,79	94
Cycad – Pipelines	775 498	59,63% (40% target)	462 438	92,93	32
DWAF – Access road	321 658	67,7% (65% target)	217 682	92,8	
DWAF – Village services	324 888	69,28 (65% target)	225 073	93,60	
Donico/Power – Housing	61 326	59,44 (85% target)	36 451	98,37	
BIP 632 – Housing	42 783	89,28 (85% target)	38 199	100	
BIP 611 – Housing	Accurate data not available				
Working for Water	83 424	100	83 424	100	127
Total	9 255 698	74,84	5 195 707	95,53	365

Sustainability (continued)

VRESAP

To date, the project has created 1 685 jobs, of which 1 315 were recruited from the local project area. (See table 11.)

Figure 12: Local employment created



Training

BWP

The BWP has provided construction-related skills training for 484 local people, amounting to 3 093 person-days of training.

Training on the Working for Water programme

TCTA awarded the Working for Water programme, a R21 million contract to clear alien vegetation from the Assegaaibos area, which is the upper Berg River catchment. The contract runs until 2012. To date, 1 430 people have been trained through the programme.

VRESAP

Induction training is being conducted for all new employees and visitors to the project sites. To date, 277 employees of MPC have undergone job-related training; 438 residents from the local community of Mamello and the surrounding areas have undergone training in steel fixing, concrete batching, land surveying and machine operating on the COVEC contract.

Community development

BWP

Social monitoring

The aim of social monitoring is to examine the impact of social changes experienced by local residents and to respond with appropriate measures where the impacts have an adverse effect. The aim is to ensure that the project enhances social sustainability.

Social monitoring on the BWP was undertaken using TCTA's social sustainability model. This model provided the framework and focus for social monitoring (which ended during the reporting period) and the exit strategy.

Key social monitoring findings over the reporting period are provided below:

Social capital

- *Core staff studies:* Monitoring indicated that the social networks and support systems of local communities may have been altered by the presence of core workers from elsewhere in the country. The impact of core workers on local communities is an industry-wide phenomenon. The findings are being used as lessons learnt for future TCTA projects.
- *In-migration:* A survey was conducted to determine levels of in-migration into local communities by work seekers (other than the core workers who were brought in by their employers). The study tracked people's movement patterns and the reasons for their relocation. The results revealed that the BWP was not the cause of in-migration and that local population growth was the result of normal migration patterns.

Human capital

- *Impact of training*

  Lessons learnt that are applicable to the wider industry include:

1. Expected outcomes in terms of ability and proficiency of trainees should be realistic.
2. Communication about the value of "just-in-time" and "on-the-job" training should be clear. Widespread training of unemployed people creates unrealistic expectations of job prospects.
3. A basic industry training review or needs analysis should be undertaken before drafting the employer's training policy and specification, so as to ensure that training outputs and outcomes are aligned with areas in the industry where skills are scarce.
4. Recognition of prior learning and the assessment of competence should form an integral part of the training programme, as most workers do not possess formal qualifications or have had the opportunity to undergo formal skills training.
5. The training programme should be integrated into the construction schedule and flow of work on site.

Productive capital

- *Livelihood studies:* TCTA recognises that the form of productive capital that the project has offered (ie employment during the construction phase) has a limited lifespan. In-depth research was conducted in local communities to develop an understanding of various livelihood strategies that households employ. The study revealed that local communities have managed to create a healthy livelihood support structure for family members and for the community as a whole. This is due to the variety of livelihood sources that residents draw on, the range of their skills and experience, their innovativeness and the strength of local support networks.

Exit strategy

The exit strategy has three dimensions. One dimension focuses on continuing to leverage and maximise the positive project benefits beyond the construction phase into the operational phase. The second dimension is to recognise the need to plan and implement measures that pre-empt possible latent negative social impacts. The third and linked dimension is the element of promoting learning and knowledge management as part of project implementation.

The exit strategy encompasses a range of initiatives and projects that will enable TCTA to not only comply with the conditions in the EMP, but to significantly exceed its requirements. The exit strategy has been designed to leverage the positive initiatives started during the construction phase and to act as a mitigation mechanism for the latent negative socio-economic impacts that have the potential to emerge long after the construction period. The range of initiatives and projects that have been and are in the process of being implemented for the exit strategy include:

Initiatives	Objectives
Appreciative enquiry	• Promote community self-empowerment and capacity building. • Facilitate relationship building within the community. • Empower the community to become involved in community projects. • Promote local community development.
Holistic health and well-being	• To increase community health awareness, particularly with a focus on a holistic and integrated approach to health and well-being. • Empowering local communities to make informed lifestyle decisions that are supportive of holistic health. • To embed HIV and Aids within a broader, integrated focus on a lifestyle that supports health and well-being. • Promote social change and social awareness about the impact of health and diseases.
Promotion of Franschhoek First Policy	• Proactively promote Franschhoek First Policy to the private and public sector organisations operating locally. • Encourage local business, the municipality and public agencies to build on the initiative created by the BWP by ensuring the continuation of the socio-economic benefits of maximising local employment, training and procurement.
Training	• Provide leadership training to local community leaders. • Facilitate the provision of information and awareness sessions on workers' rights to community leaders. • Provide business training for local SMMEs.
Skills database	• Ensure that the skills database continues to serve the employment needs of the local communities. • Find an institutional home for the skills database to ensure that it continues to exist beyond the construction phase.
Handover of construction housing	• Ensure that the principal benefits, which accrue from the sale of the houses directly benefit local communities.
Sustainable utilisation plan	• Maximise local economic development by facilitating a public process for developing a planning framework that aims to promote optimal utilisation of the state land surrounding the dam.

Sustainable Utilisation Plan (SUP)

The SUP is a development framework that will guide the long-term management and land use of the Berg River Dam water body and surrounding state land. The objective of the SUP is to maximise post-construction local economic development opportunities. The SUP report will be produced for public comment. This would provide broad guidance on:

- recreational and sporting use of the dam water body;
- opportunities for economic activities on the state land surrounding the dam;
- environmental management;
- institutional arrangements for land management; and
- legal and administrative compliance procedures.

A range of institutional arrangements will be considered for SUP implementation.

Transfer of the houses at La Motte

The 80 houses built in La Motte Village Extension to accommodate the skilled workers, will be transferred to the Stellenbosch Municipality. According to a memorandum of understanding, the Stellenbosch Municipality will sell the houses, with preference given to the local community of La Motte, and use the proceeds of the sale to benefit the community residing in the project area. During the reporting period the TCTA Board approved the transfer agreement.

Sustainability (continued)

VRESAP

Women in construction initiative

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

Archaeology and heritage

BWP

Three heritage sites were investigated on the BWP. These are:

- Driefontein graves;
- Driefontein village; and
- Skuifraam ruins.

Driefontein graves

Archaeological investigations, the exhumation and reburial processes have been completed.

Driefontein village

Research and excavation work has been completed.

Skuifraam ruins

The first and second phase excavations have been completed. By the end of the reporting period the final phase excavations were not yet complete.

VRESAP

The VRESAP Heritage Impact Assessment identified various heritage and burial sites along the pipeline route. In some instances it was possible to realign the route in order to minimise the impact, however, six burial sites had to be removed. In total 93 graves have been successfully relocated from the servitude area.

The removal process took place after an extensive public consultation process during which all efforts were made to identify the next-of-kin of the affected graves. In five of the six burial sites, TCTA successfully identified the direct family of the impacted graves who were then given the opportunity to choose the place of re-interment. TCTA will erect memorial stones at all the original burial sites to inform members of the public or family members that could not be identified of the reason for the removal as well as the place of re-interment.

Land acquisition

BWP

All privately owned land required for the implementation of the BWP has been obtained through a process of expropriation in terms of the Expropriation Act of 2004. Settlements on compensation payments have been reached with all landowners, with the exception of one farm situated in the Berg River Dam basin. Due legal process is being followed to finalise the dispute on the compensation amount.

State land required for the implementation of the BWP is in the process of being transferred to TCTA. TCTA has permission to occupy and construct on state land pending final transfer from the Department of Public Works.

VRESAP

The construction of the VRESAP requires the acquisition of private and state land portions both permanently and temporarily.

The bulk of the private land rights required for the pipeline servitude were acquired by means of negotiated agreements (129 land portions). The remaining five were obtained through expropriation, as agreement could not be reached in the period required to construct.

One of the major temporary land requirements for the project is access to 24 borrow pits situated at intervals along the pipeline route. TCTA acquired temporary rights to all the borrow pits for a period of three years, inclusive of a one-year rehabilitation period. Due to the extension of time granted on the two construction contracts, the project will require extended access to temporary construction areas for up to two years to complete the rehabilitation of these areas.

Human capital performance

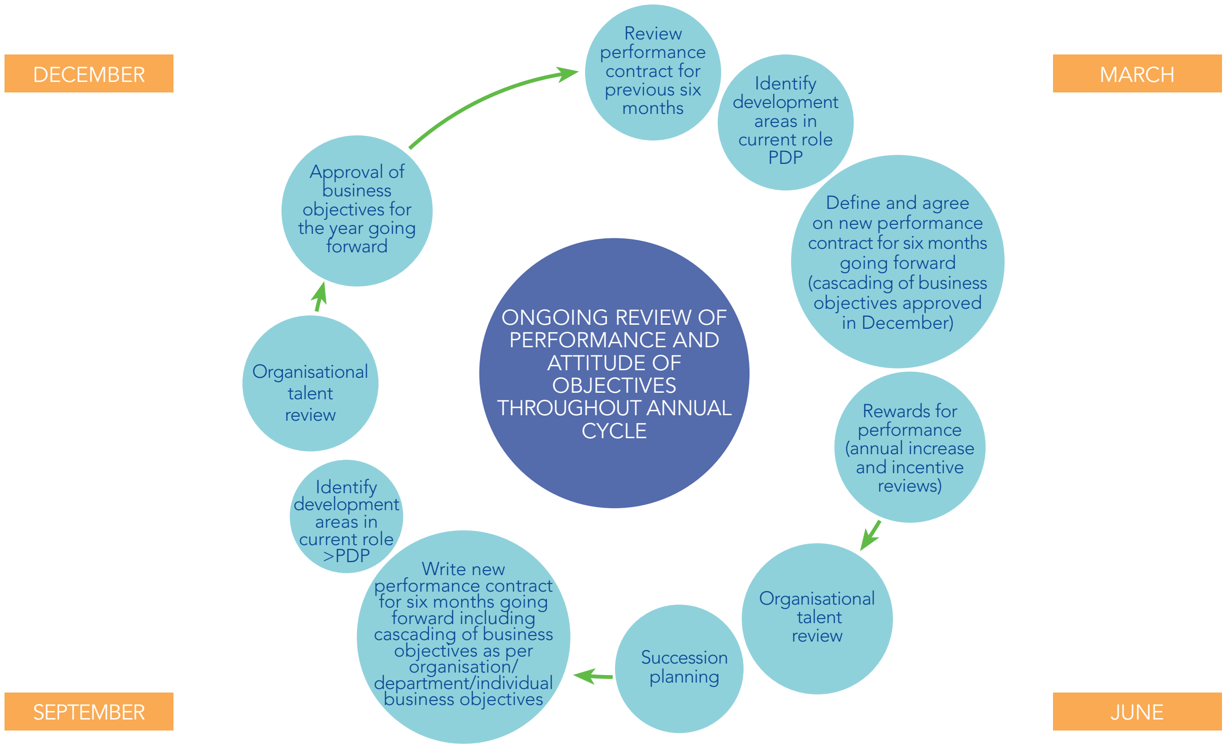
During the past year, TCTA made considerable progress in improving workforce planning strategies to better align resources with achieving the business objectives of the organisation.

Performance management process (Growing Our People)

Our annual performance management system is a vital component of our people management strategy. The performance management system is designed to encourage and reward high achievement, manage individual performance and provide a clear link for staff between their work and broader corporate goals.

In taking a strategic approach to human capital planning, we implemented a process of developing a strategic people development plan (Growing Our People). The plan identified the specific skills, development objectives, principles, responsibilities and performance measurements necessary to achieve the business outcomes and commitments outlined in the corporate plan.

Figure 13: TCTA's people development model



Learning and development

Developing the talents of all our people depends on the commitment of both the company and the individual – the company offering support, encouragement and resources, and the individual providing the motivation, time and personal dedication.

In practice, learning and development programmes are developed on a number of levels:

- Individually, as part of personal development plans to meet job and career needs.
- Functionally, to meet the needs of the business unit or function, or to support the implementation of specific projects.
- Organisationally, to address the strategic needs of the company as a whole and ensure consistent application of the processes, which operate across the company.

The number of days of instruction that TCTA people receive varies, depending on the business agenda. All units use a performance management process for staff and all have personal development plans. Assessment tools are also widely used to help people understand their strengths and development needs.

A total amount of R1 657 766 (4,33% of the payroll) was spent on internal and external training. This training included technical training, computer enhancement training, diversity and leadership training. We made the following progress in our BBBEE skills development scorecard:

- Target of 60% spend on black people
  – Achievement 70,33%
- Target of 40% on black women
  – Achievement 42,12%
- Target of 3% spend on management
  – Achievement 2,36%

Employment equity

Our employment equity programme underlines the value we place on having a diverse workforce, providing equal opportunities and engendering an inclusive working environment. Employment equity is concerned with treating employees and potential employees fairly and equitably. By valuing, cultivating and enabling cultural diversity, the talents of all employees within our organisation are leveraged for individual, team and organisational success.

The graphs on the next page show the number of employees (including employees with disabilities) by gender and race.

In addition, the new employment equity plan reflecting targets for 2008 was submitted to the Department of Labour. The increasing level of specialisation within TCTA and the addition of the Berg Water and Vaal pipeline projects necessitated an increase in the number of employees. Selected members of staff who worked in Maseru on the LHWP were redeployed to work on these projects. The employment opportunities on these projects offered development opportunities for individuals trained on the LHWP.

Sustainability (continued)

Figure 14: Number of employees by gender

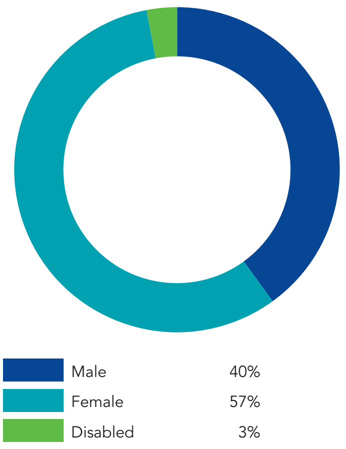
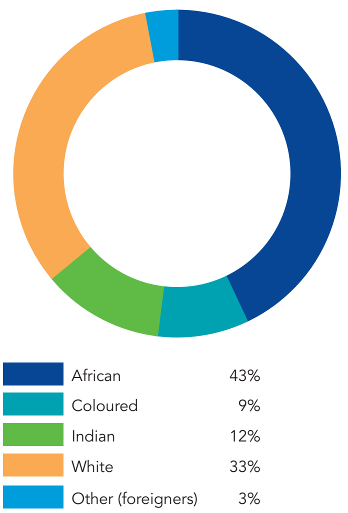


Figure 15: Number of employees by race



Social development programme

In support of the government's agenda (JIPSA) on the development of scarce and critical skills, we implemented Project Naledi. This project consists of two components, which are as follows:

- Recruitment of six graduates into specific functions of the organisation. These trainees from historically disadvantaged backgrounds (HDPs) will be developed over a period of 18 to 24 months and offered permanent employment upon completion of their respective programmes.
- Bursaries of R50 000 each per annum (10% escalation rate), which will be awarded to 10 HDPs to study in the fields of engineering; project management and finance. These students will be employed by TCTA and various project partners upon completion of their studies.

Well-being and work/life balance

We strive to help employees find options and practical ways to balance their lives inside and outside work. Most importantly, this is about finding solutions that work well for both the business and the individual. It can be difficult to have a defined policy that adequately addresses the wide range of business activities and individual needs and so we very much encourage individuals to discuss the matter with their line managers to identify the most appropriate solutions.

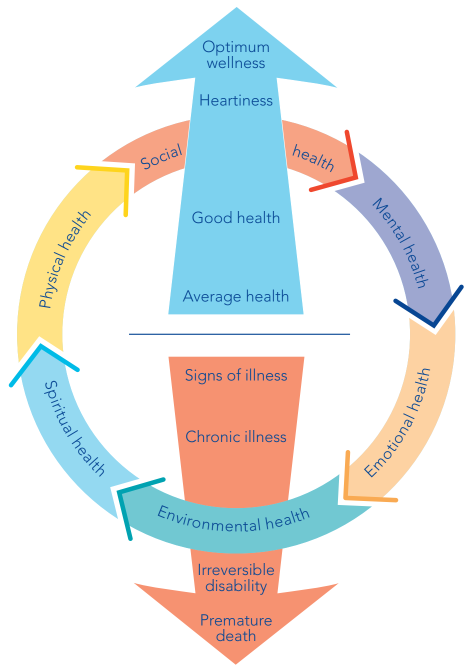
Our employee wellness programme (EWP) takes a holistic view on wellness and encourages staff to participate fully in its various elements.

Transformation framework

When we speak of transformation in TCTA's context, we refer to a change of direction on all levels within our organisation, a change not only of how we work, but how we think, interact, participate and perform. Transformation is a process upon which staff members must embark willingly, knowing that it is a journey requiring commitment, intention and full participation.

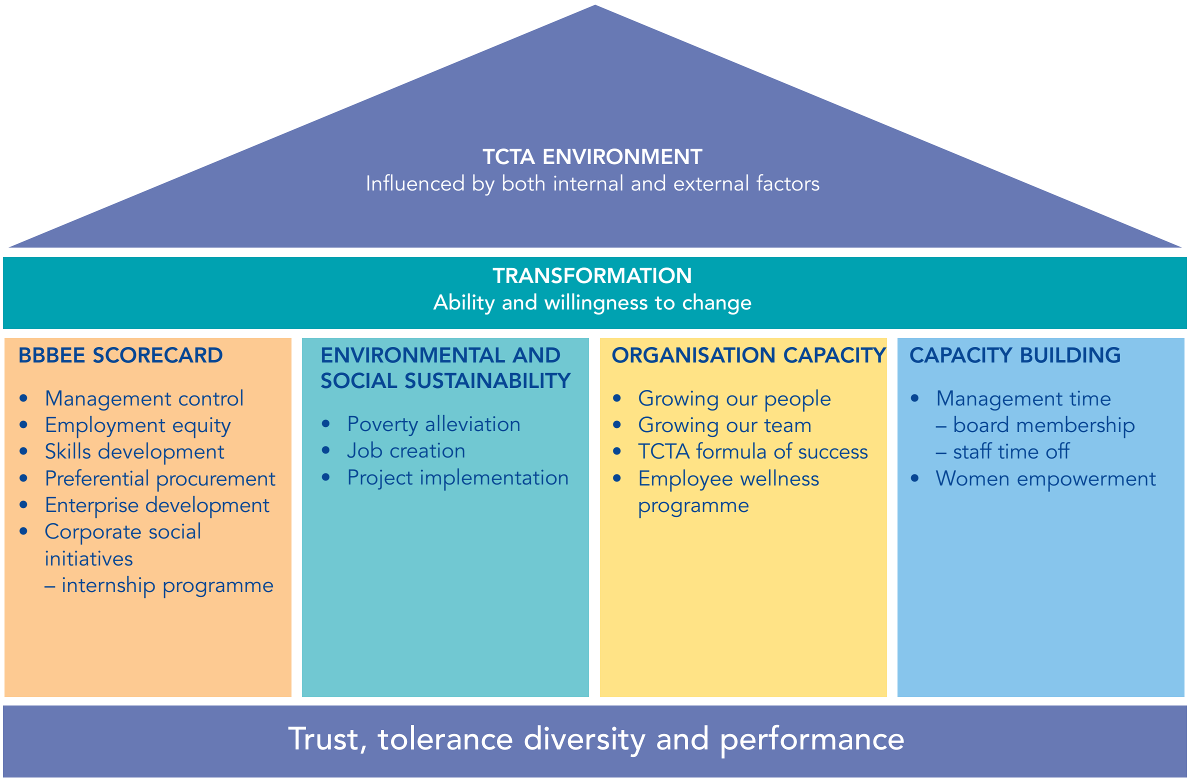
TCTA convened a forum to establish a blueprint for focus and delivery during the upcoming 12 to 36 months. The purpose of the meeting was to gain a balanced perspective of employees' performance over 12 months, to establish clear guidelines for what is to be contributed and to reach a common perspective of the challenges and opportunities facing the organisation in the years ahead. The outcome was to define, with total clarity, the priorities for action and to establish a sense of alignment and trust amongst our people.

Figure 16: TCTA's employee wellness model



Given the overall understanding and status of transformation at TCTA, various matters were debated and the conclusions for inclusion in the overall organisational strategy are summarised in the diagram below:

Figure 17: Elements of TCTA's Transformation Framework (inclusive of the BBBEE)



Project updates
Lesotho Highlands Water Project

The economic heartland of South Africa is located in the Vaal River water supply area, which is augmented by a constant stream of water from the Lesotho Highlands Water Project (LHWP). The LHWP therefore contributes to the sound functioning of the national economy.

Phase 1

Phase 1 of the Lesotho Highlands Water Project – was constructed in two subphases such as:

- Phase 1A comprised Katse Dam, the 45 km transfer tunnel, Muela Dam and hydropower station and the 37 km delivery tunnel.
- Phase 1B comprised the Mohale Dam and tunnel to Katse Dam and the Matsoku diversion weir and tunnel, also to Katse Dam.

Phase 1 of the project currently delivers 780 million m^3 of water annually to South Africa and generates 72 MW of electricity, mainly for use by Lesotho.

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

Possible future phases

Existing supplies from the Vaal River System are constantly being reviewed. The Phase 2 feasibility study for the LHWP has been conducted jointly with Lesotho over a period of some two years and the final report is expected by August 2008.

There are currently two options under consideration to further augment the Vaal River System: Phase 2 of the LHWP and the Thukela Water Project.

The Department of Water Affairs is conducting a comparative study to update the projected costs of the Thukela Water Project in order to be able to make a fair comparison between the two projects. This study is scheduled for completion early in April 2009. The department will then be able to recommend which option to be implemented.

Project updates (continued)

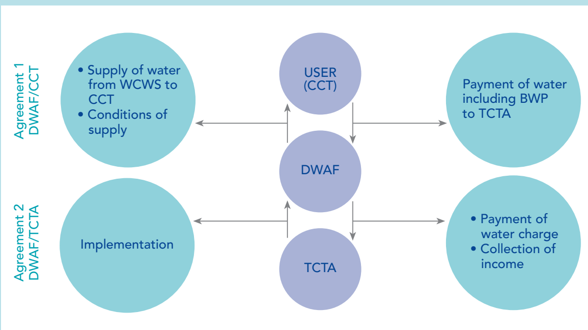
Berg Water Project

Project profile

The BWP comprises the Berg River Dam and supplement scheme located in the upper reaches of the Berg River near Franschhoek, Western Cape.

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

Figure 18: Implementation agreements



Project components

Dam

• Full supply level	250 m above sea level
• Surface area	488 ha
• Type	Concrete-face rockfill dam (CFRD)
• Gross storage capacity	130 million m^3
• Net storage capacity	129,4 million m^3
• Maximum dam height	63 m (67 m including foundation)
• Length of dam wall	929 m
• Spillway	Side channel
• Volume rockfill	3,3 million m^3
• Multi-level inlet tower	63 m

Supplement scheme

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

• Diversion weir across Berg River	1,36 m
• Balancing dam	4 ha
• Pump station	4 m^3/second
• Pipelines	12 km

Infrastructure

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

Project update

Schedule

The project reached a major milestone when impoundment of the Berg River Dam commenced on schedule in July 2007 and was in a position to deliver water by December 2007.

Budget

The anticipated final cost of BWP is R1 553 billion, which is well within the budget originally approved in the implementation agreements.

Progress update

Table 26: Project status (31 March 2008)

Project components **Berg River Dam**	**%** **complete**
Overall completion	99
Rock-fill embankment	100
Concrete-face slab	100
Intake tower (concrete structure)	100
Intake tower (mechanical and electrical)	99
Spillway	100
Supplement scheme	
Overall completion	99
Diversion weir	100
Abstraction works	100
Balancing dam	100
Drakenstein pump station	99
Dasbos pump station	100
Pipelines	
Pipeline (Drakenstein pump station to Berg River Dam)	100

Project updates (continued)

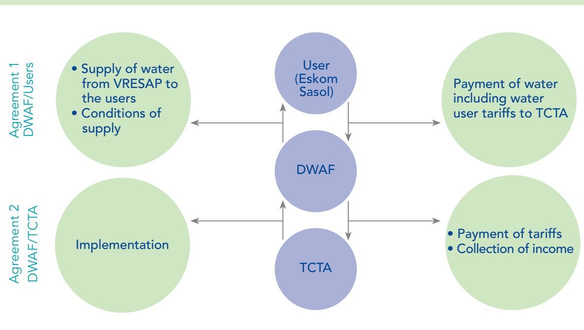
Vaal River Eastern Subsystem Augmentation Project

Project profile

The VRESAP involves the installation of a system to convey raw water 121 km from the Vaal Dam to the Secunda area.

The VRESAP is governed by two agreements: an implementation agreement between DWAF and TCTA and a raw water supply agreement between DWAF, Eskom and Sasol.

Figure 19: Implementation agreements



Project components

The components of the project include the following:

- Abstraction works, including a low-lift pump station
- Dual-purpose balancing dam and desilting works
- High-lift pump station 5,4 m^3/s
- Temporary abstraction works 5,4 m^3/s
- Upgraded diversion structure at Knoppiesfontein
- Surge tank at the highest point along the pipeline route 10 000 m^3
- Central control room at Grootdraai Dam
- Pipeline 1 900 mm nominal diameter 115 km
  1 200 mm nominal diameter 6 km
- Air ventilation valves and scour chambers

Project update

Schedule

The directive from DWAF specified that all reasonable steps must be taken to complete the project in time to commence water delivery by 31 July 2007.

Due to unforeseen delays, the commissioning date for this project has moved to September 2008. 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 were the main reasons for the delay in the completion date.

Although the abstraction works will only be completed in January 2010, the rest of the works are scheduled to start water delivery in December 2008. This will be achieved by the construction of a temporary pump station.

Budget

VRESAP project costs at completion are expected to be within the revised approved project budget of R2,7 billion.

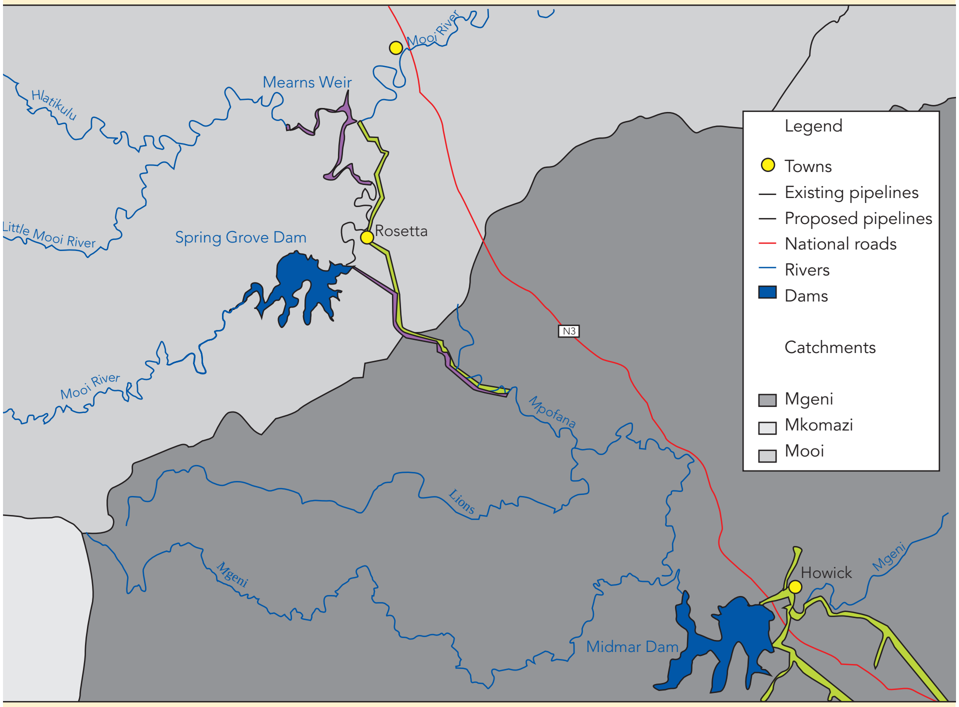
Progress update

Table 27: Project status (31 March 2008)

Project components 121 km pipeline supply and installation	**% complete**
Site establishment	100
Manufacture of pipes	100
Pipes delivered to site	100
Trench excavation	100
Pipes welded and trench backfilled	100
Construction of civil structures and mechanical, electrical instrumentation and piping components	
Site establishment	100
Manufacture of pumps and motors	100
Abstraction works including the low-lift rising main	25
Temporary abstraction works	60
High-lift pump station	90
Balancing dam/desilting works	90
Surge tank	85
Diversion structure at Knoppiesfontein	80

Project updates (continued)

Mooi-Mgeni Transfer Scheme Phase 2



Project profile

The MMTS-2 involves the augmentation of the existing transfer scheme, into the Mgeni River catchment, so as to increase the yield from the Mooi River from 55 to 115 million m^3/annum.

The water will benefit three municipalities, in particular the eThekwini Metropolitan Municipality, uMgungundlovu District Municipality and Msunduzi Local Municipality.

The scheme has a particular urgency as the assurance of supply has dropped to below 95% (ie the system is likely to fail to supply water to the users once in every 20 years), which is unacceptably low for the area. There is a 5% possibility that such failure may occur next year, or in any year thereafter, in which case it may be necessary to impose severe water restrictions on water users as occurred during the 2003/04 rainy season.

It is, therefore, necessary to augment the supply to restore the level of assurance to 99% and to cater for future growth.

Project components

The project has four components:

1) A dam approximately 8 km upstream of the confluence of the Mooi and Little Mooi Rivers in the province of KwaZulu-Natal. The dam is to have a storage of 1,2 times the Mean Annual Runoff (MAR).
2) A scheme capable of transferring 115 million m^3 per annum into the Mgeni system. The scheme is to incorporate the existing Phase 1 components, which comprises of:
   a. An 8 m high weir at Mearns;
   b. A pump station with a maximum capacity of 3,2 m^3/s;
   c. A rising main to a balancing tank at Nottingham Road; and
   d. A gravity line, which discharges into the Mpofana River. The Mpofana River has a maximum receiving capacity of 4,5 m^3/s.

This scheme operates when there is water available in the Mooi River, Mearns Weir having negligible storage capacity.

3) Three gauging stations with the following purposes:

a. On the Little Mooi River, upstream of the confluence with the Hlatikulu River so that the freshnet releases from the Spring Grove Dam can be synchronised with natural events in the Little Mooi River.

b. Down stream of the Spring Grove Dam to ensure that the Instream Flow Requirements (IFR) are met.

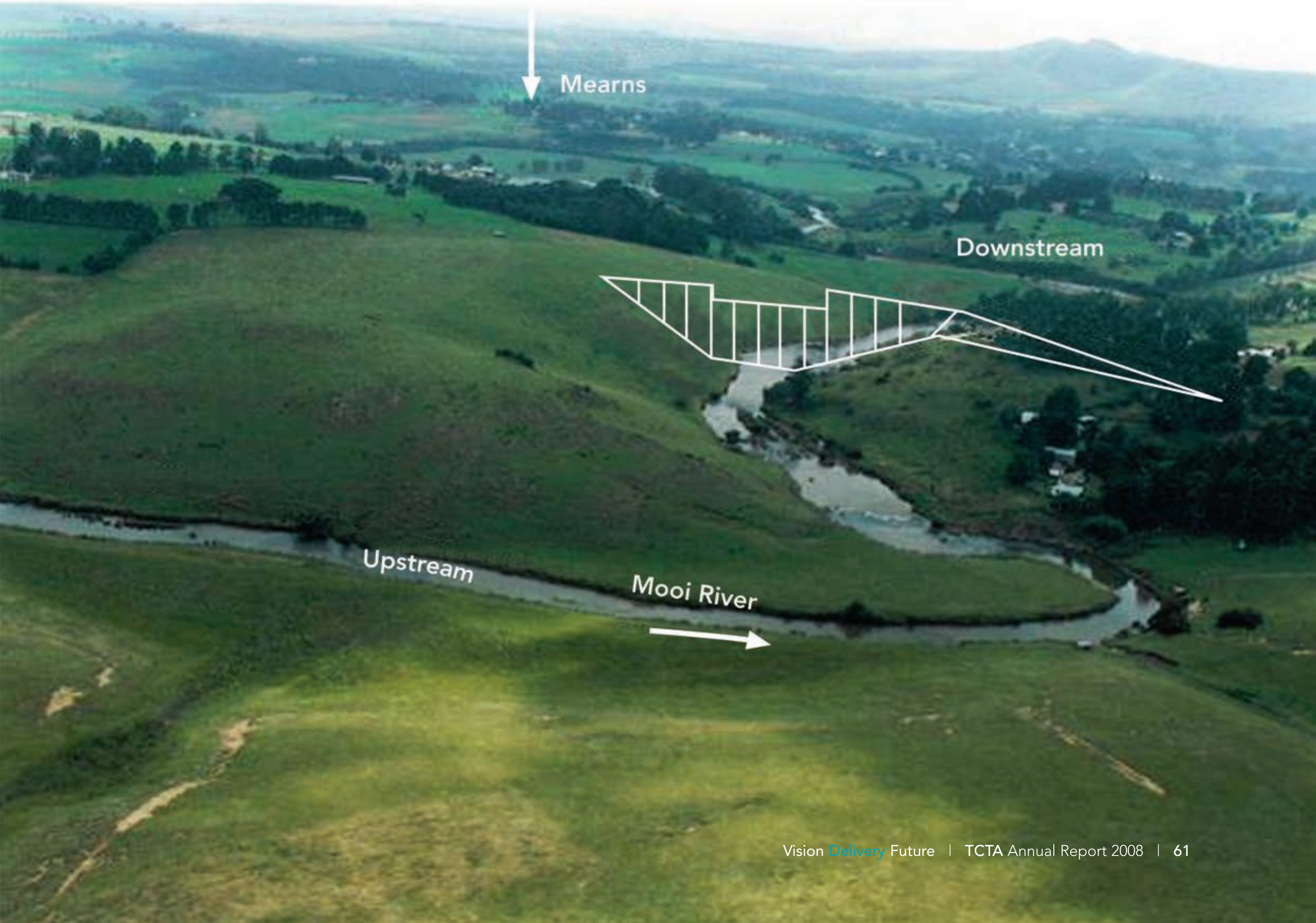
c. On the receiving stream in the Mgeni catchment to ensure that the maximum capacity of the receiving stream is not exceeded.

4) A fish barrier upstream of the tail waters' of the dam to prevent the upstream migration of Smallmouthed Bass.

Project update

On 29 November 2007, the Minister mandated TCTA to fund and implement this project. 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 from the scheme.

Construction is expected to commence early 2010 and water delivery is expected to commence by mid-2012 with project debt repayment by 2032.



Project updates (continued)

Advisory services

Komati Water Scheme Augmentation Project (KWSAP)

The project involves the extended Rietfontein pump station to transfer 1,6 m^3 of water per second through a new 50 km pipeline to the Duvha and Matla Power Station. TCTA is advising DWAF on the implementation options and is expected to be directed to fund and implement the project.

Olifants River Water Resource Development Project (ORWRDP)

The project comprises the implementation of the De Hoop Dam on the Steelpoort River in the short term and bulk distribution systems in the middle Olifants River catchment in the medium to longer term as the need for water services and mining increase.

The De Hoop Dam is the only feasible option to supply water to the Nebo Plateau. In this area, the vast majority of people have insufficient access to potable water due to the general scarcity of water.

Currently TCTA has an advisory mandate to assist in the institutional arrangements and compiling the funding strategy for the project.

DWAF is in the final stages in issuing the implementation and funding mandate for the bulk distribution system. TCTA will source the funding for the commercial portion of the project in the private sector on the basis of off-budget funding. The social portion of the project will be funded by the government to assist in socially uplifting the area.

Water resources

The water resources portion of the project will be implemented in nine phase (ORWRDP Phase 2A to 2I,) each phase requiring sufficient offtake agreements before implementation will commence (subject to the approval of the Minister of Water Affairs and Forestry).

Initial government funding has been obtained for Phase 2A (De Hoop Dam) and construction of the dam started in July 2007 by DWAF. The Memorandum of Agreement (MoA) was concluded between DWAF and various mines for the funding and implementation of water infrastructure for the needs of the mining, commercial and social users located in the project area. Signing is scheduled to take place on 26 May 2008.

Currently an offtake agreement (based on the MoA principles) is being drafted and due to be signed in the third quarter of 2008.

Water services

In addition to government committing to funding the Phase 2A, the National Treasury has allocated an amount of R1 500 million towards water services of which a portion will be allocated to this project's water services infrastructure. Detailed funding and implementation strategies are being drafted.

Crocodile-Mokolo transfer

TCTA expects to be approached by DWAF in future to become involved in advising and possibly implementing and funding this project.

Water boards

TCTA also provided assistance to various water boards and municipalities and advised on tariffing and debt management principles. These include Mhlatuze Water Board, Johannesburg Water, Rand Water, Umgeni Water and others.


MORRIS

Annual financial statements

Contents

Responsibility of directors for the annual financial statements	66
The audit and risk committee's report	67
Independent auditor's report	68
Balance sheet	70
Segmental balance sheet	71
Income statement	72
Segmental income statement	73
Statement of changes in equity	74
Cash flow statement	75
Notes to the cash flow statement	76
Segmental cash flow statement	77
Notes to the segmental cash flow statement	78
Notes to the annual financial statements	79

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 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.

The financial statements were approved by the Board of Directors on 19 June 2008 and are signed on its behalf by the Chairman and Chief Executive Officer.

Dr Snowy Khoza
Chairperson

Londiwe Mthembu
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 2008, 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.

Thotanyana LF

Lebohang Thotanyana
Chairman: Audit and Risk Committee

Independent auditor's report

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

We have audited the annual financial statements of Trans-Caledon Tunnel Authority (TCTA), which comprise the balance sheet as at 31 March 2008, the income statement, the statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 70 to 125.

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 the manner required by the Public Finance Management Act, Act 1 of 1999. 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.

Auditor's 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 section 27 and 28 of the Public Audit Act, Act 25 of 2004 have been compiled 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 2008, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards, and in the manner required by the Public Finance Management Act, Act 1 of 1999, as amended, and the Public Audit Act, Act 25 of 2004.

In our opinion the performance information of TCTA set out on pages 23 to 33 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 2008 against predetermined objectives and is, where applicable, consistent with that of the preceding year.

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

Deloitte & Touche

Deloitte & Touche

Per Mgcinisihlalo Jordan
Partner
25 July 2008

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Balance sheet

as at 31 March 2008

	Notes	Total 2008 R million	Total 2007 R million
Assets			
Non-current assets		**19 677**	18 256
Property, plant and equipment	6	5 461	4 394
Intangible asset	7	13 073	13 132
Investment property	8	15	4
Long-term financial market investments	9.3	1 114	725
Derivative financial instruments	9.3	14	1
Current assets		**1 276**	846
Loans and other receivables	10	397	615
Derivative financial instruments	9.3	2	1
Short-term financial market investments	9.3	794	16
Prepaid expenditure	11	70	153
Non-contractual amounts	15	13	61
Cash and cash equivalents*		–	–
Total assets		**20 953**	19 102
Equity and liabilities			
Reserves and deficit		**(3 551)**	(3 369)
Non-distributable reserves	12	121	141
Cumulative deficit	13	(3 672)	(3 510)
Total equity		**(3 551)**	(3 369)
Liabilities			
Non-current liabilities		**21 966**	19 979
Long-term financial market liabilities	9.3	21 694	19 602
Long-term liabilities	17	227	242
Derivative financial instruments	9.3	45	135
Current liabilities		**2 538**	2 492
Trade and other payables	14	688	934
Non-contractual amounts	15	51	54
Provisions	16	3	3
Derivative financial instruments	9.3	27	38
Short-term liabilities	9.3	1 769	1 463
Total liabilities		**24 504**	22 471
Total equity and liabilities		**20 953**	19 102

The notes on pages 79 to 125 are an integral part of these financial statements.

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

Segmental balance sheet

as at 31 March 2008

	Notes	LHWP[1] 2008 R million	BWP[2] 2008 R million	VRESAP[3] 2008 R million	Total 2008 R million	Total 2007 R million
Assets						
Non-current assets		16 280	1 128	2 269	19 677	18 256
Property, plant and equipment	6	2 064	1 128	2 269	5 461	4 394
Intangible asset	7	13 073	–	–	13 073	13 132
Investment property	8	15	–	–	15	4
Long-term financial market investments	9.3	1 114	–	–	1 114	725
Derivative financial instruments	9.3	14	–	–	14	1
Current assets		1 254	7	15	1 276	846
Loans and other receivables	10	397	–	–	397	615
Derivative financial instruments	9.3	2	–	–	2	1
Short-term financial market investments	9.3	794	–	–	794	16
Prepaid expenditure	11	61	4	5	70	153
Non-contractual amounts	15	–	3	10	13	61
Cash and cash equivalents*		–	–	–	–	–
Total assets		17 534	1 135	2 284	20 953	19 102
Equity and liabilities						
Reserves and deficit		(3 456)	(53)	(42)	(3 551)	(3 369)
Non-distributable reserves	12	121	–	–	121	141
Cumulative deficit	13	(3 577)	(53)	(42)	(3 672)	(3 510)
Total equity		(3 456)	(53)	(42)	(3 551)	(3 369)
Liabilities						
Non-current liabilities		18 959	961	2 046	21 966	19 979
Long-term financial market liabilities	9.3	18 687	961	2 046	21 694	19 602
Long-term liabilities	17	227	–	–	227	242
Derivative financial instruments	9.3	45	–	–	45	135
Current liabilities		2 031	227	280	2 538	2 492
Trade and other payables	14	560	40	88	688	934
Non-contractual amounts	15	51	–	–	51	54
Provisions	16	3	–	–	3	3
Derivative financial instruments	9.3	27	–	–	27	38
Short-term liabilities	9.3	1 390	187	192	1 769	1 463
Total liabilities		20 990	1 188	2 326	24 504	22 471
Total equity and liabilities		17 534	1 135	2 284	20 953	19 102

The notes on pages 79 to 125 are an integral part of these financial statements.

* *Financial statements are rounded to the nearest million. Where balances are nil, 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.*

Income statement

for the year ended 31 March 2008

	Notes	Total 2008 R million	Total 2007 R million
Revenue	18	2 088	1 951
Other income*	19	1	–
Expenses		(492)	(500)
Legal fees and litigation costs		(1)	(4)
Other reversals of provisions		6	–
Depreciation and amortisation		(35)	(96)
Operating costs for the work in Lesotho		(66)	(68)
Lesotho Highlands Water Commission (LHWC) costs		(8)	(6)
Staff costs		(57)	(37)
Directors' emoluments	22.1	(9)	(3)
Royalties paid	21	(302)	(264)
Other operating expenses	22	(20)	(22)
Operating surplus		1 597	1 451
Net finance costs		(1 759)	(1 565)
Finance income	20.1	451	455
Finance costs	20.2	(2 210)	(2 020)
Deficit for the year		(162)	(114)

The notes on pages 79 to 125 are an integral part of these financial statements.

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

Segmental income statement

for the year ended 31 March 2008

	Notes	LHWP 2008 R million	BWP 2008 R million	VRESAP 2008 R million	Advisory services[4] 2008 R million	Total 2008 R million	Total 2007 R million
Revenue	18	2 087	–	–	1	2 088	1 951
Other income*	19	1	–	–	–	1	–
Expenses		(446)	(21)	(24)	(1)	(492)	(500)
Legal fees and litigation costs		(1)	–	–	–	(1)	(4)
Other reversals of provisions		6	–	–	–	6	–
Depreciation and amortisation		(35)	–	–	–	(35)	(96)
Operating costs for the work in Lesotho		(66)	–	–	–	(66)	(68)
Lesotho Highlands Water Commission (LHWC) costs		(8)	–	–	–	(8)	(6)
Staff costs		(56)	–	–	(1)	(57)	(37)
Directors' emoluments	22.1	(9)	–	–	–	(9)	(3)
Royalties paid	21	(302)	–	–	–	(302)	(264)
Other operating expenses	22	25	(21)	(24)	–	(20)	(22)
Operating surplus/(deficit)		1 642	(21)	(24)	–	1 597	1 451
Net finance costs		(1 759)	–	–	–	(1 759)	(1 565)
Finance income	20.1	451	–	–	–	451	455
Finance costs	20.2	(2 210)	–	–	–	(2 210)	(2 020)
Deficit for the year		(117)	(21)	(24)	–	(162)	(114)

The notes on pages 79 to 125 are an integral part of these financial statements.

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

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

Statement of changes in equity

for the year ended 31 March 2008

	Non-distributable reserves Revaluation reserve R million	Cumulative deficit R million	Total recognised income and expense for the year[5] R million
Opening balance as at 1 April 2006	41	(3 398)	(3 357)
Amounts released to deficit during the year	–	–	–
Total income and expenses recognised during the year	112	(114)	(2)
Revaluation of depreciable portion of construction works in South Africa	112	–	112
Net deficit for the year		(114)	(114)
Accumulated depreciation adjusted against non-distributable reserve	(10)	–	(10)
Realisation of revaluation surplus	(2)	2	–
Balance as at 31 March 2007	141	(3 510)	(3 369)
Opening balance at 1 April 2007	141	(3 510)	(3 369)
Amounts released to deficit during the year	–	–	–
Total income and expenses recognised during the year	(24)	(162)	(186)
Reversal of revaluation	(24)	–	(24)
Net deficit for the year	–	(162)	(162)
Accumulated depreciation adjusted against non-distributable reserve	5	–	5
Realisation of revaluation surplus	(1)	–	(1)
Balance as at 31 March 2008	121	(3 672)	(3 551)

The notes on pages 79 to 125 are an integral part of these financial statements.

[5] *This relates to the income and expenses recognised in both the income statement as well as equity.*

Cash flow statement

for the year ended 31 March 2008

	Notes	Total 2008 R million	Total 2007 R million
Cash flow from operating activities			
Cash receipts from customers		2 298	1 954
Cash paid to suppliers and employees		(746)	(352)
Cash generated from project activities	A	1 552	1 602
Interest paid	C	(2 112)	(1 841)
Net cash outflow from operating activities		(560)	(239)
Cash flow from investing activities			
Payments to acquire financial assets		(1 071)	(712)
Proceeds on the sale of financial assets		16	–
Interest received	B	23	57
Removed from enduring benefit		–	62
Capitalised to works in South Africa		(821)	(1 545)
Addition of other assets		(1)	(2)
Purchase of investment property		(12)	–
Net cash outflow from investing activities		(1 866)	(2 140)
Cash flow from financing activities			
Proceeds from long-term borrowings		2 945	3 132
Repayments on long-term borrowings		(532)	(306)
Proceeds from short-term borrowings		875	483
Repayments on short-term borrowings		(862)	(931)
Net cash inflow from financing activities		2 426	2 378
Net decrease in cash and cash equivalents		–	(1)
Cash and cash equivalents* at beginning of period		–	1
Cash and cash equivalents* at end of period	D	–	–

The notes on pages 79 to 125 are an integral part of these financial statements.

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

Notes to the cash flow statement

for the year ended 31 March 2008

	Total 2008 R million	Total 2007 R million
A. Cash generated from project activities		
Net deficit for the year	(162)	(114)
Adjustments for non-cash flow items and amounts separately disclosed:		
Depreciation on non-current assets	35	96
Transfer of NDR to retained earnings	(1)	–
Finance cost recognised in profit or loss	1 780	1 548
Net foreign exchange gains	(122)	(121)
Net foreign exchange losses	101	139
Changes in working capital		
(Increase)/decrease in trade and other receivables	41	(130)
Decrease in prepayments	85	115
(Decrease)/increase in payables and provisions (excluding interest payable)	(218)	70
Non-cash flow item in accounts receivable	17	–
Non-cash flow item in accounts payable	(4)	(1)
Cash generated from project activities	1 552	1 602
B. Interest received		
Amount due at the beginning of the year	25	–
Income during the year adjusted for non-cash items	134	82
Amount received	329	334
Loan premium amortised	(95)	(66)
Transfer to funding portfolio	(100)	–
Interest on GOL cost allocation liability	–	(186)
Amount due at the end of the year	(136)	(25)
Interest received	23	57
C. Interest paid		
Amount not paid at the beginning of the year	(498)	(401)
Expensed during the year adjusted for non-cash items	(2 117)	(1 938)
Amount expensed	(2 377)	(2 008)
Less: Loan discount amortised	15	13
Foreign loan payments	(4)	(4)
Loss on cancellation of FECs (provision)	–	(41)
Non-cash interest on zero coupons	9	–
Transfer to redemption portfolio	100	–
Capital adjustment to inflation-linked liability	54	33
Concessionary portion – on EIB loan	5	5
Non-cash interest on zero coupons	–	49
Non-cash interest on asset swaps	–	7
Interest capitalised	117	41
Cash flow in cum/ex dividend reflected under cash flow from financing activities	(36)	(33)
Amount not paid at the end of the year	503	498
Interest paid	(2 112)	(1 841)
D. Cash and cash equivalents at end of period		
Cash and cash equivalents* consist of cash on hand and balances with banks.		

The notes on pages 79 to 125 are an integral part of these financial statements.

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

Segmental cash flow statement

for the year ended 31 March 2008

	Notes	LHWP 2008 R million	BWP 2008 R million	VRESAP 2008 R million	Total 2008 R million	Total 2007 R million
Cash flow from operating activities						
Cash receipts from customers		2 156	142	–	**2 298**	1 954
Cash paid to suppliers and employees		(467)	(213)	(66)	**(746)**	(352)
Cash generated from project activities	A	1 689	(71)	(66)	**1 552**	1 602
Interest paid	C	(1 957)	(114)	(41)	**(2 112)**	(1 841)
Net cash outflow from operating activities		(268)	(185)	(107)	**(560)**	(239)
Cash flow from investing activities						
Payments to acquire financial assets		(1 071)	–	–	**(1 071)**	(712)
Proceeds on the sale of financial assets		–	–	16	**16**	–
Interest received	B	23	–	–	**23**	57
Removed from enduring benefit		–	–	–	**–**	62
Capitalised to works in South Africa		–	(127)	(694)	**(821)**	(1 545)
Addition of other assets		(1)	–	–	**(1)**	(2)
Purchase of investment property		(12)	–	–	**(12)**	–
Net cash outflow from investing activities		(1 061)	(127)	(678)	**(1 866)**	(2 140)
Cash flow from financing activities						
Proceeds from long-term borrowings		1 978	274	693	**2 945**	3 132
Repayments on long-term borrowings		(532)	–	–	**(532)**	(306)
Proceeds from short-term borrowings		597	131	147	**875**	483
Repayments on short-term borrowings		(714)	(93)	(55)	**(862)**	(931)
Net cash inflow from financing activities		1 329	312	785	**2 426**	2 378
Net decrease in cash and cash equivalents*		–	–	–	**–**	(1)
Cash and cash equivalents* at beginning of period		–	–	–	**–**	1
Cash and cash equivalents at end of period	D	–	–	–	**–**	–

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

Notes to the segmental cash flow statement

for the year ended 31 March 2008

	LHWP 2008 R million	BWP 2008 R million	VRESAP 2008 R million	Total 2008 R million	Total 2007 R million
A. Cash generated from project activities					
Net deficit for the year	(117)	(21)	(24)	(162)	(114)
Adjustments for non-cash flow items and amounts separately disclosed:					
Depreciation on non-current assets	35	–	–	35	96
Transfer of NDR to retained earnings	(1)	–	–	(1)	–
Finance cost recognised in profit or loss	1 780	–	–	1 780	1 548
Net foreign exchange gains	(122)	–	–	(122)	(121)
Net foreign exchange losses	101	–	–	101	139
Changes in working capital:					
(Increase)/decrease in trade and other receivables	29	12	–	41	(130)
(Increase)/decrease in other assets	(12)	6	6	–	–
Decrease/(increase) in prepayments	(21)	2	104	85	115
Increase in payables and provisions (excluding interest payable)	4	(70)	(152)	(218)	70
Non-cash flow item in accounts receivable	17	–	–	17	–
Non-cash flow item in accounts payable	(4)	–	–	(4)	(1)
Cash generated from project activities	1 689	(71)	(66)	1 552	1 602
B. Interest received					
Amount due at the beginning of the year	25	–	–	25	–
Income during the year adjusted for non-cash items	134	–	–	134	82
Amount received	329	–	–	329	334
Loan premium amortised	(95)	–	–	(95)	(66)
Transfer to funding portfolio	(100)	–	–	(100)	–
Interest on GOL cost allocation liability	–	–	–	–	(186)
Amount due at the end of the year	(136)	–	–	(136)	(25)
Interest received	23	–	–	23	57
C. Interest paid					
Amount not paid at the beginning of the year	(478)	(16)	(4)	(498)	(401)
Expensed during the year adjusted for non-cash items	(1 965)	(101)	(51)	(2 117)	(1 938)
Amount expensed	(2 108)	(101)	(168)	(2 377)	(2 008)
Less: Loan discount amortised	15	–	–	15	13
Foreign loan payments	(4)	–	–	(4)	(4)
Loss on cancellation of FECs (provision)	–	–	–	–	(41)
Non-cash interest on zero coupons	9	–	–	9	–
Transfer to redemption portfolio	100	–	–	100	–
Capital adjustment to inflation-linked liability	54	–	–	54	33
Concessionary portion – on EIB loan	5	–	–	5	5
Non-cash interest on zero coupons	–	–	–	–	49
Non-cash interest on asset swaps*	–	–	–	–	7
Interest capitalised	–	–	117	117	41
Cash flow in cum/ex dividend reflected under cash flow from financing activities	(36)	–	–	(36)	(33)
Amount not paid at the end of the year	486	3	14	503	498
Interest paid	(1 957)	(114)	(41)	(2 112)	(1 841)
D. Cash and cash equivalents at end of period					
Cash and cash equivalents consist of cash on hand and balances with banks.					

The notes on pages 79 to 125 are an integral part of these financial statements

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

Notes to the annual financial statements

for the year ended 31 March 2008

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 1st Floor, Tuinhof Building, 265 West Avenue, Centurion.

2. Basis of preparation

The annual financial statements have been prepared under the historical cost convention, except for the revaluation of the works in South Africa as well as certain financial instruments, which are stated at fair value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS), requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying TCTA's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in note 25.

3. Adoption of new and revised standards

3.1 Standards, amendments and interpretations effective in the current period

- IFRS 7: In the current year, TCTA has adopted IFRS 7 *Financial Instruments*: Disclosures, which is effective for annual reporting periods beginning on or after 1 January 2007, and the consequential amendments to IAS 1: *Presentation of Financial Statements*.

The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding TCTA's financial instruments and management of capital (refer note 9.1).

Four interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current year. The adoption of these interpretations has not led to any changes in TCTA's accounting policies.

- IFRIC 8: *Scope of IFRS 2*: Effective for annual periods beginning on or after 1 May 2007.
- IFRIC 9: *Reassessment of Embedded Derivatives*: Effective for annual periods beginning on or after 1 June 2007.
- IFRIC 10: *Interim Financial Reporting and Impairment*: Effective for annual periods beginning on or after 1 November 2007.
- IFRIC 11: IFRS 2: *Group and Treasury Share Transactions* (effective 1 March 2007).

3.2 Early adoption of standards and interpretations

- IAS 23: *Borrowing Costs*: Effective for annual periods beginning on or after 1 July 2009.

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

- IFRS 8 is a disclosure standard, which has resulted in the disclosure of additional reportable segment information, but has had no impact on the reported results or the financial position of TCTA.

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

At the date of authorisation of these financial statements, other than the standards and interpretations adopted by TCTA in advance of their effective dates (as described in 3 above) the following interpretations were in issue but not yet effective:

- IAS 1: *Presentation of Financial Statements*: Effective for annual periods beginning on or after 1 January 2009 (as revised in February 2008).
- IFRS 3: *Business Combinations*: Effective for annual periods beginning on or after 1 July 2009. The revised standard was issued in January 2008.
- IFRIC 12: *Service Concession Arrangements* (effective 1 January 2008).
- IFRIC 10: *Interim Financial Reporting and Impairment*: The limit on a defined benefit asset, minimum funding requirements and their interaction. Effective for annual periods beginning on or after 1 January 2008.

4. Significant accounting policies

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

Notes to the annual financial statements continued

for the year ended 31 March 2008

4. Significant accounting policies (continued)

4.1 Property, plant and equipment

Land

Land did not depreciate 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.

During construction

- Contract costs and directly attributable overheads are only capitalised when certified progress reports or reasonable estimates of work performed are received in accordance with IAS 16: *Property, Plant and Equipment*.
- Interest and finance charges, which are as 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*.

Lesotho Highlands Water Project (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.

Berg Water Project (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[6].
- 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 revaluation exercise.

[6] *The Treaty refers to the treaty signed between the South African Government and the Government of Lesotho dated 24 October 1986.*

BWP and 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 revaluation exercise.

Furniture, vehicles, computer and office equipment

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

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

Leasehold improvements

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

Disposals of property, plant and equipment

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

4. Significant accounting policies (continued)

4.2 Intangible asset

Enduring benefit

In terms of the Treaty[6], South Africa is responsible by way of cost-related payments, as defined in the Treaty[6], for the liabilities incurred by the Lesotho Highlands Development Authority (LHDA) in respect of the water delivery component of the LHWP. TCTA is responsible for making these cost-related payments on behalf of the South African Government. 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 10% 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.

During construction

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

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 10% of the construction costs, which is amortised over an estimated useful life of 45 years (in terms of the National Water Pricing Strategy), based on deliverable volumes of water per annum, in accordance with the Treaty[6].

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.

[6] *The Treaty refers to the treaty signed between the South African Government and the Government of Lesotho dated 24 October 1986.*

4.3 Investment property

LHWP

Investment property, comprising houses at Kgubetswana and a building in Pietersdal were initially acquired for use during construction. Post-construction, the houses at Kgubetswana have been rented out to the local community and will continue as such until a disposal strategy has been finalised. The Pietersdal property was in the process of being transferred to the Free State Department of Education, however, this donation was subsequently turned down by the department.

During the 2007/08 financial year, the Lesotho Highlands Development Authority (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 the 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 assets' carrying value exceeds its estimated recoverable amount.

* *Currency of Lesotho is Maloti. Exchange rate is M1: ZAR1.*

4. Significant accounting policies (continued)

4.4 Impairment of assets (continued)

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 in a arm's length transaction between knowledgeable and willing parties. Therefore, the value in use will be deemed to be its recoverable amount.

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

LHWP

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

BWP AND VRESAP

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

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

4. Significant accounting policies (continued)

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

- 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

This is the short-term portion of the long-term financial market investments which mature in less than 12 months from the balance sheet date.

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) 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.

4. Significant accounting policies (continued)

Impairment of financial assets (continued)

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

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, it 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, it 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'.

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

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's 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.

4. Significant accounting policies (continued)

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. Borrowing transactions are offset against the short-term portion of the locally issued bonds as the transactions in the borrowings in substance results 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's derecognises financial liabilities when, and only when, TCTA's obligations are discharged, cancelled or they 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.

4. Significant accounting policies (continued)

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[6] 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 behalf of the South African Government.

[6] *The Treaty refers to the treaty signed between the South African Government and the Government of Lesotho dated 24 October 1986.*

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

BWP

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

Umgeni Water

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

Olifants River Water Resource Development Programme

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

4. Significant accounting policies (continued)

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 four 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

These four segments consist of the different projects that TCTA have been mandated with. TCTA provides various services to its customers such as liability management, treasury management services as well as project implementation. The advisory services include Umgeni Water, Olifants River Water Resource Development Project (ORWRDP), Spring Grove Dam, Impala Water User Association and the costs incurred in set up of the National Water Resource Infrastructure Agency. TCTA received a new mandate during November 2007 for phase II of the Mooi-Mgeni Transfer Scheme. This will be treated as a separate segment during the next financial period for the duration of the project.

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) does 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 risk, credit risk and liquidity risk. 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[7] in any given year.
- Optimal capital structure
- Redemption portfolio
- Active interest rate management

[7] *The free cash flows refer to the excess cash generated by the projects.*

The ALCO comprising of 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 and to maintain the optimal capital structure.

Notes to the annual financial statements continued

for the year ended 31 March 2008

5. Financial risk management (continued)

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 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[8]	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

8 *The inflated figure for WS05 is R4 332 million with a nominal value of R3 075 million.*
The limits for commercial paper and the individual bonds are the authorised limits.
* *This is total utilisation of all facilities, including both local and foreign loans, against the borrowing limit.*

Funding sources and utilisation for TCTA as at 31 March 2007:

TCTA funding limits	Limit R million	Utilisation R million	Available R million
Total borrowing authority*	21 000	18 697	2 303
Commercial paper programme	4 000	(1 293)	2 707
Capital market – WS03	8 000	(3 385)	4 615
Capital market – WS04	7 000	(6 376)	624
Capital market – WS05[9]	4 000	(3 349)	651
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	1 000	(400)	600
Repurchases	1 000	15	1 015

9 *The inflated figure for WS05 is R3 349 million with a nominal value of R2 600 million.*
The limits for commercial paper and the individual bonds are the authorised limits.
* *This is total utilisation of all facilities, including both local and foreign loans, against the borrowing limit.*

5. Financial risk management (continued)

5.1 Liquidity risk (continued)

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 2008, these facilities were not utilised.

Contractual maturity analysis report for TCTA as at 31 March 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	15/9/10				3 585				3 585
Bonds	30/5/16							6 775	6 775
Bonds	1/8/18							4 332	4 332
Bonds	30/4/08	800							800
Bonds	28/5/15							400	400
Bonds	28/5/17							400	400
Bonds	28/5/19							400	400
Bonds	28/5/20							400	400
Bonds	28/5/21							950	950
Commercial paper	1/4/08	115							115
Commercial paper	1/4/08	21							21
Commercial paper	1/4/08	95							95
Commercial paper	1/4/08	30							30
Commercial paper	1/4/08	10							10
Commercial paper	1/4/08	71							71
Loan	31/3/18		15	15	15	8	15	84	152
Loan	30/9/22		37	35	34	5	7	70	188
Loan	15/12/17	12	12	24	24	24	24	121	241
Loan	15/3/18		15	15	15	15	15	77	152
Loan	31/8/10				100				100
Repos	various	10							10
Repos	various	267							267
Repos	various	61							61
Term	29/4/08	20							20
Term funding	various	171							171
EUR									
Loan	31/7/12		29	29	29	29	15		131
Loan	31/7/12		15	15	15	15	7		67
Loan	31/1/18		9	9	9	10	10	54	101
USD									
Loan	15/5/13	3	3	6	6	6	6	3	33
Total		1 686	135	148	3 832	112	99	14 066	20 078

Notes to the annual financial statements continued

for the year ended 31 March 2008

5. Financial risk management (continued)

5.1 Liquidity risk (continued)

Funding sources and utilisation for TCTA as at 31 March 2007

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									
Asset swaps		9							9
Bonds	15/9/10					3 385			3 385
Bonds	30/5/16							6 476	6 476
Bonds	1/8/18							3 361	3 361
Bonds	30/4/08			800					800
Bonds	28/5/15							400	400
Bonds	28/5/17							400	400
Bonds	28/5/19							400	400
Bonds	28/5/20							400	400
Bonds	28/5/21							400	400
Commercial paper	1/4/07	40							40
Commercial paper	1/4/07	27							27
Commercial paper	1/4/07	3							3
Commercial paper	1/4/07	73							73
Commercial paper	1/4/07	20							20
Commercial paper	1/4/07	110							110
Commercial paper	1/4/07	11							11
Commercial paper	1/4/07	42							42
Commercial paper	1/4/07	11							11
Commercial paper	1/4/07	55							55
Loan	31/3/18		23	15	15	15	15	92	175
Loan	30/9/22		53	37	35	34	5	78	242
Loan	15/12/17	12	12	24	24	24	24	145	265
Loan	15/3/18		15	15	15	15	15	92	167
Repos		148							148
Loan	31/8/10					100			100
Repos	various	19							19
Repos	various	104							104
Repos	various	84							84
Repos	various	20							20
Term funding	16/4/07	33							33
Term funding	various	80							80
Term funding	various	36							36
Term funding	various	130							130
Zero coupon		317							317
EUR									
Loan	31/7/12		22	22	22	22	22	11	121
Loan	31/7/12		11	11	11	11	11	5	60
Loan	31/1/18		6	7	7	7	7	49	83
USD									
Loan	15/5/13	5	5	10	10	10	10	15	65
Total		1 389	147	941	139	3 623	109	12 324	18 672

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

5. Financial risk management (continued)

5.1 Liquidity risk (continued)

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 into the balance sheet values.

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

2007

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)	–	98	132	177	191	19	29	646

BWP

Funding limits and facilities as at 31 March 2008 and 31 March 2007:

BWP funding limits	Limit 2008 R million	Limit 2007 R million
Total borrowing authority	1 500	1 500
Facilities		
Commercial paper programme	450	450
DBSA loan	500	500
EIB	800	800
Absa	300	300

Utilisation as at 31 March 2008 is R1 149 million.

Contractual maturity analysis report

As at 31 March 2008, BWP have contractual maturities which are summarised below:

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	1/4/08	27	–	–	–	–	–	–	27
Commercial paper	1/4/08	4	–	–	–	–	–	–	4
Commercial paper	1/4/08	16	–	–	–	–	–	–	16
Loan	31/3/28	–	–	–	–	–	–	50	50
Loan	31/3/29	–	–	20	20	10	20	330	400
Loan	15/9/24	–	16	33	33	33	33	379	527
Term funding	various	95	–	–	–	–	–	–	95
Term funding	2/5/08	30	–	–	–	–	–	–	30
		172	16	53	53	43	53	759	1 149

5. Financial risk management (continued)

5.1 Liquidity risk (continued)

2007

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	1/4/07	71	–	–	–	–	–	–	71
Commercial paper	1/4/07	4	–	–	–	–	–	–	4
Commercial paper	1/4/07	49	–	–	–	–	–	–	49
Loan	31/3/28	–	–	–	–	–	–	20	20
Loan	15/9/24	–	–	10	21	21	21	261	334
Loan	31/3/29	–	–	–	18	18	18	298	352
Term funding	8/9/07	10	–	–	–	–	–	–	10
		134	–	10	39	39	39	579	840

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 2008, BWP has unutilised facilities of R522 million.

VRESAP

Funding limits and facilities as at 31 March 2008 and 31 March 2007:

VRESAP funding limits	Limit 2008 R million	Limit 2007 R million
Total borrowing authority	3 600	3 600
Facilities		
Commercial paper programme	300	300
EIB	500	500
Standard Bank	1 300	1 300
Absa	1 000	1 000
Investec	300	300
Nedbank	150	150

Utilisation as at 31 March 2008 is R1 899 million.

Contractual maturity analysis report

As at 31 March 2008, VRESAP has contractual maturities, which are summarised below:

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	1/4/08	46	–	–	–	–	–	–	46
Commercial paper	1/4/08	40	–	–	–	–	–	–	40
Loan	31/3/28	–	–	–	–	–	–	640	640
Loan	15/6/27	–	–	–	–	–	9	273	282
Loan	31/3/28	–	–	–	–	–	–	155	155
Loan	15/3/28	–	–	–	–	–	–	107	107
Loan	1/3/28	–	–	–	–	–	–	873	873
Term funding	2/5/08	56	–	–	–	–	–	–	56
Term funding	22/4/08	50	–	–	–	–	–	–	50
		192	–	–	–	–	9	2 048	2 249

5. Financial risk management (continued)

5.1 Liquidity risk (continued)

2007

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
Loan	31/3/28	–	–	–	–	–	–	369	369
Loan	15/6/27	–	–	–	–	–	–	184	184
Loan	31/3/28	–	–	–	–	–	–	55	55
Loan	15/3/28	–	–	–	–	–	–	30	30
Loan	1/3/28	–	–	–	–	–	–	598	598
Term funding	various	14	–	–	–	–	–	–	14
Term funding	various	45	–	–	–	–	–	–	45
Term funding	various	41	–	–	–	–	–	–	41
		100	–	–	–	–	–	1 236	1 336

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 2008, VRESAP has unutilised facilities of 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.

LHWP

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; and
- The credit limit consumption of FEC's 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 International Swaps and Derivative Agreements with the various market makers.

The table below reflects the utilisation per counterparty against the credit limit as at 31 March 2008:

2008

Rating (Fitch – ABCA)				
Short term	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 2008

5. Financial risk management (continued)

5.2 Credit risk (continued)

2007

Rating (Fitch – ABCA) Short term	Long term	Credit limit R million	Total utilisation R million	Available R million
F1+	AA+	596	396	200
F1	A+	425	20	405
F1	AA-	400	–	400
F1+	AA	750	11	739
F1+	AA	375	5	370
F1+	AA	750	326	424
		3 296	758	2 538

BWP

The table below reflects the utilisation per counterparty against the credit limit as at 31 March 2008:

2008

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

2007

Rating (Fitch – ABCA) Short term	Long term	Credit limit* R million	Investments* R million	Total utilisation R million	Available R million
F1+	A+	425	–	–	425

VRESAP

The table below reflects the utilisation per counterparty against the credit limit as at 31 March 2008:

2008

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

2007

Rating (Fitch – ABCA) Short term	Long term	Credit limit* R million	Investments* R million	Total utilisation R million	Available R million
F1+	A+	425	16	16	409

* *This limit is the total for all three projects.*

5.3 Market risk

This 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 the United States Dollar exchange rate fluctuations. TCTA has a policy to cover 100% of its foreign capital commitments and 75% of interest and fees.

5. Financial risk management (continued)

5.3 Market risk (continued)

TCTA makes use of forward exchange contracts (FECs) for hedging purposes. The table below shows the foreign exchange cover as at 31 March 2008.

Foreign exchange contracts maturity profile	2008 EUR million	2008 USD million	2007 EUR million	2007 USD million
<1 year	7	2	5	1
1 – 2 years	10	2	7	2
2 – 3 years	9	1	10	2
3 – 4 years	–	1	10	2
4 – 5 years	–	1	–	2
>5 years	–	1	–	3
	26	8	32	12

Foreign currency sensitivity

The following table illustrates the sensitivity of the net result for the year in 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 2008 (2007: 25%). A 15% change is considered for the USD/ZAR exchange rate (2007: 15%). Both 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% (2007: 25%) and 15% (2007: 15%) respectively then this would have had the following impact:

Increase in rates	2008 EUR million	2008 USD million	2007 EUR million	2007 USD million
Effect on P/L	(23)	(8)	(146)	(14)

If the Rand had strengthened against the US Dollar and Euro by 25% (2007: 25%) and 15% (2007: 15%) respectively, it would have the following impact:

Decrease in rates	2008 EUR million	2008 USD million	2007 EUR million	2007 USD million
Effect on P/L	(14)	(3)	(25)	(2)

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

This 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.

5. Financial risk management (continued)

5.3 Market risk (continued)

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 derivatives hedging interest rate risk, but instead attainment of the optimal capital structure and the proactive interest rate risk management strategies are applied.

LHWP

Fixed versus 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 2008 %	Fixed rate 2007 %	Variable rate 2008 %	Variable rate 2007 %
Euro	1	1	1	1
US Dollar	–	–	1	1
Rand	70	67	27	30
Total liabilities	71	68	29	32

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 trend 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. At 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, 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. Altogether 88% of the debt issued as at 31 March 2008 supports asset and liability matching.

5. Financial risk management (continued)

5.3 Market risk (continued)

The table below shows the weighted/modified average duration of bonds as at 31 March 2008.

Bonds	Amount issued R million	Maturity date	Duration (years)	Weighted average duration	Modified duration
WS03	3 585	15/09/10	2,17	0,94	2,07
WS04	6 775	30/05/16	5,37	4,37	5,13
WS05	3 075	01/08/18	8,37	3,19	8,26
WS06	800	30/04/08	0,08	0,01	0,07
WSP1	400	28/05/15	5,23	0,25	4,99
WSP2	400	28/05/17	6,18	0,30	5,90
WSP3	400	28/05/19	6,96	0,33	6,64
WSP4	400	28/05/20	7,30	0,35	6,97
WSP5	950	28/05/21	7,61	0,87	7,26
	16 785		49,27	10,61	47,29

Currently TCTA does not have any derivatives 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 (2007: ±100 bps) and +200 bps and –200 bps (2007: ±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

Liabilities	2008 (1,00%) R million	2008 1,00% R million	2007 (1,00%) R million	2007 1,00% R million
Saving/(loss)	20	(4)	17	(15)

Liabilities	2008 (2,00%) R million	2008 2,00% R million	2007 (2,00%) R million	2007 2,00% R million
Saving/(loss)	39	(21)	46	(40)

Financial assets	2008 (1,00%) R million	2008 1,00% R million	2007 (1,00%) R million	2007 1,00% R million
(Loss)/saving	(10)	10	(2)	2

Financial assets	2008 (2,00%) R million	2008 2,00% R million	2007 (2,00%) R million	2007 2,00% R million
(Loss)/saving	(21)	21	(5)	5

5. Financial risk management (continued)

5.3 Market risk (continued)

BWP

Fixed versus variable rate loans

The ratio of fixed to floating debt as at 31 March 2008, was 42% fixed and 58% floating.

	ZAR values		Total debt book	
Borrowings	Fixed	Variable	Fixed %	Variable %
ZAR	400	548	42	58

Refinancing and repricing risk

The weighted average money market duration as at 31 March 2008, was 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 (2007: ±100 bps) and +200 bps and –200 bps (2007: ±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.

Liabilities	2008 (1,00%) R million	2008 1,00% R million	2007 (1,00%) R million	2007 1,00% R million
Saving/(loss)	6	(8)	5	(4)

Liabilities	2008 (2,00%) R million	2008 2,00% R million	2007 (2,00%) R million	2007 2,00% R million
Saving/(loss)	12	(14)	9	(8)

VRESAP

Fixed versus variable rate loans

The split as at 31 March 2008 of the ratio between fixed and floating interest rates was 62,50% fixed and 37,50% floating. During the month of January 2008, VRESAP did not meet the ratio of 70% fixed and 30% floating rate as prescribed by policy. However, according to policy, projects still under construction are not expected to meet the 70% to 30% guideline. VRESAP will strive to bring the ratio to within guidelines during the following months.

	ZAR values		Total debt book	
Borrowings	Fixed	Variable	Fixed %	Variable %
ZAR	1 075	632	63%	37%

Refinancing and repricing risk

The weighted average money market duration as at 31 March 2008 was 14 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 (2007: ±100 bps) and +200 bps and –200 bps (2007: ±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	2008 (1,00%) R million	2008 1,00% R million	2007 (1,00%) R million	2007 1,00% R million
Saving/(loss)	8	(9)	3	(3)

5. Financial risk management (continued)

5.3 Market risk (continued)

Liabilities	2008 (2,00%) R million	2008 2,00% R million	2007 (2,00%) R million	2007 2,00% R million
Saving/(loss)	16	(18)	6	(6)

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, they are used to provide benchmarks in order 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 2008 R million	Total 2007 R million
Cost as previously stated	2 115	15	2 130	2 018
Accumulated depreciation	(31)	(12)	(43)	(27)
Carrying amount at the beginning of the year	2 084	3	2 087	1 991
During the year:				
Additions	–	1	1	2
Disposals	–	–	–	(2)
(Reversal of revaluation)/revaluation	(24)	–	(24)	112
Accumulated depreciation adjusted against NDR	5	–	5	(10)
Depreciation	(3)	(2)	(5)	(6)
Cost/depreciated replacement value	2 091	16	2 107	2 130
Accumulated depreciation	(29)	(14)	(43)	(43)
Carrying amount at the end of the year	2 062	2	2 064	2 087

6. Property, plant and equipment (continued)

6.2 BWP

	Works capitalised R million	Other R million	Total 2008 R million	Total 2007 R million
Cost as previously stated	900	1	**901**	492
Accumulated depreciation		(1)	**(1)**	(1)
Carrying amount at the beginning of the year	900	–	**900**	491
During the year:				
Additions	228	–	**228**	409
Disposals	–	–	**–**	–
Depreciation	–	–	**–**	–
Cost/depreciated replacement value	1 128	1	**1 129**	901
Accumulated depreciation	–	(1)	**(1)**	(1)
Carrying amount at the end of the year	1 128	–	**1 128**	900

6.3 VRESAP

	Works capitalised R million	Other R million	Total 2008 R million	Total 2007 R million
Cost as previously stated	1 407	–	**1 407**	144
Accumulated depreciation		–	**–**	–
Carrying amount at the beginning of the year	1 407	–	**1 407**	144
During the year:				
Additions	862	–	**862**	1 263
Disposals	–	–	**–**	–
Depreciation	–	–	**–**	–
Cost/depreciated replacement value	2 269	–	**2 269**	1 407
Accumulated depreciation	–	–	**–**	–
Carrying amount at the end of the year	2 269	–	2 269	1 407

6.4 Total

	Works capitalised R million	Other R million	Total 2008 R million	Total 2007 R million
LHWP	2 062	2	**2 064**	2 087
BWP	1 128	–	**1 128**	900
VRESAP	2 269	–	**2 269**	1 407
	5 459	2	**5 461**	4 394

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

6.5 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.

6. Property, plant and equipment (continued)

6.5 Works in South Africa (continued)

Background

In terms of the accounting policy, TCTA has undertaken a full technical revaluation of the works in South Africa during the current financial year. The revaluation was performed by SSI Engineers and Environmental Consultants (Pty) Ltd (SSI) and was appointed on the 26 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.

Conclusion

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 exercise only focusing on the physical structure, a decision was taken to opt for a revaluation based on the fair value of the future income streams using an appropriately adjusted risk free discount rate. The exercise indicated that the values reflected as at 31 March 2008 are a fair reflection of its value. 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 at regular intervals.

6.6 Works in South Africa/works capitalised

	LHWP		BWP		VRESAP	
	2008 R million	2007 R million	2008 R million	2007 R million	2008 R million	2007 R million
The carrying amount consists of:*						
Costs capitalised	2 207	2 207	1 571	1 213	2 270	1 409
Levies/income received	(253)	(253)	(443)	(313)	(1)	(2)
Depreciation	(29)	(31)	–	–	–	–
Revaluation	137	161	–	–	–	–
	2 062	2 084	1 128	900	2 269	1 407

* *Prior year amounts have been reclassified for improved disclosure.*

6.7 Costs capitalised

	BWP		VRESAP	
	2008 R million	2007 R million	2008 R million	2007 R million
Costs capitalised comprise:*				
Engineering and construction	1 331	1 075	2 008	1 316
Fixed assets	–	1	–	–
Finance costs	199	98	246	78
Directly attributable costs	41	39	16	15
	1 571	1 213	2 270	1 409

* *Prior year amounts have been reclassified for improved disclosure.*

Notes to the annual financial statements continued

for the year ended 31 March 2008

6. Property, plant and equipment (continued)

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

	Cost R million	Accumulated depreciation R million	Carrying amount 2008 R million	Carrying amount 2007 R million
LHWP	1 953	(21)	1 932	1 935
BWP	1 128	–	1 128	900
VRESAP	2 269	–	2 269	1 407
	5 350	(21)	5 329	4 242

7. Intangible asset

7.1 Enduring benefit

	Total 2008 R million	Total 2007 R million
LHWP		
Cost as previously stated	13 287	13 330
Accumulated amortisation	(155)	(66)
Carrying amount at the beginning of the year	13 132	13 264
Additions	–	19
Recoveries from GOL	–	(57)
Katse claim adjustment	–	(5)
Repayment to World Bank	(9)	–
Proceeds from disposal of project assets	(10)	–
Short-term compensation	(10)	–
Amortisation	(30)	(89)
Cost/depreciated replacement value	13 258	13 287
Accumulated amortisation	(185)	(155)
Carrying amount at the end of the year	13 073	13 132

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

The enduring benefit have been completed in two phases namely Phase 1A and Phase 1B. The amortisation periods remaining as at 31 March 2008 are 35 years for Phase 1A, and 41 years for Phase 1B.

The carrying amount of the indefinite portion of the enduring benefit as at 31 March 2008 is R11 932 003 796.

	Carrying amount		Capitalised/(recovered)	
Enduring benefit	2008 R million	2007 R million	2008 R million	2007 R million
LHWP				
Cost-related payments (borrowing costs)	7 367	7 367	–	–
Cost-related payments (capital)	3 919	3 948	(29)	(43)
Capital market funds utilised by the LHDA	3 640	3 640	–	–
Levies received from DWAF	(1 435)	(1 435)	–	–
Protocol V refund on previously charged taxes	(233)	(233)	–	–
Amortisation	(185)	(155)	(30)	(89)
	13 073	13 132	(59)	(132)

7. Intangible asset (continued)

7.2 Cost-related payments

Cost-related payments made in terms of the Treaty[6], 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[6] 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[6], 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 2008 R million**	Total 2007 R million
Land and buildings		
Carrying amount at the beginning of the year	**4**	4
Additions	**12**	–
Depreciation	**–**	–
Cost/depreciated replacement value	**16**	4
Accumulated depreciation	**(1)**	–
Carrying amount at the end of the year	**15**	4

Investment property, comprising houses at Kgubetswana and a building in Pietersdal were initially acquired for use during construction. The estimated useful life of the buildings have been estimated to be 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 Kgubetswana 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 year consists of the Lesotho Bank Towers purchased by the LHDA from Standard Lesotho Bank Limited 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.

As at 31 March 2008, the fair value of the building is estimated to be R57 million.

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.

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 Affairs and Forestry, 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[6] or from any other function that the Minister of Water Affairs and Forestry may require in terms of section 103(2) of the National Water Act.

[6] *The Treaty refers to the treaty signed between the South African Government and the Government of Lesotho dated 24 October 1986.*

* *Currency of Lesotho is Maloti. Exchange rate is M1: ZAR1*

9. Financial instruments (continued)

9.1 Capital management (continued)

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 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's 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 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 FVTPL: Designated upon initial recognition R million	Held-to-maturity investments R million	Loans and and other receivables R million	Carrying amount R million	Fair value R million
Assets as per balance sheet as 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 FVTPL	–	–	–	–	–
Cash and cash equivalents*	–	–	–	–	–
Total	16	1 908	397	2 321	2 321
Assets as per balance sheet as at 31 March 2007					
Derivative financial instruments	2	–	–	2	2
Trade and other receivables	–	–	615	615	615
Redemption assets	–	725	–	725	725
Other financial assets	–	16	–	16	17
Cash and cash equivalents*	–	–	–	–	–
Total	2	741	615	1 358	1 359

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

9. Financial instruments (continued)

9.2 Financial instruments by category (continued)

Financial liabilities	Liabilities at FVTPL R million	Other financial liabilities R million	Carrying amount R million	Fair value R million
Liabilities as per balance sheet as 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**
Liabilities as per balance sheet as at 31 March 2007				
Borrowings	–	21 065	21 065	24 177
Derivative financial instruments	173	–	173	173
Total	173	21 065	21 238	24 350

9.3 Financial instruments in time buckets

Financial instruments	Current (one year and less) 2008 R million	Current (one year and less) 2007 R million	(1 to 5 years) R million	Non-current (5 to 10 years) R million	(10 years and longer) R million	Non-current 2008 R million	Non-current 2007 R million	Total 2008 R million	Total 2007 R million
Financial assets†									
LHWP									
Held-to-maturity investments carried at amortised cost									
Other financial assets	**794**	–	1 114	–	–	**1 114**	725	**1 908**	725
Financial assets carried at FVTPL									
Held for trading*	**–**	–	–	–	–	**–**	–	**–**	–
Repos borrowings	**–**	–	–	–	–	**–**	–	**–**	–
Due for settlement – Repos									
Financial assets carried at FVTPL Designated upon initial recognition*									
Derivative asset	**2**	1	12	2	–	**14**	1	**16**	2
Total	**796**	1	1 126	2	–	**1 128**	726	**1 924**	727

* *Of the R16 785 million bonds in issue, with TCTA being the legal issuer, R938 million has been allocated to the LHDA to meet their funding requirements.*

† *Receivables are disclosed as loans and receivables (See note 10.)*

9. Financial instruments (continued)

9.3 Financial instruments in time buckets (continued)

	Current (one year and less) 2008 R million	Current (one year and less) 2007 R million	(1 to 5 years) R million	Non-current (5 to 10 years) R million	(10 years and longer) R million	Non-current 2008 R million	Non-current 2007 R million	Total 2008 R million	Total 2007 R million
BWP									
Other financial assets	–		–	–	–	–	–	–	–
Total	–	–	–	–	–	–	–	–	–
VRESAP									
Other financial assets	–	16	–	–	–	–	–	–	16
Total	–	16	–	–	–	–	–	–	16
Total financial assets	796	17	1 126	2	–	1 128	726	1 924	743
Financial liabilities									
Liabilities at FVTPL									
LHWP									
Designated upon initial recognition*									
Derivative liability	27	38	45	–	–	45	135	72	173
Total liabilities at FVTPL	27	38	45	–	–	45	135	72	173
Other financial liabilities									
LHWP									
Local debt									
Issued bonds	377	(300)	3 581	8 376	5 724	17 681	16 564	18 058	16 264
LHDA	–	–	960	–	–	960	949	960	949
Repos	(422)	(300)					–	(422)	(300)
TCTA	799	–	2 621	8 376	5 724	16 721	15 615	17 520	15 615
Other loans	618	1 105	387	307	41	735	822	1 353	1 927
TCTA	570	1 041	158	198	–	356	395	926	1 436
LHDA	48	64	229	109	41	379	427	427	491

* *Of the R16 785 million bonds in issue, with TCTA being the legal issuer, R938 million has been allocated to the LHDA to meet their funding requirements.*

9. Financial instruments (continued)

9.3 Financial instruments in time buckets (continued)

	Current (one year and less) 2008 R million	Current (one year and less) 2007 R million	(1 to 5 years) R million	Non-current (5 to 10 years) R million	(10 years and longer) R million	Non-current 2008 R million	Non-current 2007 R million	Total 2008 R million	Total 2007 R million
Foreign debt									
Debt translated at spot rates	58	49	214	57	–	271	276	329	325
TCTA	–	–	–	–	–	–	–	–	–
LHDA	58	49	214	57	–	271	276	329	325
Repo carries	337	376				–	–	337	376
Other financial liabilities	1 390	1 230	4 182	8 740	5 765	18 687	17 662	20 077	18 892
BWP									
Local debt	187	134	202	265	494	961	704	1 148	838
Other loans	187	134	202	265	494	961	704	1 148	838
VRESAP									
Local debt	192	99	9	336	1 701	2 046	1 236	2 238	1 335
Other loans	192	99	9	336	1 701	2 046	1 236	2 238	1 335
Total other financial liabilities	1 769	1 463	4 393	9 341	7 960	21 694	19 602	23 463	21 065
Total financial liabilities	1 796	1 501	4 438	9 341	7 960	21 739	19 737	23 535	21 238
Net financial market liabilities	1 000	1 484	3 312	9 339	7 960	20 611	19 011	21 611	20 495

* *Of the R16 785 million bonds in issue, with TCTA being the legal issuer, R938 million has been allocated to the LHDA to meet their funding requirements.*

A register of loans is available for inspection at TCTA's registered offices.

9.4 Interest rates

	2008 %	2007 %
Loans bear effective interest at rates ranging from	*9,0 to 22,0	6,8 to 22,0
TCTA funded at a weighted average rate of	10,24	10,18
Project funded at a weighted average rate of	10,61	10,51

* *The interest rate applicable to one of the development funding foreign loans is 9,0%. This is a Euro loan facility drawn as ZAR funding. The 22,0% relates to an EIB loan for Matsuko Diversion, valued at spot at R101 million (2007: R83 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 22,0% (2007: 22,0%).*

9. Financial instruments (continued)

9.4 Interest rates

	2008 %	2007 %
BWP		
The project funded at a weighted average rate of	9,14	8,91
VRESAP		
The project funded at a weighted average rate of	9,29	9,25

9.5 Exchange rates (closing rates)

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

Foreign currency	Bid 2008 Rand	Offer 2008 Rand	Bid 2007 Rand	Offer 2007 Rand
US dollars	8 130	8 135	7 220	7 270
Euros	12 857	12 865	9 654	9 723

9.6 Bonds

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	15 September 2010	13,00	4 500	3 585
WS04	Nominal	30 May 2016	12,50	10 000	6 775
WS05	Inflation indexed	1 August 2018	5,00	4 000	4 332*
WS06	Nominal	30 April 2008	8,00	2 500	800
WSP01	Nominal	28 May 2015	9,00	1 000	400
WSP02	Nominal	28 May 2017	9,00	1 000	400
WSP03	Nominal	28 May 2019	9,00	1 000	400
WSP04	Nominal	28 May 2020	9,00	1 000	400
WSP05	Nominal	28 May 2021	9,00	4 000	950

* *Inflation indexed bond reflected at CPI value.*

Value of bonds	Fair value 2008 R million	Nominal value 2008 R million	Fair value 2007 R million	Nominal value 2007 R million
Authorised		26 500		26 500
Issued	20 715*	18 042**	19 625*	16 022**
Unrealised premium to be amortised over the life of the loan		1 315		1 172
Unrealised discount to be amortised over the life of the loan		(169)		(189)
Unrealised amortisation of CPI upliftment for WS05		(708)		(441)

* *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. Financial instruments (continued)

9.7 Guarantees

LHWP

In terms of the Treaty[6], 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.

[6] *The Treaty refers to the treaty signed between the South African Government and the Government of Lesotho dated 24 October 1986.*

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 2008 million	Amount utilised 2008 million	Amount guaranteed 2007 million	Amount utilised 2007 million
TCTA loans				
Euro	101	30	101	33*
Rand	26 100	18 576	26 100	17 019
LHDA loans				
US Dollar	51	4	51	9
Euro	94	58	94	63**
Rand	600	88	600	131

* *Included in the Euro amount is the European Investment Bank facility, which was drawn in Rands, R242 million (2007: R266 million) and will be repaid in Rands.*

** *Included in the Euro amount is the European Investment Bank facility, which was drawn in Rands, R251 million (2007: R266 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 2007 R million	Amount guaranteed 2007 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	–*	–*
Stellenbosch Municipality	Cost of new sewer pipeline to be replaced by contractor at TCTA's cost	4	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.*

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

In favour of	Nature	Amount guaranteed 2008 R million	Amount guaranteed 2007 R million
Department of Minerals and Energy	Guarantees provided for rehabilitation of burrow pits	5	–

9. Financial instruments (continued)

9.8 Derivative exposures

LHWP

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

Forward exchange contracts	Current 2008 R million	Non-current 2008 R million	Current 2007 R million	Non-current 2007 R million
Assets				
Fair value amount	2	14	1	1
Liabilities				
Fair value amount	27	45	38	135

Forward exchange contracts	Foreign amount 2008 million	Rand amount 2008 R million	Foreign amount 2007 million	Rand amount 2007 R million
– Euro	26	454	32	545
– US Dollar	8	67	12	100

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

	LHWP		BWP		VRESAP	
Liabilities	2008 R million	2007 R million	2008 R million	2007 R million	2008 R million	2007 R million
Floating						
<1 month	400	802	96	124	136	52
1 – 3 months	61	268	74	10	56	49
3 – 12 months	100	90	16	–	–	–
1 – 2 years	108	111	33	10	–	–
2 – 3 years	110	115	33	21	–	–
3 – 4 years	82	117	33	21	–	–
4 – 5 years	76	70	33	21	9	–
>5 years	4 224	3 396	430	281	841	401
	5 161	4 969	748	488	1 042	502
Fixed						
<1 year	858	408	–	–	–	–
1 – 2 years	57	865	20	–	–	–
2 – 3 years	3 738	66	20	17	–	–
3 – 4 years	29	3 529	10	17	–	–
4 – 5 years	24	38	20	18	–	–
>5 years	10 282	9 490	330	298	1 196	833
	14 988	14 396	400	350	1 196	833

9. Financial instruments (continued)

9.9 Interest rate risk management

	LHWP		BWP		VRESAP	
	2008	2007	**2008**	2007	**2008**	2007
Assets	**R million**	R million	**R million**	R million	**R million**	R million
Floating						
<1 month	**–**	300	**–**	–	**–**	16
1 – 3 months	**–**	1	**–**	–	**–**	–
3 – 12 months	**2**	–	**–**	–	**–**	–
1 – 2 years	**3**	–	**–**	–	**–**	–
2 – 3 years	**3**	–	**–**	–	**–**	–
3 – 4 years	**3**	–	**–**	–	**–**	–
4 – 5 years	**3**	–	**–**	–	**–**	–
>5 years	**2**	–	**–**	–	**–**	–
	16	301	**–**	–	**–**	16
Fixed						
<1 year	**794**	–	**–**	–	**–**	–
1 – 2 years	**–**	701	**–**	–	**–**	–
2 – 3 years	**1 114**	–	**–**	–	**–**	–
3 – 4 years	**–**	–	**–**	–	**–**	–
4 – 5 years	**–**	–	**–**	–	**–**	–
>5 years	**–**	–	**–**	–	**–**	–
	1 908	701	**–**	–	**–**	–

10. Loans and other receivables

	LHWP		BWP		VRESAP		Total	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
Current	**R million**	R million	**R million**	R million	**R million**	R million	**R million**	R million
Water income receivables[1]	**380**	409	**–**	15	**–**	–	**380**	424
Other debtors	**1**	1	**–**	–	**–**	–	**1**	1
Loan account: BWP	**7**	2	**–**	–			**7**	2
Loan account: VRESAP	**9**	2	**–**	–			**9**	2
Government of Lesotho (GOL)[2]		186					**–**	186
Total	**397**	600	**–**	15	**–**	–	**397**	615

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

[2] *Amounts owing by the GOL relate to the cost allocation backlog, which calculation has been finalised by the LHWC and which amounts to R454 million (including cumulative interest of R425 million). The full amount has not been reflected above but shown as a contingent asset in note 18 below. Once this amount has been agreed by the respective parties, it will be raised in the annual financial statements. This amount has been reclassified in the current years' financial statements as a current receivable as TCTA received full payment during the current year.*

	2008	2007
Total	**R million**	R million
Current		
LHWP	**397**	600
BWP	**–**	15
VRESAP	**–**	–
	397	615

Notes to the annual financial statements continued

for the year ended 31 March 2008

11. Prepaid expenditure

	LHWP		BWP		VRESAP		Total	
	2008 R million	2007 R million	2008 R million	2007 R million	2008 R million	2007 R million	2008 R million	2007 R million
Prepayments	61	40	4	5	5	108	70	153
Total	61	40	4	5	5	108	70	153

12. Non-distributable reserves

	2008 R million	2007 R million
Balance at the beginning of the year	141	41
Movement during the year	(20)	100
• Amounts released to deficit during the year	–	–
• (Reversal of revaluation)/revaluation	(24)	112
• Accumulated depreciation adjusted against NDR	5	(10)
• Realisation of revaluation surplus	(1)	(2)
The balance comprises	121	141
Revaluation reserve	121	141
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 from 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

	2008 R million	2007 R million
Balance at the beginning of the year	(3 510)	(3 398)
Movement during the year	(162)	(112)
Net deficit for the year	(162)	(114)
Realisation of revaluation surplus	–	2
Balance at the end of the year	(3 672)	(3 510)

14. Trade and other payables

	LHWP		BWP		VRESAP		Total	
	2008 R million	2007 R million	2008 R million	2007 R million	2008 R million	2007 R million	2008 R million	2007 R million
Interest payable								
TCTA	458	417	3	15	14	4	475	436
LHDA	28	61	–	–	–	–	28	61
Loan account: LHWP	–	–	7	2	8	2	15	4
Other creditors	23	27	30	110	66	255	119	392
Royalties (see note 21)	51	41	–	–	–	–	51	41
	560	546	40	127	88	261	688	934

14. Trade and other payables (continued)

Total	2008 R million	2007 R million
LHWP	560	546
BWP	40	127
VRESAP	88	261
	688	934

15. Non-contractual amounts

	LHWP		BWP		VRESAP		Total	
	2008 R million	2007 R million	2008 R million	2007 R million	2008 R million	2007 R million	2008 R million	2007 R million
SARS – VAT	50	54	(3)	(14)	(10)	(47)	37	(7)
SARS – SDL, PAYE, UIF	1	–	–	–	–	–	1	–
Total	51	54	(3)	(14)	(10)	(47)	38	(7)

Total	2008 R million	2007 R million
LHWP	51	54
BWP	(3)	(14)
VRESAP	(10)	(47)
	38	(7)

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 SARS* is governed by law and in essence not a contractual obligation but a legal obligation. The non-contractual amounts disclosed, was previously included in the financial instruments, trade and other payables.

* *South African Revenue Services*

16. Provisions

Provision for leave pay	LHWP 2008 R million	BWP 2008 R million	VRESAP 2008 R million	Total 2008 R million	Total 2007 R million
Balance at the beginning of the year	2	1	–	3	2
Leave accrued during the year	4	–	–	4	3
Leave utilised or paid	(3)	(1)	–	(4)	(2)
	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 as at 31 March 2007		255
– Long-term portion of future compensation		242
– Short-term portion of future compensation*		13
Payment in current year	(11)	
Adjustments made based on findings from external report		(22)
Increase in short-term provision based on payment history		5
Increase in provision based on revised rates		17
Balance as at 31 March 2008		**244**
– Long-term portion of future compensation		**227**
– Short-term portion of future compensation*		**17**

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

18. Revenue

		LHWP		Advisory services		Total	
		2008	2007	**2008**	2007	**2008**	2007
	Note	**R million**	R million	**R million**	R million	**R million**	R million
Bulk raw water tariff	18.1	**2 087**	1 951	**–**	–	**2 087**	1 951
Advisory services[1]	18.2	**–**	–	**–**	–	**–**	–
Olifants River recoveries[2]	18.2	**–**	–	**1**	–	**1**	–
		2 087	1 951	**1**	–	**2 088**	1 951

	2008	2007
Total	**R million**	R million
LHWP	**2 087**	1 951
Advisory services	**1**	–
	2 088	1 951

[1] *Revenue from Umgeni Water is R51 075 (2007: R315 825)*
[2] *Revenue from ORWRDP is R715 882 (2007: R900 513)*

18.1 Bulk raw water tariff

Income is based on the part of the bulk raw water tariff due to TCTA at 147,6 cents per m^3 (2007: 140,8 cents per m^3), based on 1 413 million m^3 (2007: 1 385 million m^3) of water sales from the Vaal River system.

18.2 Advisory services

TCTA currently acts in an advisory capacity on behalf of Department of Water Affairs and Forestry (DWAF).

19. Other income

Total	2008 R million	2007 R million
Rental income*	1	–
	1	–

Rental income

Income is generated from the properties that were acquired during the construction of the project. These properties are in the process of being disposed of.

* *The rental income is less than R500 000 for both years.*

20. Finance income and costs

20.1 Finance income

	2008 R million	LHWP 2007 R million
Interest income on financial assets carried at amortised cost	329	334
Fair value gain on forward exchange contracts held for trading	116	96
Translation gain on foreign currency financial liabilities designated at fair value	6	25
Finance income	451	455

Finance income is mainly comprised of interest received from the WSO3 and WS06 redemption investments, repurchase agreements (repos), income and premium on WS bonds amortised.

20.2 Finance costs

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

	2008 R million	2007 R million
Interest expense for finance lease agreements		
Interest expense for borrowings at amortised cost	2 040	1 818
– Locally issued bonds	1 800	1 635
– Other local debt	240	183
Interest expense for borrowings at fair value		
– Foreign debt	68	63
Total interest expense for financial liabilities	2 108	1 881
Loss on foreign currency financial liabilities designated at fair value	85	105
Fair value loss on forward exchange contracts held for trading	17	34
Finance costs	2 210	2 020

20.3 Financial result by category of financial instrument

Net gain/(loss) from financial assets and financial liabilities by category of financial instruments are set out below:

	2008 R million	2007 R million
Financial instruments held for trading	48	81
Financial liabilities designated at FVTPL	–	–
Held-to-maturity financial assets	(329)	(334)
Loans and receivables	–	–
Financial liabilities measured at amortised cost	2 040	1 818
Net result from financial assets and liabilities	1 759	1 565
Net amounts reported in:		
Income statement	1 759	1 565
Equity	–	–

Notes to the annual financial statements continued

for the year ended 31 March 2008

21. Royalties paid

Royalties are paid to the Government of Lesotho in accordance with the Treaty[6] 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 780 million m^3 (2007: 755,6 million m^3) of water delivered.

[6] *The Treaty refers to the treaty signed between the South African Government and the Government of Lesotho dated 24 October 1986.*

	2008 R million	2007 R million
Fixed royalties	142	127
Variable royalties	160	137
Total royalties	302	264

22. Other operating expenses

Other operating expenses includes the following:

	2008 R million	2007 R million
Operating lease payments	3	3
Audit fees[§]	2	1
Other operating expenditure	15	18
Total other operating expenditure	20	22

[§] *Audit fee R1 585 000 (2007: R850 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. The recovery rate for BWP is 26% (2007: 24,7%) and VRESAP is 33% (2007: 30,9%).

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

22. Other operating expenses (continued)

22.1 Directors' remuneration

Non-executive directors

Names	Retainer fees R 000	A R 000	B R 000	C R 000	D R 000	E R 000	F R 000	G R 000	H R 000	Total A – H R 000	Total 2008 R 000	Total 2007 R 000
		Attendance fees for committee meetings										
Board 1/7/2006 to 31/3/2008												
M Gantsho (late)	185	62	–	–	–	–	16	–	–	78	263	193
L Mthembu	158	48	25	38	–	8	13	–	–	132	290	190
L Thotanyana	173	60	26	–	–	–	–	30	41	157	330	202
S Kondlo	173	70	–	–	–	–	9	16	22	117	290	–
P Makhesha	173	41	–	–	36	–	5	–	–	82	255	161
E Malefane	173	54	–	23	–	–	5	32	36	150	323	–
T Sithole (late)	158	49	–	11	44	–	5	–	–	109	267	–
L Maarsdorp	173	23	32	–	–	–	13	–	–	68	241	232
A Pillay[1]	–	–	–	–	–	–	–	–	–	–	–	–
Board 1/4/2006 to 31/3/2008												
R Mbwana	173	47	–	–	–	–	–	28	50	125	298	251
A Makwetla	173	50	–	–	39	5	13	–	–	106	280	241
Board 1/4/2006 to 30/6/2006												
C Maynard	–	–	–	–	–	–	–	–	–	–	–	(5)
O Latiff	–	–	–	–	–	–	–	–	–	–	–	55
S Lushaba[1]	–	–	–	–	–	–	–	–	–	–	–	–
P Hadebe[1]	–	–	–	–	–	–	–	–	–	–	–	–
M Muller	–	–	–	–	–	–	–	–	–	–	–	18
Board 14/2/2008 to 31/3/2008												
S Khoza	33	–	–	–	–	–	–	–	–	–	33	–
O Ayaya[1]	–	–	–	–	–	–	–	–	–	–	–	–
Total non-executive directors	1 745	504	83	72	119	13	79	106	149	1 125	2 870	1 538

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

A Board Committee
B Asset and Liability Committee (ALCO)
C Audit and Risk Committee
D Human Resource Committee
E Transformation Committee
F Chairs Committee
G BWP Technical Committee
H VRESAP Technical Committee

22. Other operating expenses (continued)

22.1 Directors' remuneration (continued)

Executive directors

Exco member	CTC* 2008 R 000	Termination benefit R 000	Incentives 2008 R 000	CTC* 2007 R 000
Executive 1/4/2007 to 31/1/2008				
MJ Janse van Rensburg[2] (Chief Executive Officer)	1 575	4 043	–	1 890
Executive 1/2/2008 to 31/3/2008				
L Mthembu[3] (Chief Executive Officer)	847			
Total executive directors	2 422	4 043	–	1 890

[2] Termination benefits of R4 042 652 were paid to Mrs Janse van Rensburg upon termination of service.
[3] Amount of R300 000 included in cost to company (CTC) as payment for relocation expenses.*

22.2 Executive management remuneration

Exco member	Designation	Date appointed or resigned	CTC* 2008 R 000	Incentive 2006 banked for 2007 R 000	Incentive 2006 banked portion 2008 R 000	Ex gratia payment* 2008 R 000	Total 2008 R 000	Total 2007 R 000
J Claassens	Head: Capital Investment	Contractual appointed April 2007	1 600	242	161	101	2 104	1 653
F Amod	CFO	Resigned 31 August 2007	548	–	–	–	548	1 669
H Nazeer	CFO	Commencement date 1 September 2007	992	–	–	–	992	–
R Matabane	HOD and People Management		1 450	–	–	65	1 515	790
E Motsatsing	Head Business Support		1 137	–	–	–	1 137	183
N Rapoo	Head: Assurance		1 300	–	–	–	1 300	108
J Nhlapo	COO	Commencement date 6 August 2007	1 312	–	–	–	1 312	–
Z Mbele	Head: Business Development	Commencement date 1 November 2007	628	–	–	–	628	–
L Milne	Head: Business Development	Resigned 30 June 2006	–	–	–	–	–	373
			8 967	242	161	166	9 536	4 776

The incentives, pertaining to 31 March 2007, payable on 31 March 2008, allocated for the rest of the staff is R442 244. The incentives, pertaining to 31 March 2007, payable on 31 March 2008 and 2009, allocated for the rest of the staff is R3 096 844.

** Board did not approve incentives for 2007, but approved an amount that was paid as ex gratia.*

23. Net deficit for the year

As income is first used to cover operating expenditure, depreciation and royalties, the net deficit of R162 million (2007: R114 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.

24. Commitments

Capital expenditure works in South Africa

	Capital expenditure contracted by TCTA in respect of BWP and VRESAP	
	2008 R million	2007 R million
Expenditure will be financed from borrowings and is expected to be incurred as follows:		
BWP		
2008 – 2009	**21**	188
2009 – 2010	**3**	9
2010 – 2011	**2**	1
Total	**26**	198
VRESAP		
2008 – 2009	**256**	839
2009 – 2010	**29**	306
2010 – 2011	**–**	–
Total	**285**	1 145

25. 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:

25.1 Enduring benefit and works in South Africa

TCTA has adopted 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 year TCTA had reassessed the depreciable portion relating to the mechanical components to be 5% (2007: 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.

25.2 Impairment testing on intangible asset

TCTA obtains the macro economic forecasts from Bureau of Economic Research (BER) from the University of Stellenbosch and has received an updated report for the period 2007 to 2036 in July 2007. Every three to four years TCTA will require an update of these long-term forecasts as it is used in the determination of the forecast debt curve as well as the required tariff to be able to repay the outstanding debt within 20 years after completion of construction. The latest 20-year inflation forecast was an average of 4,87%, which is then applied as the discount rate for future revenue streams as the tariff is constant in real terms and therefore inflates with inflation annually.

The use of BER's forecast has been agreed as the acceptable input assumption for tariff determination purposes, with the major stakeholders such as DWAF, National Treasury, South African Reserve Bank and major Vaal River users such as Rand Water.

Based on TCTA's business model and revenue profile linked to BER's projected long-term inflation, this rate is also used for discounting the future cash streams used for impairment testing.

TCTA has also performed 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. (See note 26.2.)

25. Critical accounting estimates and judgements (continued)

25.2 Impairment testing on intangible asset (continued)

Assumptions

1. TCTA water levies increases annually with the projected CPIX. The provisions in the income agreement provide for all factors that can have an effect on the water levies to ensure that the debt can be settled by 2025.
2. Any deviation from budget will be accounted for in the tariff adjustment for the following year where the impact will be smoothed over the remaining period to 2025. This impact will be over and above the CPIX adjustment.
3. The water levies in the future cash flows are determined by using the anticipated water demand as provided by DWAF and the tariff that has been adjusted by the BER projected future CPIX percentages
4. The average of the projected CPIX as calculated by BER is 5,18% for the periods 2009 to 2025.
5. The debt will be repaid by 2025. At this point TCTA will transfer the asset to DWAF. The right to receive water is perpetual in nature and future income streams will then go to DWAF as per the water pricing strategy.
6. The cash outflows expected to be incurred to generate the cash inflows consists of the royalty payment as well as operations and maintenance.
7. No future net cash flows are expected to arise on disposal of the asset as the purpose of the enduring benefit is the sustainable delivery of water to South Africa and the infrastructure has been designed and implemented for this purpose.

25.3 Incentive provision 2006/07

The estimation of the incentive for the 2006/07 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.

25.4 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 monitor this exposure and will make adjustment 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.

25.5 Berg Water capital charge

The monthly invoice to 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. Contingent liability

26.1 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 the 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. A court date for the hearing is still awaited. Hence no further amounts have been provided for.

26.2 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 the 17 March 2008 and is expected to be completed by end of June 2008. 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.

26. Contingent liability (continued)

26.3 Zebulon

TCTA disposed off the property, Larola, situated in Clarens, during the 2003 financial year-end. A tax directive had been received from SARS to the effect that the transaction was zero rated for VAT. The purchaser is now claiming the VAT portion from TCTA as his claim was rejected by SARS. The total value of the claim is R1,4 million. The purchaser substituted attorneys in November 2007. The matter has been set down for trial on 11 November 2008 in the High Court of the Transvaal Division in Pretoria.

26.4 Provision for compensation

TCTA is reliant on the LHDA for the calculation of this provision. Certain issues were identified by the LHDA auditors relating to the accuracy of the data used in the calculation. LHDA has commissioned PricewaterhouseCoopers to verify such data. This exercise is only expected to be completed in June 2008. TCTA has utilised the exceptions identified to date and extrapolated a potential error. This potential error has been adjusted for against the provision. However, the final verification result may indicate additional adjustments required to this provision. Hence TCTA has a contingent liability pending the finalisation of this verification exercise.

26.5 Incentives

A CCMA case has been made against TCTA in relation to employee incentives. The current estimate of possible loss amounts to R3,9 million. The matter is still to be finalised.

26.6 Incentives 2007/08

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 second and third rolling payment will only be paid to employees that are in the employ of TCTA at the date of payment.

27. Operating leases

2008

	<1 year R million	1 – 5 years R million	>5 years R million	Total R million
LHWP				
Buildings	1	1	–	2
Equipment[1]	–	–	–	–
Total	1	1	–	2
BWP				
Buildings[2]	1	–	–	1
Equipment[3]	–	–	–	–
Total	1	–	–	1

[1] *Equipment lease amounting to R200 583 (< 1 year) and R429 894 (1 – 5 years)*
[2] *Building lease amounting to R101 871 (1 – 5 years)*
[3] *Equipment lease amounting to R81 123 (< 1 year) and R90 331 (1 – 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 Franschhoek, escalates by the official repurchase percentage rate determined by the South African Reserve Bank.

The lease term for equipment is five years and the rental payments are linked to the prime interest rate. Should prime increase during the term of the agreement, the rentals payable will increase with effect from the date of such increase.

Future minimum lease payments under operating leases are included in the above note.

28. Operations and maintenance

Below is a statement of income and expenses relating to operations and maintenance for the works on South African soil. The amounts are included in the income statement on page 72. In terms of Protocol VI to the Treaty[6], signed on 4 June 1999, these amounts are separately identified and reported on:

[6] The Treaty refers to the treaty signed between the South African Government and the Government of Lesotho dated 24 October 1986.

	2008 R million	2007 R million
Revenue	741	730
Operating costs	741	730
	–	–

29. Employee benefits

29.1 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.

29.2 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.

30. Events after the balance sheet date

30.1 WS06 redemption

The WS06 bond matured on 30 April 2008. On this date, TCTA paid capital of R800 million and accrued interest of R32 million.

30.2 Incentives

The incentives for employees 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, R4 million was paid to employees on 6 June 2008 being the first payment of the three rolling payments. The banked incentive for 2007/08 financial year will be paid to employees over the next two years and is dependent on whether the employee is still in the employ of TCTA at the date of payment of the second and third rolling payment. Incentives to Exco will only be approved by Board on 30 July 2008 and no provision has been made in the annual financial statements in this regard.

31. 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. The directors confirm that TCTA is a going concern.

32. 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.

32. Capitalised and expensed costs of the projects (continued)

Total cost of the project	BWP 2008 R million	BWP 2007 R million	VRESAP 2008 R million	VRESAP 2007 R million
Capitalised				
Engineering and construction	1 331	1 075	2 008	1 316
Water income	(443)	(313)	–	–
Fixed assets	0	1	0	0
Finance costs	199	98	246	78
Directly attributable costs	41	39	16	13
	1 128	900	2 270	1 407
Expensed	21	32	24	18
	1 149	932	2 294	1 425

33. Additional segmental information

33.1 Adoption of IFRS 8: *Operating Segments*

TCTA has adopted IFRS 8: *Operating Segments* in advance of its effective date, with effect from 1 April 2007. 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.

33.2 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 Affairs and Forestry. Different projects and the extent of TCTA's involvement is as follows:

- Lesotho Highlands Water Project (LHWP): TCTA was mandated with the implementation, operation and maintenance as well as liability management of the project.
- Berg Water Project (BWP): TCTA was directed to fund and implement the BWP.
- Vaal River Eastern Subsystem Augmentation Project (VRESAP): This project was declared an emergency project in 2004. The funding and implementation of the project had been mandated to TCTA.
- TCTA was mandated with various advisory activities. These include Umgeni Water, Olifants River Water Resource Development Project, Spring Grove Dam project.

33.3 Major customers

LHWP

TCTA entered into an income agreement with DWAF in August 2001, which determines the Vaal River raw water tariff for augmentation schemes. LHWP revenue consists of receipt of these tariffs from DWAF.

BWP

In terms of the national water policy (1997) water development projects should be funded by users, if possible. Water users in 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 DWAF which pays TCTA to cover the costs and repay the debt incurred for funding the project. This income is still capitalised to decrease the funding cost.

33. Additional segmental information (continued)

33.4 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's accounting policies as set out in note 4. Segment deficit represents shared costs incurred by LHWP allocated to the project.

2008

	LHWP 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[2]	(35)	–	–	**(35)**
Deficit for the year	(117)	(21)	(24)	**(162)**
Other information				
Capital expenditure for property, plant and equipment	2	228	953	**1 183**
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	**20 954**

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.

33. Additional segmental information (continued)

33.4 Segment revenues and results

2007

	LHWP R million	BWP[2] R million	VRESAP[2] R million	Total R million
Revenue				
Revenue from external customers[1]	1 951	–	–	1 951
Other income	–	–	–	–
Total income	1 951	–	–	1 951
Interest income[3]	455	–	–	455
Finance costs[3]	(2 021)	–	–	(2 021)
Net finance costs	(1 565)	–	–	(1 565)
Depreciation and amortisation[2]	(96)	–	–	(96)
Deficit for the year	(93)	(10)	(11)	(114)
Other information				
Capital expenditure for property, plant and equipment	–	409	1 275	1 684
Revaluation of works in South Africa	112	–	–	112
Assets and liabilities				
Assets	16 590	934	1 578	19 102
Liabilities	16 590	934	1 578	19 102

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.*

List of terms and definitions

ALBI	All Bond Index
BBBEE	Broad-based black economic empowerment
BE	Black enterprise
BEE	Black economic empowerment
BESA	Bond Exchange of South Africa
BRC	Berg River Consultant
BRPJV	Berg River Project Joint Venture
BWCC	Berg Water Capital Charge
BWP	Berg Water Project
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CoCT	City of Cape Town
COO	Chief Operating Officer
COSO	Committee of Sponsoring Organisations of the Treadway Commission
CFRD	Concrete-faced rockfill dam
CPIX	Consumer price index (excluding home loans)
DEAT	Department of Environmental Affairs and Tourism
DWAF	Department of Water Affairs and Forestry
ECO	Environmental Control Officer
EIA	Environmental Impact Assessment
EIB	European Investment Bank
EIR	Environmental Impact Report
EMC	Environmental Monitoring Committee
EMP	Environmental Management Plan
EMPR	Environmental Management Plan Report
ERM	Enterprise Risk Management
EWRM	Enterprise-wide Risk Management
FFP	Franschhoek First Policy
GAAP	Generally Accepted Accounting Practice
GBP	Pound sterling
GOL	Government of Lesotho
GOP	Growing Our People
GOT	Growing Our Teams
HDIs	Historically disadvantaged individuals
IWUA	Impala Water Users Association
ICM	Integrated Catchment Management
IETC	Integrated Employment and Training Committee
IFRS	International Financial Reporting Standards
IIA	Institute of Internal Auditors
JPY	Japanese yen
LHDA	Lesotho Highlands Development Authority
LHWC	Lesotho Highlands Water Commission
LHWP	Lesotho Highlands Water Project
m^3	Cubic metres
MMTS-2	Mooi-Mgeni Transfer Scheme Phase 2
MoA	Memorandum of Agreement
MWB	Must Win Battles
NWRIA	National Water Resource Infrastructure Agency
NWRI	National Water Resource Infrastructure
OD	Organisational Development
O&M	Operations and Maintenance
ORWRDP	Olifants River Water Resource Development Project
PAIA	Public Access to Information Act
PFMA	Public Finance Management Act
PIM	Project Implementation Methodology
PM	People Management
PPI	Producer price index
PPP	Public Participation Programme
PPPFA	Preferential Procurement Policy Framework Act
Q1	Quarter number 1
RSA	Republic of South Africa
RoD	Record of Decision
SAAWU	South African Association of Water Utilities
SAM	Strategic Alignment Management
SARB	South African Reserve Bank
SARS	South African Revenue Service
SEMP	Standard Environmental Management Plan
SLA	Service Level Agreement
SMME	Small, medium, micro-enterprise
SUP	Sustainable Utilisation Plan
TCTA	Trans-Caledon Tunnel Authority
TPCC	Third-party capital charge
USD	United States Dollar
UW	Umgeni Water
VRESAP	Vaal River Eastern Subsystem Augmentation Project
VRESS	Vaal River Eastern Subsystem
WCWS	Western Cape Water System
WS04	Water stock number 4

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A new word for water

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