Annual Report
2009/2010

A new word for water

transform empower uplift

Berg Water Project: Supplement Scheme river works

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Berg Water Project: Upstream weir at Assegaaibos

Vision

Our future direction is guided by the vision to be:

The leader in the sustainable supply of water in the Southern Africa region.

Mission

Our mission is to facilitate water security through the planning, financing and implementation of bulk raw water infrastructure, in the most cost-effective manner that benefits water users.

Values

Our corporate values underscore **Excellence**, **Integrity** and **Respect** for one another, while promoting **Unity** of purpose and the **Growth** of the collective.

Excellence

We

- Consistently give of our best, and take pride in our achievements
- Deliver excellent work, efficiently and on time
- We think innovatively and creatively to improve our performance

Integrity

We

- Converse honestly and respectfully, stimulating constructive action
- Honour our commitments and truly 'walk the talk'
- Gain trust and credibility through fairness and mutually cooperative relationships

Respect

We

- Acknowledge, appreciate and embrace diversity
- Honour, respect and consider diverse views and opinions
- Are responsive to one another's needs and those of our communities and stakeholders

Unity

We

- Are united through common goals and the TCTA vision
- Draw on the strengths and skills of our team
- Contribute positively to the team's performance, spirit and morale

Growth

We

- Willingly share knowledge and information with each other
- Are innovative and proactive in thought and action
- Support, encourage and provide opportunities for individual growth

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

Company profile

TCTA as we know it, exists only through the synergy generated among our employees and major stakeholders

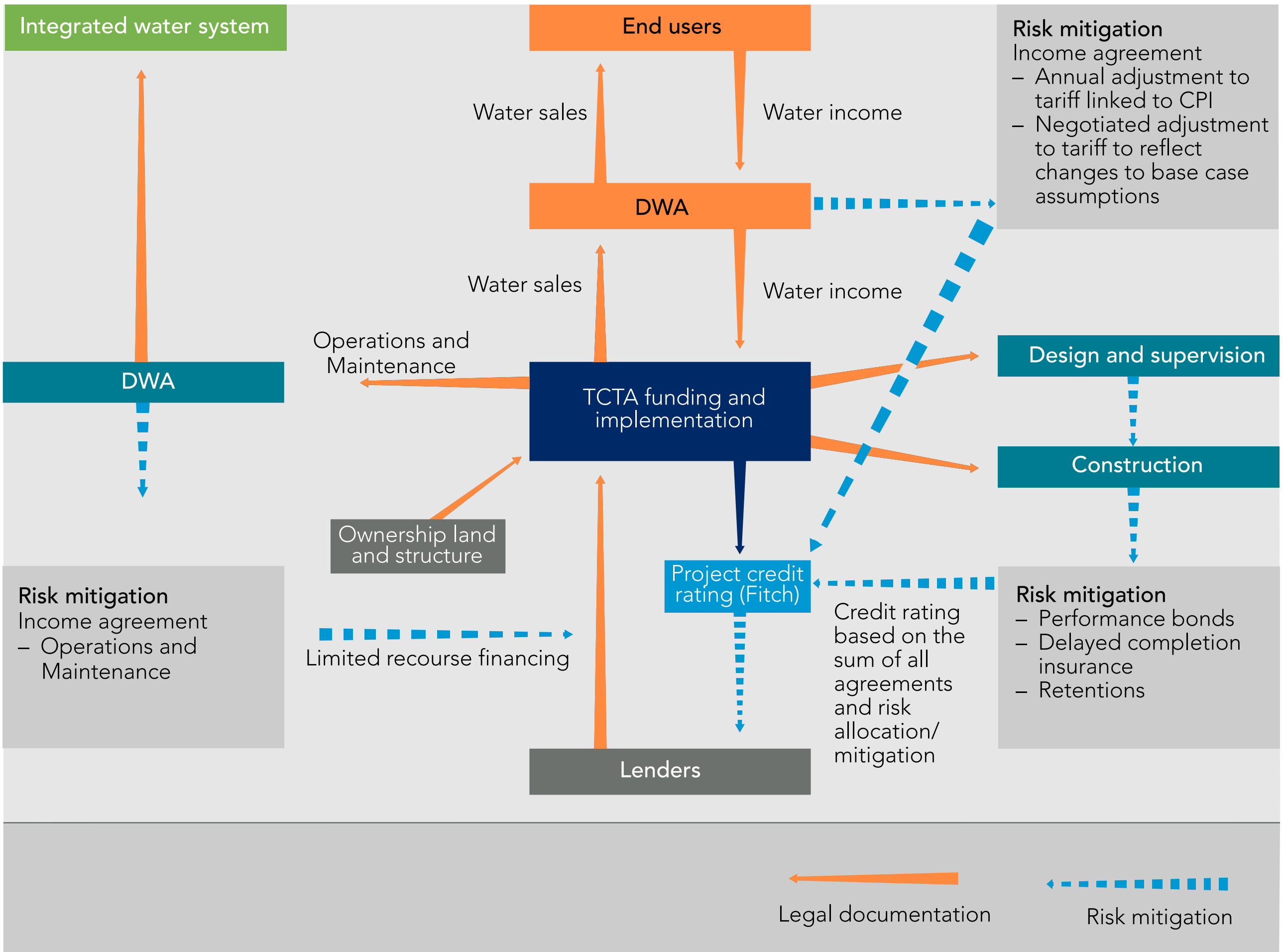
The Trans-Caledon Tunnel Authority (TCTA) is a state-owned entity, established by Government Notice No 2631 in *Government Gazette* No 10545, dated 12 December 1986, replaced by Government Notice No 277 in *Government Gazette* No 21017, dated 24 March 2000, and promulgated in terms of the National Water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

Our business

TCTA is a multidisciplinary organisation specialising in project financing, implementation and liability management. Our business model is guided by the fundamental need to conduct our business:

- within an acceptable risk framework; and
- in the most cost-effective manner that benefits water users.

Business model



Company profile continued

The Vaal Dam: The Vaal River Eastern Subsystem Augmentation Project pipeline transfers water from the Vaal Dam to the diversion structure at Knoppiesfontein

Products and services

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

Current projects

While TCTA works on several projects simultaneously, it does so in terms of explicit directives from the Minister of Water and Environmental Affairs in respect of each project. In each specific case, TCTA raises finance, manages design and construction of the infrastructure and the subsequent liability, until the full debt is repaid.

The projects which TCTA funds and implements are:

- Lesotho Highlands Water Project (LHWP) – South Africa portion of the Delivery Tunnel North
- Berg Water Project (BWP)
- Vaal River Eastern Subsystem Augmentation Project (VRESAP)
- Mooi-Mgeni Transfer Scheme Phase 2 (MMTS2)
- Komati Water Scheme Augmentation Project (KWSAP)
- Olifants River Water Resource Development Project Phase 2 (ORWRDP2)
- Mokolo-Crocodile River Water Augmentation Project (MCWAP)

Advisory services

TCTA works closely with the Department of Water Affairs (DWA), water boards, municipalities and other entities that are linked to bulk raw water infrastructure.

	Project funding and implementation mandates						Advisory
	LHWP	BWP	VRESAP	MMTS2	ORWRDP2	KWSAP	DWA
Revenue recourse	Explicit government guarantees	• Income stream from project • Implied guarantee	• Income stream from project • Implied guarantee	• Income stream from project • Implied guarantee	• Income stream from project • Implied guarantee	• Income stream from project • Implied guarantee	Cost recovery from DWA
Mandate activities	• Fund • Risk management • Operations and maintenance of assets	• Implement • Fund • Risk management	• Implement • Fund • Risk management	• Implement • Fund • Risk management	• Implement • Fund • Risk management	• Implement • Fund • Risk management	MCWAP
Peak of debt	R19 billion	R1,3 billion	R3,3 billion	R2,7 billion	R5 billion	R2,7 billion	Expected: – VRESAP2 – LHWP2
Construction info: Commenced Completed	1988 2001	2003 2008	2005 April 2011	January 2011 June 2012	2011 – 2013	November 2010 May 2012	
Repayment of debt	2022	2028	2028	20 years after construction	20 years after construction	20 years after construction	

TCTA and Water Infrastructure

This year, 2010, shall be a year of action. Our long-term infrastructure programme will help us grow faster

President Jacob Zuma

South Africa is the thirtieth driest country in the world, with a highly variable rainfall. Also, economic development, largely driven by the exploitation of minerals, has not occurred where the water resources are located. As a result, a national system of storage and transfer schemes has been developed to ensure consumers receive a reliable supply of water.

This National Water Resource Infrastructure is managed by the Department of Water Affairs to provide a secure supply of water to South Africa. TCTA funds and implements elements of the National Water Resource Infrastructure, where the Department of Water Affairs has decided that the revenues generated by the consumer base are strong enough to repay the individual project borrowings.

The most important of these schemes whose debts are managed by TCTA, is the Lesotho Highlands Water Project, which, although primarily built to serve consumers drawing from the Vaal River System, links consumers from Phalaborwa to Nelson Mandela Bay and Alexandra Bay.

The Vaal River Eastern Subsystem Augmentation Project takes water out of the Vaal Dam and discharges it into a tributary of the Olifants River from where it is abstracted by Eskom and Sasol. The Komati Water Scheme Augmentation Project effectively forms a continuation of VRESAP when it abstracts water at Rietfontein Weir for use at Mathla, Duvha and the future Kusile Power Station. Both these schemes form part of the Vaal River Eastern Subsystem that supplies Sasol and Eskom's power stations on the highveld.

Further down the Olifants River is the Olifants River Water Resource Development Project, which draws from dams on the Olifants and Steelpoort rivers to supply the mines and municipalities in the area.

In the north-west of South Africa is the Mokolo-Crocodile Water Augmentation Project which is designed to bring water to the Waterberg area to allow the exploitation of the coal reserves in the area. This scheme is linked to LHWP as the abstraction from the Crocodile River is dependent on the return flows from the Rand Water distribution network.

In KwaZulu-Natal, TCTA is constructing Phase 2 of the Mooi-Mgeni Scheme to increase supply to the Msunduzi-eThekwini area. The development of water resources for this area is influenced by transfer schemes in the upper reaches of the Tugela River, which transfer water across to consumers in the Vaal River System.

Only the Western Cape water supply system, where the Berg Water Project is located, is not linked to the rest of the country through existing National Water Resource Infrastructure. This dam and supplementary scheme was built to increase water supply to the City of Cape Town and the surrounding municipalities.

Project landmarks

Berg Water Project: View from the sleeve valves

1986

Treaty signed between SA and Lesotho for the Lesotho Highlands Water Project (LHWP)

TCTA established to fund and implement Delivery Tunnel North (from the Caledon River to the Ash River outfall)

1994

Received a directive to fulfil all obligations of the SA Government in terms of, or resulting from, the Treaty on the Lesotho Highlands Water Project (involving the payment of money)

1997

Phase 1 LHWP transfer scheme commissioned

2002

Received a directive to fund and implement Berg Water Project (BWP)

1988

Start of construction of LHWP and the phase-in of the capital charge for all domestic and industrial consumers on the Vaal River System over an eight-year period

1996

Delivery Tunnel North completed

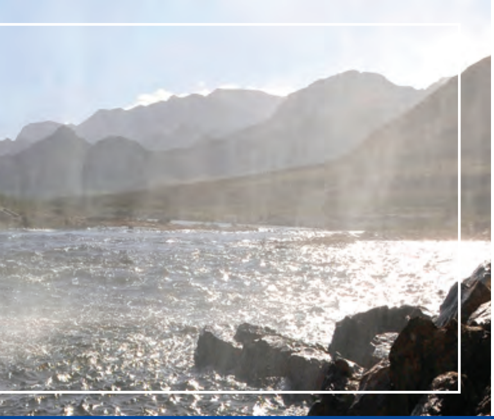
2001

Received a directive to assist Umgeni Water restructure its balance sheet

2003

July

Commenced with construction of BWP and the phase-in of the capital charge for the City of Cape Town consumers over a four-year period



As TCTA's project landmarks and water infrastructure show – both in time over two decades and in space across the country – this organisation has successfully leveraged knowledge and innovation to catalyse infrastructure development

2004

Received a directive to fund and implement the Vaal River Eastern Subsystem Augmentation Project (VRESAP)

October

Completed restructuring of the Umgeni Water balance sheet and handed back Umgeni Water Treasury Management

2007

July

Commenced with impoundment of Berg Water Dam

November

Received a directive to fund and implement Mooi-Mgeni Transfer Scheme Phase 2 (MMTS2)

2008

July

Received a directive to fund and implement the Olifants River Water Resources Development Project (ORWRDP)

August

Berg Water Dam filled to capacity and spilled for the first time

September

Received a directive to fund and implement the Komati Water Scheme Augmentation Project (KWSAP)

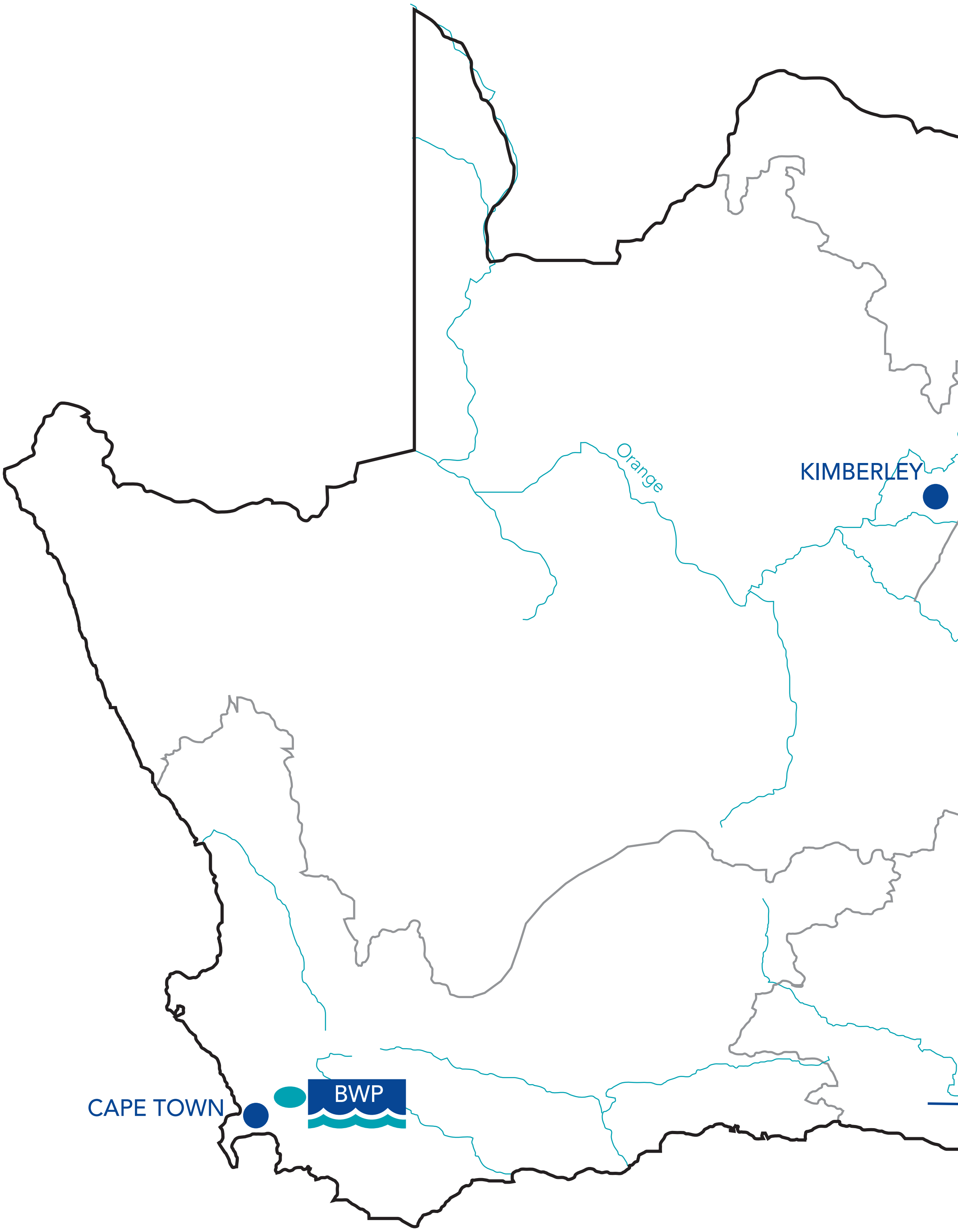
2009

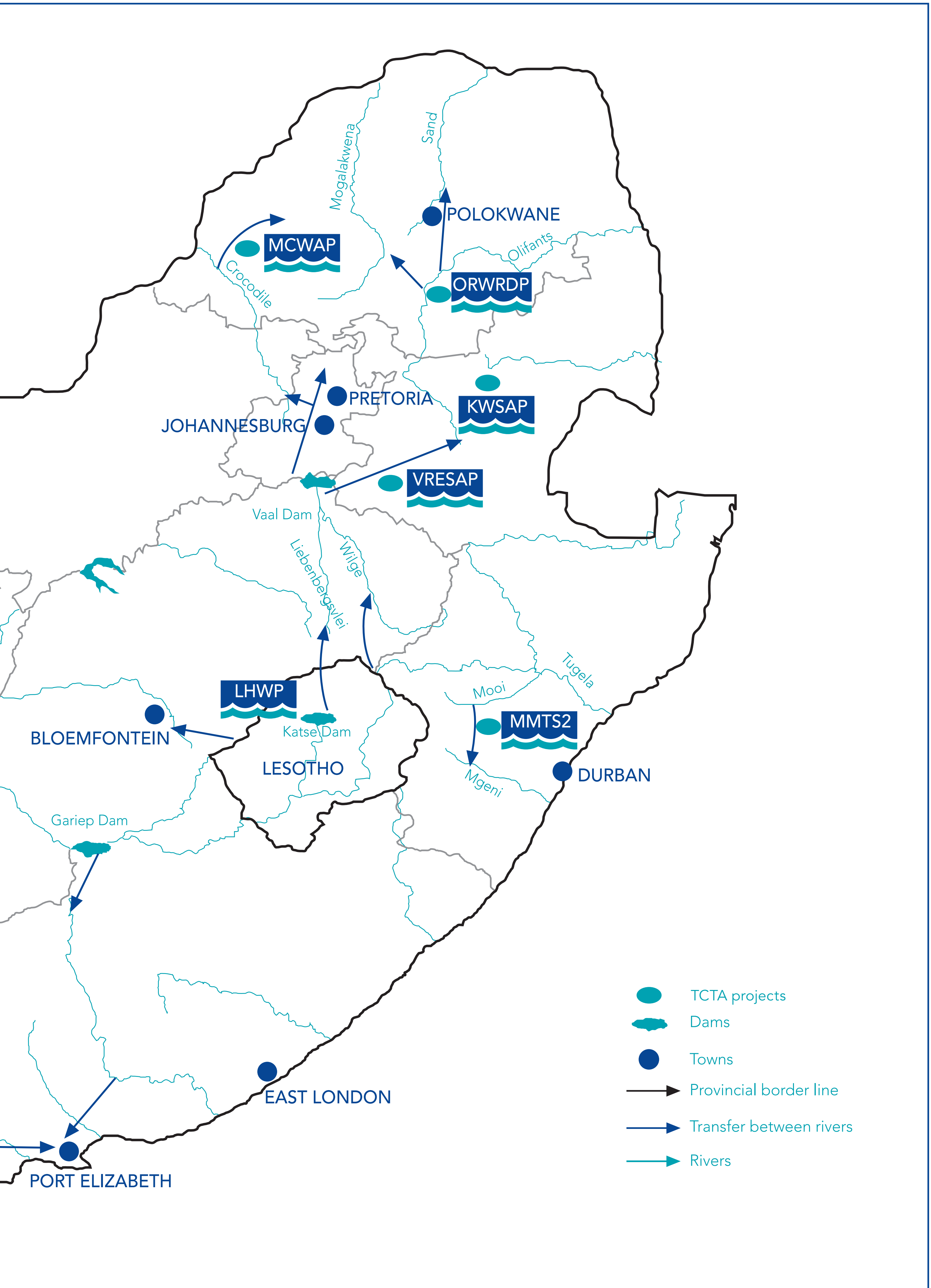
June

Received an instruction to proceed with the engineering design on Mokolo-Crocodile Water Augmentation Project (MCWAP)

Commenced with delivery of water and tariff implementation on the Vaal River Eastern Subsystem Augmentation Project (VRESAP)

Infrastructure footprint





Mogalakwena
Sand
POLOKWANE
MCWAP
Olifants
ORWRDP
Crocodile
PRETORIA
KWSAP
JOHANNESBURG
VRESAP
Vaal Dam
Liebenbergsvlei
Wilge
Tugela
Mooi
LHWP
MMTS2
BLOEMFONTEIN
Katse Dam
LESOTHO
DURBAN
Mgeni
Gariep Dam
EAST LONDON
PORT ELIZABETH
TCTA projects
Dams
Towns
Provincial border line
Transfer between rivers
Rivers

Highlights

Debt servicing and operating surplus

Income from water sales proved adequate to service debt incurred from all projects under TCTA's mandate. The operating surplus for the financial year increased to R2 026 million, from R1 756 million in the previous year.

Knowledge management

A pioneering step was taken by establishing a Knowledge Management Division in November 2009, accelerating the generation and application of knowledge throughout the organisation. Knowledge is a critical driver of TCTA's core business strategy of expanding water infrastructure and providing a range of products and services for the benefit of ourselves, our partners and our stakeholders. The newly approved strategy for knowledge management guides TCTA's transformation to a knowledge organisation and foremost change agent.

Transformation and development

We committed ourselves to the progressive ideals and principles of sustainable development to create value for stakeholders within the social, economic and environmental spheres. A new strategy for transformation and socio-economic development was adopted. Such is its importance, that its implementation was transferred to the Office of the CEO. A new Socio-economic Development Fund will facilitate the implementation of the strategy.

Human resource management

With increasing responsibility for major water supply projects, TCTA has grown as an organisation. Our human capital is our most valuable resource and hence we placed immense value on our people and their intricate relationships with the organisation and its embedded values. New strategic initiatives focused on strengthening the employee-business interface and maximising the effectiveness of human resources in achieving business objectives.

Projects

Berg Water Project

The completion and launch of the Berg Water Project marked the start of an associated Sustainable Utilisation Plan. The SUP is a development framework formulated to guide the long-term management and land use of the Berg River Dam water body and surrounding state land.

Vaal River Eastern Subsystem Augmentation Project

This project was declared operational in June 2009 when water delivery from the project commenced. The accelerated water delivery timeline was expedited by installing a temporary floating pump station to transfer water to Eskom and Sasol.

A reinforced concrete intake structure is under construction in a 24-metre deep shaft which will enable low lift pumps to deliver the full abstraction volume from the Vaal Dam even if the level is as low as 15%.

Olifants River Water Resources Development Project Phase 2

Alternative implementation options were mapped out and progress made with tender designs. The project commenced tender design work, specifically on a bulk distribution system which will enable the Flag Boshielo Dam and De Hoop Dam to function as a single system, ensuring stabilisation of a higher water supply level to new mines and the communities in Limpopo province.

Mokolo-Crocodile Water Augmentation Project

Innovative project approaches ensured that project planning was integrated and remained on course, with TCTA serving as the nerve centre for regular negotiations among all project stakeholders. Professional engineering services were procured and geotechnical investigations and design work have commenced.

Komati Water Scheme Augmentation Project

Notable progress has been made on project planning, with tender design completed for the pipeline and pump station. The final tender documentation, land acquisition strategy and environmental strategy have been approved, and agreement for kick-starting the project has been advanced significantly.

Mooi-Mgeni Transfer Scheme Phase 2

The tender design for the Spring Grove Dam was finalised, pointing to a state of readiness to proceed with the final tender and construction of the dam. Efforts were also directed towards ensuring that long-term funding was secured from foreign development finance institutions.

Environmental performance

The Berg Water Project in Franschhoek, Western Cape, is the first dam in South Africa to be designed, constructed and operated in strict accordance with the guidelines of the United Nations World Commission on Dams and the National Water Act.

At the Vaal River Eastern Subsystem Augmentation Project, plant species protected under the provincial ordinances which were originally removed and stored at an on-site nursery during construction, were successfully returned to their original habitat.

Houses in Khubetswana Township, Clarens – constructed during LHWP. As part of TCTA's Transformation and Development Programme, a disposal strategy is currently being formulated to deal with the transfer of the houses

Chairman's report

Dr Snowy Khoza
Chairman

Significant progress has also been made with respect to the simultaneous planning and implementation of our four new projects

Over the last two years, when I commenced my tenure as Chairman, I have witnessed TCTA growing from strength to strength, and the year under review has been no exception. Although the uncertainty in the financial markets presented some challenges, we were fortunate in being able to ride it out with fair development impact. This is due to the astute management of fiduciary responsibilities within the organisation, underpinned by best practices and effective corporate governance processes. The Board directed and supported TCTA's management in developing strategies to build new relationships and to attract increased interest from the financial markets.

TCTA's mandate is to raise finance off-budget for the development of cost-effective infrastructure which delivers raw bulk water supplies to areas of South Africa where water is needed for industry and community use. Our influence is not only in the visible spectrum of hard concrete construction, but also in the areas surrounding our projects where we involve ourselves fully in the upliftment of the local communities. Each of our projects is structured in such a way as to provide livelihood and job opportunities as well as mentoring and skills transfer to project communities, encouraging sustainable growth economically and socially.

I am pleased to report that water delivery has commenced from the Vaal River Subsystem Augmentation Project, ensuring critical supplies to meet the needs of Sasol and Eskom.

Significant progress has also been made with respect to the simultaneous planning and implementation of our four new projects. These are the Mooi-Mgeni Transfer Scheme Phase 2; the Olifants River Water Resources Development Project; the Komati Water Scheme Augmentation Project and the Mokolo-Crocodile Water Augmentation Project.

Transformation in all its forms has been high on the agenda during the year under review. Internally, TCTA embedded the philosophy of a performance-driven organisation. The human resource function was consolidated, placing the organisation in a favourable position to accelerate the implementation of several new policies. Known for valuing its human capital, TCTA created a model of business partnering that will improve communication between staff and line management, aligning individual goals with business objectives. Systems are in place to encourage excellence and reward high achievement. I am also happy to report that women empowerment continues to flourish at TCTA.

Externally, TCTA made great strides in incorporating transformation initiatives within our project environments. We fully embrace government's initiative to extend entrepreneurial opportunities to ordinary members of society. We have begun implementing policies to ensure that all tender awards create opportunities for partnerships between established entities and small enterprises.

Vaal River Eastern Subsystem Augmentation Project: The project was designed to be remotely controlled from Grootdraai Dam. The control panel at the high lift pump station in Boschkop (with the entire major project components unmanned) is similar to the control panel in Grootdraai Dam, from where the operator can monitor operations in Boschkop. He can see if valves are open or closed, which pumps are running, the volume of water delivered, the level of storage dams, and if a pump trips – what the cause of the trip is

We are proud of our achievements in this area, but are also cognisant of the significant mileage yet to be covered and the challenges ahead. A strategy that demonstrates our high aspirations on transformation and socio-economic development will be implemented during the 2010/11 financial cycle.

Another significant achievement during the period under review was the adoption of a Knowledge Management agenda. For an organisation such as TCTA which views itself as a thought leader in the water sector, a knowledge-driven and intellectually stimulating environment fostering innovation and learning broadly, is critical. We expect to report favourably on the achievements of this programme in the coming financial year.

The year witnessed the origination and systematic monitoring of a number of strategic initiatives by Board, to collectively ensure TCTA leadership in the water sector and to steer the organisation to sustainable success. Board strategy emphasises that responding to the continued growth in water demand across the country would require TCTA to refine its current business model and realign its skills set. I am confident that the continued implementation of the suite of tasks mapped out by Board will deepen the contributions of TCTA to the country's socio-economic landscape.

The current Board's term of office expires on 30 June this year. I would like to applaud the contributions that my fellow directors have made in leading TCTA, and their commitment and support to organisational objectives.

On behalf of the Board, I would like to thank the Minister of Water and Environmental Affairs, Honourable Buyelwa Sonjica, for the opportunity to serve the organisation and the nation. We wish the new Board strength in guiding the exciting work of TCTA.

To TCTA's Executive Committee, management and staff, thank you for your efforts and teamwork in building TCTA into the great organisation that it has become.

I bid farewell to TCTA with pride at the for the great strides made, and wish the organisation well in the future as it continues to live its vision of being the leader in the sustainable supply of bulk raw water in the region.

May TCTA continue to make South Africa proud.

Dr Snowy Khoza
Chairman

CEO's report

James Ndlovu
CEO

This year we have concentrated on building our corporate culture to reflect the spirit of entrepreneurship and define the core values which guide and inspire our staff

I am pleased to report that, once again, the Trans-Caledon Tunnel Authority has performed with distinction during this financial year. Our capability of providing large-scale infrastructure and raising finance to deliver bulk raw water to industry and communities in South Africa has grown. TCTA has expanded both in size and stature, and is acknowledged as a major player in the water sector.

This year we have concentrated on building our corporate culture to reflect the spirit of entrepreneurship and define the core values which guide and inspire our staff. Unity, Growth, Excellence, Integrity and Respect are the values which we will carry into the future.

Our projects are characterised by long lead times to construction and ultimate commissioning. We are involved from the start, developing economically sustainable financial models; raising funds; designing cost-effective and environmentally sound infrastructures, including the management of tenders and engineering contracts; and putting into place the relevant socio-economic and environmental strategies.

In this year, we achieved all our major goals relating to existing projects. The Vaal River Eastern Subsystem Augmentation Project was declared operational in June 2009 and an agreement with Eskom to implement the Komati Water Scheme Augmentation Project advanced significantly.

Economic performance

The volatile economic climate had both a negative and a positive effect on TCTA. Traditional funders were understandably reluctant to commit to long-term financing. This gave us the opportunity of approaching other players in the market. The outcome was extremely positive, reflecting our sound financial standing and reputation as a preferred borrower. This exercise has extended our financial resource off-budget base considerably, and TCTA bond auctions were well supported.

Once again, we received an unqualified audit report which is largely owing to complete and accurate financial records, strong liability management for each project, and effective central governance and controls.

Overall economic performance was satisfactory, with sales of raw water, mainly from the Lesotho Highlands Project, totalling R2 738 million compared to R2 353 million the previous year.

Projects

TCTA currently manages seven projects. These are the Lesotho Highlands Water Project; the Berg Water Project;

the Vaal River Eastern Subsystem Augmentation Project; the Mooi-Mgeni Transfer Scheme Phase 2; the Olifants River Water Resource Development Project Phase 2; the Komati Water Scheme Augmentation Project; and the Mokolo-Crocodile Water Augmentation Project which will commence in the next financial year in terms of an interim directive.

Social performance

Our primary focus this year was to improve operational performance. We took a proactive approach in initiating strategies to revitalise and consolidate our core competencies, increasing our ability to deliver sustainable long-term services to all our stakeholders.

Knowledge is the essence of transformation, both personally and in a work situation. Recognising this, we introduced a Knowledge Management Division that will accelerate the creation of a corporate environment that values learning and knowledge sharing. We believe that enriching our intellectual capital will position us as the leader in the water sector and accelerate the provision of bulk raw water infrastructure through the use of innovative solutions to operational challenges.

Human capital is our most valuable resource, and to optimise our employee-business interface, the Human Resource Management and Organisational Development Division came into being, to make the most effective use of human resources in achieving business objectives.

We have long been committed to the ideals and principles of transformation and sustainable development. We believe that the issue of socio-economic transformation and development is of immense importance to our country, thus this programme has been transferred to my office, and a new Socio-economic Development Fund has been launched to escalate the process. We have plans to adopt a novel BBBEE policy, where large engineering organisations take under their wing smaller, emerging companies, transferring skills and offering mentorship.

Environmental performance

We are becoming increasingly aware of the urgency to conserve the environment. Our operations place us in the ideal position to fulfil South Africa's water development needs without placing undue pressure on the environment. We consistently achieve high levels of compliance with both local and international environmental guidelines.

An Environmental Monitoring Committee will be established for each project as we advance to actual implementation. The committee will monitor not only the natural environment, but the broader socio-economic policies that we have put into place to develop and empower communities living nearby.

Into the future

As our country grows economically, so does the demand for water, a scarce commodity in this thirsty land. We foresee that the water deficit will call for the development of additional water infrastructure, which we are more than qualified – and willing – to lead.

As part of our internal strategy, we will reinforce an environment that recognises and rewards the unique skills that are needed in our specialised field of operation. Our people are given the space to grow and we will support them in a variety of ways, encouraging them to uphold ethical guidelines and professional standards, to acquire and share knowledge, and to be part of a performance-driven culture.

The strategic measures taken this year in realigning and improving our core functions means that all critical resources are firmly in place, and we anticipate playing a major role in the future. Such role will benefit greatly from interventions to address certain structural and mandate constraints currently faced by TCTA.

A personal message

Although this is placed at the end of my report, it is, by far, the most important part.

TCTA, as we know it, exists only through the synergy generated among our employees and major stakeholders. The unswerving diligence and loyalty of our staff is commendable. I thank you for continuing on the journey that we have planned together, for upholding our mission of delivering water on a sustainable basis to South Africa, and for keeping our vision and values alive. I thank you specially, this year, for your patience as we implemented new policies and processes. On behalf of the entire organisation, I want to thank the Department of Water Affairs for its continuing support to maintaining TCTA on a sustainable path.

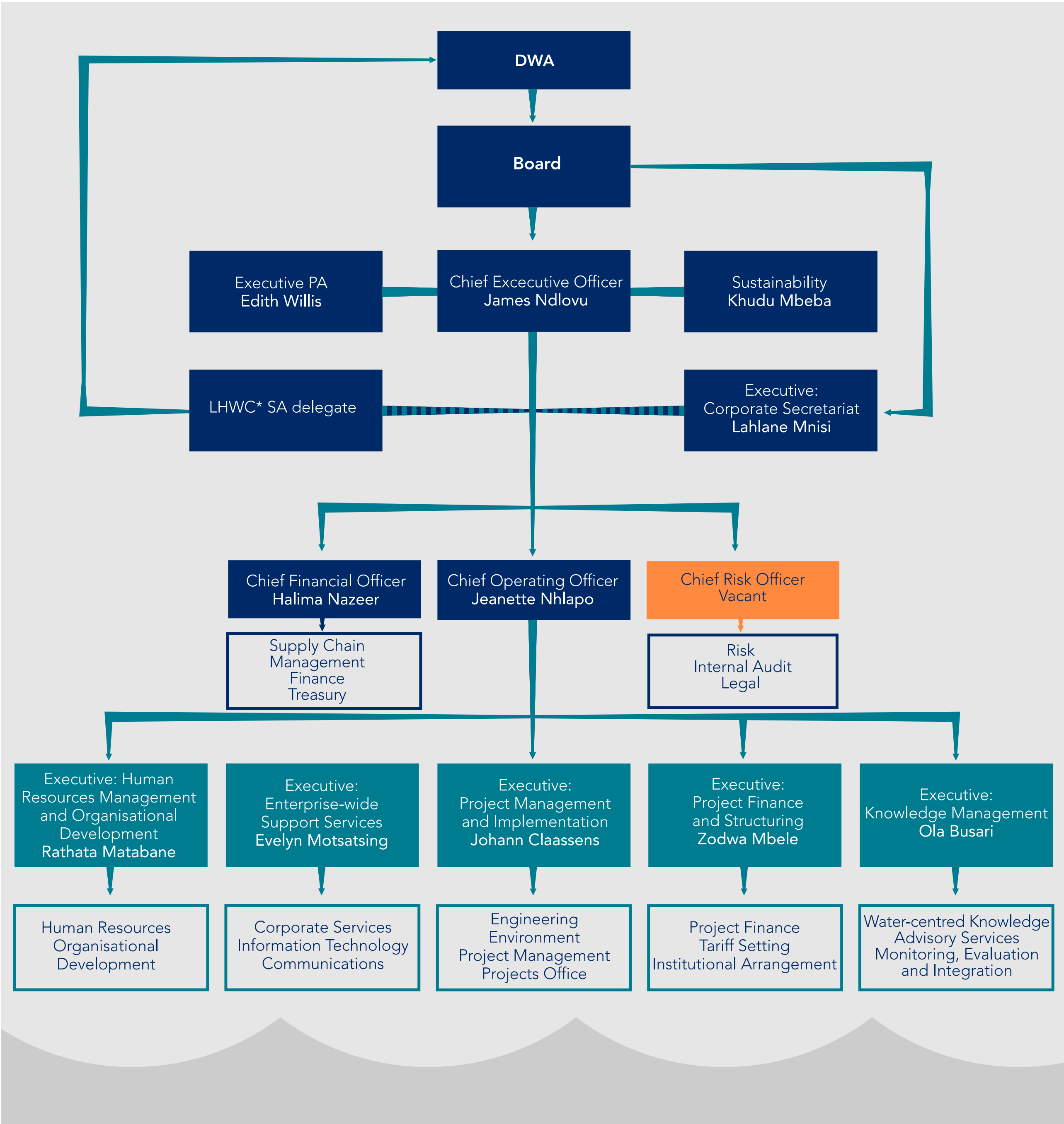
I view also with pleasure, the cooperative relationship that exists between Labour Union SASAWU and ourselves. Together we have reached a number of significant milestones in our quest to make TCTA a favourable working environment for all.

We bid farewell to the members of our Board of Directors, whose term of office comes to an end soon. I appreciate all that they have done for TCTA, particularly in laying the foundation that will enable us to move forward. A special word to Dr Snowy Khoza, for her sterling leadership in helping to create a stable organisation, and for always being there when guidance was needed.

To the incoming Board, I say welcome. We challenge you, together with management, to lead TCTA to even greater heights.

James Ndlovu
Chief Executive Officer

Organisational structure



We have placed immense value on our people and their intricate relationships with the organisation and its embedded values

Staff and stakeholders: Enjoying themselves at the Annual Report cocktail function in September 2009

Board of Directors

Dr Snowy Khoza (52)

Chairman

Qualifications

PhD (Brandeis University; MA, USA – 1996)

MBA (University of Cape Town – 2008)

MA (SS) (University of South Africa – 1990)

BA (Hons) (University of Fort Hare – 1986)

BA (SW) (University of the North – 1981)

Economics and Public Finance (University of South Africa – 1999)

Finance for Executives (INSEAD; France – 2005)

Utility Regulation and Strategy (University of Florida, USA – 2001)

Global Management Development Programme (University of Navarra, Spain – 2000)

Current position

Group Executive Manager: Business Technologies and Facilities (DBSA)

Other directorships/memberships

Mali Trust (Presidency) (Trustee)

National Housing Financing Corporation (Non-executive Board member)

Ka-Manowi Manor cc (Non-executive Director)

Board committees

REMCO (Chairman)

Mr Lebohang Thotanyana (36)

Deputy Chairman

Qualifications

CA (L)

BCom (Hons) (University of Cape Town – 2002)

International Qualification, Capital Markets (Securities Institute, UK – 1999)

Current position

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

Chairman of the following boards

Thotanyana Mining and Civils

Thotanyana Transport

Key Dimensions

Mokorotlo Financial Services

MFS Consulting

C4 Seed JV

Other directorships/memberships

Standard Bank of Lesotho (Non-executive Director)

International Federation of Accountants – DNC (Member)

Petroleum Fund (Non-executive Director)

Government Employees Pensions Fund – Lesotho (Trustee)

Board committees

Audit and Risk (Chairman)

ALCO

REMCO

Mr James Ndlovu (40)

Chief Executive Officer

Qualifications

MSc Development Planning (Wits – 1995)

BA (Wits – 1993)

Micro Computing Options in Monitoring and Evaluation (short course) (University of East Anglia, UK – 1995)

Short course in Monitoring and Evaluation of Public Sector Projects and Programmes (University of East Anglia, UK – 1995)

Current position

Chief Executive Officer: TCTA

Other directorships/memberships

None

Board committees

None

Ms Lahlane Mnisi (38)

Company Secretary

Qualifications

Admitted Attorney of the High Court – 2002

LLB (University of the North – 1998)

BProc (University of the North – 1995)

Other directorships/ memberships

Phereke Projects cc: Member

Vonani Designs cc: Member

Zwanani Association: Member

Board committees

None

Mr Robert Mbwana (47)

Qualifications

Professional Engineer, Engineering Council of SA (1998)

BSc Civil Eng (Polytechnic University Malawi – 1987)

Dip Eng (Polytechnic University Malawi – 1984)

Current position

Managing Director: Inhlakanipho Consultants

Other directorships/ memberships

None

Board committees

VRESAP Technical (Chairman) Technical Committee

REMCO

Mr Thuto Shomang (39)

Qualifications

BCom (Hons) (University of Johannesburg)

BCom (Vista University – Unisa)

Secondary Teachers' Diploma (Sebokeng College of Education)

Current position

Chief Director: Liability Management, National Treasury

Other directorships/ memberships

None

Board committees

ALCO

Board of Directors continued

Mr Onesmus Ayaya (48)

Qualifications

MBA (University of Nairobi – 1990)

CPA (K) (Institute of Certified Public Accountants Nairobi – 1991)

ACMA (The Chartered Institute of Management Accountants UK – 1998)

BCom (Hons) (University of Nairobi – 1988)

Dip SA Law and Taxation (Institute of Commercial Industrial Education, Durban – 1996)

Current position

Deputy Director-General: Department of Water Affairs

Other directorships/ memberships

The Chartered Institute of Management Accountants (Professional membership)

Board committees

None

Ms Angie Makwetla (63)

Qualifications

BA Social Work (Limpopo University – 1978)

Management Certificate (Cambridge, Massachusetts – 1992)

Current position

CEO: Makwetla & Associates

Chairman of the following boards

Education Africa

Dr Sam Motsuenyane Rural Development Fund

Boipelo Community Development Foundation

Aband' Ubuntu Women's Co-op

Director on the following boards

MMRT Investments

Emang Basadi

Twanano Investments

Bold Moves

All Leisure Travel

Other directorships/ memberships

National Empowerment Fund (Non-executive Director)

Concerned Professional Women's Forum (President)

Thusanang Women's Club (Secretary)

Board committees

HR and Transformation

Mr Simphiwe Kondlo (43)

Qualifications

MSc (Eng Management) (University of Pretoria – 2003)

BSc (Agric Eng) (University of KZN – 1993)

Dip Project Management (Executive Education – 1989)

Dip Civil Eng (ML Sultan Durban Institute of Technology – 1993)

Cert in Commercial Property Practitioner (University of Pretoria – 2006)

Cert in Project Monitoring for Effectiveness (IRC), (Netherlands – 1997)

Current position

CEO: East London Industrial Development Zone (Pty) Limited

Other directorships/ memberships

Amathole Economic Development Agency (Director)

Board committees

Technical Committee (Chairman)

VRESAP Technical

ICT&KM

REMCO

Mr Gregory White (50)

Qualifications

BAdmin (Hons) Development Studies (Unisa – 2008)

BA Economics (UCT – 1980)

Current position

Freelance Consultant

Other directorships/ memberships

None

Board committees

HR and Transformation (Chairman)

ALCO

REMCO

Ms Makano Mosidi (46)

Qualifications

BCom (University of the North – 1987)

Dip Education (University of the North – 1987)

Current position

Managing Director: Relational Database Consulting (Pty) Limited

Other directorships/ memberships

AfriSam (Pty) Limited – Alternate Director

St Hubert Catholic Church

KMM QS (Pty) Limited

Board committees

ICT&KM (Chairman)

Technical Committee

REMCO

Mr Jan-Willem Geenen (37)

Qualifications

CA(SA)

Postgradute Dip Accountancy (University of Natal – 1996)

BCom (University of Natal – 1995)

Current position

Freelance Consultant

Other directorships/ memberships

119 Savuti Sands cc: Member

82 Singati Sands cc: Member

117 Chobe Sands cc: Member

Board committees

ALCO (Chairman)

Audit and Risk

ICT&KM

REMCO

Board of Directors continued

Dr Patricia Makhesha (36)

Qualifications

DBA (Social Development) (Marylebone University – 2008)

MBA (Strategy specialisation) (Marylebone University – 2004)

Dip Public Relations Management (Technikon SA – 2001)

Management Development Programme (MDP) (UCT Business School – 2005)

Executive Education – Strategy (Harvard University Business School – 2005)

Executive Development Programme (Wits Business School – 2005)

Current position

Senior Executive: Transformation (SAFCOL)

Other directorships/ memberships

Rand Water (Non-executive Director)

Mothibi Multi-Media Services

Board committees

HR and Transformation

Ms Evodia M Malefane (60)

Qualifications

BCom Acc (National University of Lesotho (NUL) – 1984)

Graduate Cert Development Finance (Harvard Graduate School – 1998)

Associate General Accountant (AGA) – (The South African Institute of Chartered Accountants (SAICA)

Current position

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

Other directorships/ memberships

The Bank's Provident Fund Committee

Board committees

Audit and Risk

VRESAP Technical

Technical Committee

Dr Paul Roberts (70)

Specialist committee members

Qualifications

Professional Engineer, DSc Engineering (MIT, USA)

Current position

Independent Consultant in Water Resources Management

Other directorships/ memberships

None

Board committees

BWP and VRESAP Technical Committee

Specialist member

Directors: *(seated L – R)* Angie Makwetla, Lebohang Thotanyana, Dr Snowy Khoza, Makano Mosidi and Greg White
(standing L – R) James Ndlovu, Jan Geenen, Evodia Malefane and Simphiwe Kondlo

Exco: *(standing L – R)* Rathata Matabane, Prof Ola Busari, Johann Claassens, Zodwa Mbele and Halima Nazeer
(seated L – R) Lahlane Mnisi, James Ndlovu and Jeanette Nhlapo

Executive management

James Ndlovu (40)
Chief Executive Officer

Jeanette Nhlapo (39)
Chief Operating Officer

Halima Nazeer (41)
Chief Financial Officer

Johann Claassens (49)
Executive Manager: Project Management and Implementation

Zodwa Mbele (38)
Executive Manager: Project Finance and Structuring

Lahlane Mnisi (38)
Executive Manager: Corporate Secretariat

Evelyn Motsatsing (37)
Executive Manager: Enterprise-wide Support Services

Rathata Matabane (44)
Executive Manager: Human Resources Management and Organisational Development

Prof Ola Busari (48)
Executive Manager: Knowledge Management

Project Bosele (A New Dawn) is a change intervention programme which culminated in a new set of values which were formally adopted by staff on 19 March 2010

Operations overview and sustainability

Vaal River Eastern Subsystem Augmentation Project: The project provided employment opportunities for every adult member of the Charl Cilliers community

Strategy and performance overview

The corporate goals and strategies of TCTA are aligned with the strategic imperatives of government, in the context of organisational mandate and expected deliverables. TCTA has positioned itself to play a critical role in the evolution of the country's social and economic development, undertaking the responsibility of expanding water resource infrastructure.

In implementing and monitoring strategy on an annual basis, TCTA has adopted the Balanced Scorecard (BSC) methodology. Within the framework of the BSC, TCTA strategies underscore stakeholder relationships, financial sustainability, internal business process efficiency and collective learning and growth within the organisation.

Each year, the BSC maps out corporate goals and key implementation strategies, together with specific measures for indexing performance. Following approval by the Board, the BSC for the 2009/10 financial year was submitted to the shareholder in February 2009 as part of the Corporate Plan.

The accompanying table presents the actual performance during the 2009/10 financial year, in relation to the high-level corporate goals. In the light of the challenges in the operating macro environment and the organisation's new multiproject arrangements, TCTA achieved satisfactory results during the year, meeting the majority of its contracted deliverables.

Heightened stakeholder engagement and knowledge sharing brought about a marked increase in understanding the position of TCTA in the water value chain, and how it contributes to the nation's economic progress. The financial market continues to express faith in the demonstrated ability of TCTA to put together well-structured projects, which are driven to completion within agreed parameters. Internally, critical people-centred initiatives were implemented during the year, improving morale, commitment and overall performance. The succeeding sections provide details of the various dimensions of organisational performance.

Berg Water Project: Views of the dam from Robertsvlei

Heightened stakeholder engagement and knowledge sharing brought about a marked increase in the understanding of the position of TCTA in the water value chain, and how it contributes to the nation's economic progress

Berg Water Project: Views of the dam from Robertsvlei

Operations overview and sustainability continued

High-level corporate performance for 2009/10

Goals	Strategies	Measures	
1 Stakeholder relationships (10%)			
To maintain and improve on key stakeholder relationships	Develop stakeholder engagement plan to strategically position TCTA as a key player in the water sector	Board-approved stakeholder strategy through the following three main foci: • Ensure that TCTA could continue to raise sufficient funds at the lowest pricing • Engage and support DWA outside project-specific activities • Profile and gain acceptance of TCTA's role in the water value chain	
2 Financial sustainability (45%)			
To deliver on TCTA directives in an efficient manner in accordance with key stakeholder expectations	Construct infrastructure on time, within budget, to the appropriate standards and in a sustainable socio-environmental manner	Projects implemented within budgets and timeframes of the approved Project Charters and Project Implementation Plans	
	Manage the debt on the infrastructure projects in a manner that achieves cost-effective funding, taking into account current and projected market conditions as well as managing risks	Debt managed in accordance with: • benchmarks and funding strategies as approved by ALCO; and • compliance to loan conditions and risk policies	

Performance
• Strategy for stakeholder engagement developed and approved by Board. • Due to better stakeholder interfacing, TCTA has raised funding on favourable terms. Also, bond issues have been two and half times oversubscribed. • TCTA showed leadership in the review of the National Water Pricing Strategy and Infrastructure Funding Model. TCTA also contributed strongly to the debate on sector institutional alignment. • TCTA was profiled through active participation and publications as follows: – Eight papers published in technical publications and peer reviewed journals. – Presentations made at ten national and four international conferences.

Project	Broad achievement	
MMTS2	Short-term funding secured and long-term funding approved conditionally	
ORWRDP	The institutional framework changed significantly from what was originally envisaged in the directive. Negotiations for a new institutional framework are progressing well	
KWSAP	Eskom is close to signing the Water Supply Agreement, meaning that the raising of long-term finance can proceed	
MCWAP	Innovative approaches have ensured integrated planning and TCTA has provided the nerve centre for project negotiations	
Project	**Project phase**	**Specific achievement**
BWP	Final closeout	The project has been successfully completed and is currently delivering water to the City of Cape Town
VRESAP	Construction	Since June 2009 this project has been delivering water for the benefit of Eskom and Sasol
MMTS2	Design and tender	Prequalification of contractors for construction work complete. Conditional funding secured
ORWRDP	Design and tender	Alternative implementation options mapped out, and progress made with tender designs
KWSAP	Design and tender	Prequalification of contractors for construction work complete
MCWAP	Design and tender	Professional engineering services procured and design work commenced
Project	**Benchmark**	**Actual**
LHWP	Volume of bond auctions of R500 million at 9,066%	Volume of bond auctions R505 million at 9,011% (Auctions up to an average of two and a half times oversubscribed)
BWP	8,11%	7,03%
VRESAP	7,49%	7,16%

Operations overview and sustainability continued

Goals	Strategies	Measures
2 Financial sustainability (45%) continued		
	Implement and support the government's developmental agenda through the construction of infrastructure	Development of BEE strategy that incorporates internal and external transformation targets Maintain a BBBEE contributor score of Level 4 through the development of sustainable enterprises and the training of individuals in accordance with the individual BEE project strategies and Corporate Social Initiative
3 Internal business processes (30%)		
To ready TCTA to be able to undertake an expanded range of functions	Ensure organisational realignment and restructuring for optimal business efficiency	Development of efficiency benchmarks and costing model Realignment achieved in accordance with recommendations of costing model
To develop and implement systems and processes to enable TCTA to effectively and efficiently deliver on its mandate and to maintain the highest standards of corporate governance	Develop appropriate systems and business processes	TCTA delivers in all key areas without exception
	Adherence and compliance to all statutory requirements	Submission to Minister of unqualified financial statements for 2008/2009 Timely submission of all statutory information with only minor queries
To develop an organisational culture within TCTA that contributes to an efficient and effective organisation	Conduct Climate Survey and implement findings	Findings of Climate Survey implemented according to approved Project Plan Approved Project Plan Climate Survey
To enable the Board to operate in an independent and strategic manner	Support the functioning of the Board in an efficient and effective manner	The Board receives timely, correct strategic information to enable it to make informed decisions
4 Learning and growth (15%)		
To build TCTA's Knowledge Management capability as a lead player in water resource management	Contribution to the water and related sectors body of knowledge through the capturing and dissemination of information	Knowledge Management strategy for 2009/2010 developed and approved Implementation of strategy according to plan
To build and maintain human capital that is fully empowered to deliver on the vision and mission of the organisation	Development and implementation of a Human Capital strategy	Approved Human Capital strategy Organisational implementation according to strategy

	Performance
	• Strategy developed and incorporated in construction tender documents • Contributor Level 3 achieved
	• Benchmarking study initiated
	• Business processes developed and operating efficiently • Risk, audit and reporting are in accordance with business requirements
	• Unqualified audit report received and promptly submitted to the Minister • Statutory documents submitted within the required deadlines
	• Internal Climate Survey was conducted • Organisational morale improved during the year, with a more constructive engagement between staff (through the union) and management
	• Corporate Governance requirements were met throughout the year, and the Secretariat consistently provided support to Board
	• Knowledge Management strategy for the year was approved by Board • Also, a five-year strategy for Knowledge Management was adopted at the end of the year • Strategy implementation has ensured more focused preparation and presentation of practice-oriented papers, establishing TCTA as a thought leader in the water sector
	The newly approved strategic framework for Human Capital was strongly implemented in the following critical areas: • Imvuselelo (compensation and remuneration) • Project Bosele (culture and climate) • Project Renaissance (policies and procedures)

Vaal River Eastern Subsystem Augmentation Project: Stakeholders witnessing a spillover demonstration from the balancing dams during the Water Delivery Celebration in April 2009

Economic performance

TCTA has been able to deliver on its commitments through careful planning and execution of each step within the cycle of its projects: developing economically sustainable funding models; designing cost-effective and environmentally sound infrastructure, including implementation of environmental management and socio-economic strategies; and innovative management of debt within a prudent risk framework. Thus 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.

Overall, TCTA's financial performance during the year was primarily measured against income generated from the Lesotho Highlands Water Project, the Berg Water Project and the Vaal River Eastern Subsystem Augmentation Project.

Operating results

The operating surplus for the financial year grew to R2 026 million, compared to R1 756 million in the previous year. A net deficit for the reporting year of R151 million, compared to R209 million in 2008/09 was realised, after taking into account net financing costs.

Debt servicing

TCTA continuously assesses and audits its models for each project to ascertain whether revenues generated from the sale of water will sufficiently repay the project's debt over the targeted repayment period. During the year under review, revenue generated from the sale of raw water grew by R385 million to R2 738 million, compared to R2 353 million the previous year. The net higher revenue is due to planned increased water volumes as well as VRESAP generating revenue from 1 June 2009.

Bulk raw water tariffs

TCTA enters into project-specific income agreements with the Department of Water Affairs. These agreements set out the terms and conditions for determination of the bulk raw water tariff for each project, among other things. The tariffs are adjusted annually with CPI in order to be in real terms for the duration of the debt repayment period. The income agreements allow for automatic and negotiated adjustments of the tariffs on an annual basis depending on where CPI falls. The floor and cap levels for the raw water tariff have been largely set at 4,5% and 7,5% respectively.

Should CPI fall between the levels of 4,50% and 7,50%, the tariff is adjusted automatically. However, should CPI be below 4,50% or above 7,50%, TCTA and stakeholders enter into negotiations to determine an appropriate tariff adjustment level for the financial year, taking into consideration the ability of TCTA to meet its obligations and the affordability of the tariff to the end-users. Other tariff review triggers include:

- Adjustments for changes in raw water demand projections
- Adjustments for changes in the yield of the system
- Adjustments for changes in the timing and cost of future augmentation schemes
- Operation and maintenance charges after the redemption of debt
- Changes in input assumptions that shorten or prolong the final repayment date

Following consultation between TCTA, the Department of Water Affairs and other major stakeholders, an increase of 7,65% for the 2010/2011 Vaal River raw water tariff was agreed upon.

Water is the basis of a strong economy. It facilitates industrial processes, allowing for increased material wealth. The prosperity that comes with water has a price, reflecting the uneasy relationship between people, the economy and the environment

The BWP bulk raw water tariff was increased by CPI, ie, 6,9%, while the VRESAP water tariff review will fall due in the next financial year.

Royalties and water delivery

A component of the water transfer costs are royalties payable to Lesotho. Payments follow the terms as laid down in the Treaty benefit-sharing agreement.

Royalty percentages are calculated on the net benefit that the construction of the Lesotho Highlands Water Project has brought to Lesotho, compared to a transfer scheme based entirely inside South Africa.

The agreement stipulates a benefit division of 44:56 between South Africa and Lesotho, with the Lesotho royalty portion payable 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.

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

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

During this financial year, 784 million m^3 of water was transferred to South Africa, compared to 766 million m^3 the previous year. This meets the agreed volume for the year as set out in the Treaty. To date, the total volume of water delivered by the scheme is 8 014 million m^3.

Total royalties paid to date to the Government of Lesotho are R2 992 million compared to R2 650 million in the previous year.

Financial market activities

The domestic debt capital market experienced increased issuances from both the corporate sector and government as a result of expanded infrastructure development. This had a negative impact on the yield curve, but continued international appetite for emerging assets and interest rate easing in South Africa helped to alleviate the effects.

During the year under review, TCTA issued total nominal debt of R1 017 million in the WS04 bond maturing on 30 May 2016. Further to the capital market activities, TCTA actively utilised long-term local bank loans, and local and international development financial institution loans to fund its projects. It is TCTA's intention to fund its projects from diverse sources to mitigate risk.

Total capital market bonds in issue at 31 March 2010

Bond	Issue date	Maturity date	Coupon %	Authorised R million	Nominal R million	Available R million
WS03	5 Dec 1996	15 Sept 2010	13,00	4 500	2 585	1 915
WS04	20 Mar 2001	30 May 2016	12,50	10 000	8 934	1 066
WS05	20 Nov 2001	1 Aug 2018	5,00	7 000	3 525	3 475
WSP1	21 May 2003	28 May 2015	9,00	1 000	366	634
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	600	1 000	400	9,00
WSP5	21 May 2003	28 May 2021	9,00	4 000	990	3 010
Total*				29 500	17 600	11 900

* The total authorised issue amount for the 2009/10 financial year was R24 500 million.

Short- to medium-term funding in the domestic market is accessed through a commercial paper programme and other local loans. As at 31 March 2010 TCTA had issued a total of R1 736 million against an authorised explicit guaranteed amount of R4 000 million for the LHWP and a total of R178 million and R58 million from implicit guaranteed amounts of R450 million and R300 million for BWP and VRESAP respectively. Foreign funding continued to show a steady decline and currently constitutes less than 3% of the entire funding.

The review of our economic performance undeniably validates that the funding model that we developed and implemented is a critical component in the provision of affordable water, without which there can be no economic or social progress.

La Motte Village: At the conclusion of the Berg Water Project, TCTA donated 80 houses worth R30 million to the Stellenbosch Municipality. Proceeds from the sale of the houses will be used to fund further housing development in the Franschhoek area

Environmental performance

Within TCTA's environmental sustainability framework, consideration is given to:

- integrating sound environmental practices into business planning;
- enhancing the positive environmental impacts of project implementation; and
- internalising negative project impacts as part of project controls so that they do not become a social cost.

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

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

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

In terms of the Lesotho Highlands Water Project, an important obligation of the South Africa/Lesotho Treaty is accountability for protecting the environment and the long-term integrity of the river system. Within the borders of Lesotho, the Lesotho Highlands Development Authority implements the environmental management plan, while TCTA implements elements located in South Africa.

On behalf of the Department of Water Affairs, TCTA is responsible for a river management plan that monitors and evaluates the functioning of the erosion protection structures on the Ash River in the eastern Free State. Compliance with the plan was satisfactory during the year under review.

Environmental Monitoring Committee

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

The committees encourage participative monitoring of the conditions specified in the Record of Decision, as well as measuring performance criteria; implementing the environmental management plan; and reporting on the standard environmental management plan and the environmental management plan.

Human capital performance

The primary human capital objective was to create parameters within which TCTA could evolve into a culture of high performance. The national and global uncertainties that TCTA faced over the last year were a major factor in initiating systems and programmes to equip the organisation with the relevant competencies and capabilities to deal effectively with constantly changing socio-economic conditions. In response to these challenging conditions, a number of innovative and strategic initiatives were introduced to ensure that TCTA delivers on its strategic objectives. The initiatives include Project Renaissance, Project Bosele and Project Imvuselelo.

Project Renaissance (The Revival)

Project Renaissance is a policy review process intended to rejuvenate our corporate ethos and to realign our policies to realise our ultimate goal of becoming a high-performance organisation. This process takes into account the following:

- A quantitative and qualitative assessment of our current policies.
- A review and development of policies to realign them with our vision and mission.
- A correct and consistent application of our policies.

An increase in the number of mandates from the Department of Water Affairs has contributed to TCTA's rapid growth over the last two years. Synchronising human resources with the TCTA's operational strategy has brought to the fore the fact that our people are the primary reason for our competitive advantage. Our human resource architecture has duly been adjusted to reflect this through:

- development;
- rejuvenation; and
- revitalisation/renewal.

A Policy Review Committee was established to analyse human capital policies, standards and procedures and, through a process of consultation, most of the reviewed policies have been aligned to drive TCTA's strategic objectives. This strategic project will continue in the next financial year.

Project Bosele (A New Dawn)

Project Bosele is a change intervention programme with the purpose of assisting TCTA in defining a 'new culture'. It complements TCTA's ideal of creating a high-performance culture and is endorsed by TCTA's leadership who have committed themselves to spearhead the culture change initiative. To bring about a participative environment where employees are free to voice their perceptions and opinions on the desired values and culture for the organisation, 'conversation cafés' were held, encouraging employees at all levels to freely participate and voice their views without fear or prejudice. An organisational 'conversation café' followed on 19 March 2010 at which the new values were introduced. The ultimate outcome was the acceptance and ratification of new values that will lead to a culture of excellence within TCTA.

Project Imvuselelo (The Reawakening)

TCTA conducted a review of its current remuneration policy during October 2009. The findings of this investigation suggested the need for a new remuneration framework and policy. This project conceptualised, developed and implemented an equitable remuneration philosophy that rewards actual performance. This remuneration philosophy is to be implemented in the new financial year, and will underpin the culture of performance.

Business partnering

This all-inclusive service delivery approach is systematically improving and integrating people management practices with business operations. As a strategic tool, the business partnering model is starting to show its efficacy in achieving its objective by creating alignment between human resources and business objectives. The role of our human resources business partners is to coach line managers, raising awareness of personal issues that directly affect their own staff, thereby increasing their insight and ability and promoting effective leadership.

Performance management system

Satisfactory and timely delivery according to the terms of our project mandates is the platform which supports our very existence. Our performance management system has therefore been of immense importance in tracking deliverables though systematic monitoring that ensures our goals are being met consistently in an effective and efficient manner.

The performance management system applies a balanced scorecard against which progress is measured, and has proved highly effective. This system encourages strategic discussions between management and the individual employee, which builds a common vision and strengthens cooperative efforts in the systematic planning and tracking of individual, team, departmental, divisional and organisational deliverables.

Learning and development

We continued to show that the development of core talents and specific abilities is a two-way commitment between ourselves and our staff. We offer support, encouragement and resources, and the employee in turn provides the motivation, time and personal dedication.

The total amount of learning and development investment for the past financial year was R2,93 million for both internal and external interventions. TCTA has been consistent in setting learning and development goals for the organisation that include reporting on progress against our transformation initiatives. The beneficiaries of our learning and development spend are as follows, as per our targets:

Learning and development

Targets	Performance
3% spend of payroll	3,4%
85% spend on black delegates	85,0%
54% spend on black and white females	53,0%
50% of training institutions to be accredited	85,4%
Delivery of six academic papers	9

Diversity management

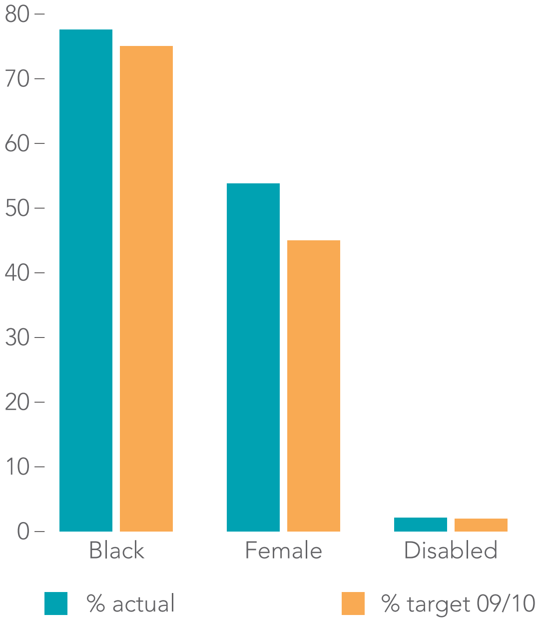
TCTA adopted diversity management as a strategic imperative and a tool to prioritise transformation throughout the organisation. Following explorative workshops held throughout the organisation to identify actual diversity needs, a diversity awareness programme was developed. The first session in November 2009 was greeted with a heartening response. Diversity management is a dynamic process which we will continue to embrace and value as a strategic tool in creating an inclusive environment for all our employees.

Employment equity

TCTA views employment equity as the fundamental issue underlying transformation imperatives, and it plays a pivotal role in accelerating our human capital strategy. We have built a synergistic relationship with the employment equity and Skills Development Forum and organised labour.

During the year, our overall objective remained the promotion of equal opportunity and diversity and elimination of barriers that may hinder progress on our employment equity initiatives. Our intention was to increase the number of designated groups, and to continuously create an enabling environment for growth and development. Attention to fostering equitable representation in our core business functions continues, as do our endeavours to set the standard for equal opportunity and diversity in the water industry. The employment equity plan aims to create a workforce closely aligned to the national economically active population.

Designated groups: Actual performance versus numerical targets



In view of our current profiles of designated groups per occupational level, it is imperative that TCTA focuses the recruitment of new policies in the targeted occupational levels and categories to promote diversity.

Women empowerment

TCTA is fully committed to empowering women in the workplace. We are proud to have an executive team consisting predominantly of women. This appreciation of diversity is highlighted by the continuing existence of the TCTA Women Empowerment Forum, first established in 2007. Our Forum is an active member of the Business Women's Association for which it provides sponsorship.

Employment relations

TCTA continues to approach labour relations as an inclusive process, balancing the psycho-social relationship between TCTA and its employees. To this end, we reviewed key employment relations policies, conforming to best practice and the organisation's strategic objectives. TCTA continues to support an equitable workplace wherein legislative rights of employees are respected and articulated. Demonstrating our commitment is the cooperative agreement with the representative trade union, the South African State and Allied Workers Union. In alignment with the procedural and recognition agreement between the parties, a bargaining forum was established to negotiate on matters of mutual interest. TCTA also embarked on a campaign to provide all employees with labour relations training, to educate them on labour legislation and procedures.

Employee wellness at work

Enhanced work performance is concomitant on management's flexibility in accommodating personal needs with work requirements. TCTA has always been employee-centred and management has pursued best practice in entering into formal and informal arrangements that best suit both the business requirements and individual needs.

TCTA continued to offer an effective employee wellness programme, encouraging employees to participate in a variety of activities. Professional healthcare providers are employed to deal with both on- and off-site issues.

Berg Water Project: View from Matopie on the Franschhoek Berg Mountain

Transformation and sustainable development

TCTA supports government's agenda on transformation, the development of core and critical skills and the creation of job opportunities, which will eventually alleviate the hardships of poverty.

During the year, transformation and sustainable development have been integral to the manner in which TCTA implemented and managed its projects. We consider ourselves an instrument of social purpose, formed within society to accomplish social objectives. Consequently, we are obligated to create new patterns, processes and strategies to tackle complex socio-ecological issues.

As a developmental agency, we have committed ourselves to the progressive ideals and principles of sustainable development and their integration into various aspects of our business processes, giving us an opportunity to create value for all stakeholders, including social, economic and environmental aspects.

Strategy for transformation

TCTA has embraced the concept of transformation fully and we have devoted considerable efforts and resources to achieve these objectives. As a state-owned entity, TCTA has ultimate responsibility to the shareholder to participate fully in the national programmes relating to transformation. This thinking underpins the strategy for transformation developed during the past year.

The transformation and socio-economic development function has subsequently been transferred to the Office of the CEO, signifying the organisation's strategic intent. Therefore, managing the above aspects for TCTA implies that all the developmental interventions at its project sites are coordinated with the incremental initiatives carried out within the transformation and development programme. In this manner, the impact of TCTA's interventions will be noticeable and truly transformative.

The transformation and socio-economic development (SED) initiative is a catalyst for change, aiming to realise the goal of ensuring that all project activities facilitate social transformation and build sustainable communities.

To accomplish this goal, our new strategy seeks to achieve the following prime objectives:

- Promote and develop small, micro and medium enterprises.
- Promote and develop agribusiness and other agricultural activities (aquaculture, vermicomposting, hydroponics, etc) through managerial and technical support, infrastructure investments and other support services in the course of implementing Sustainable Utilisation Plans.
- Undertake skills development and capacity building to create employment opportunities and enhance socio-economic empowerment and entrepreneurial abilities.
- Partner with public health institutions to share knowledge and to curb the scourge of chronic diseases such as HIV and tuberculosis, leading to healthy host communities.

Socio-economic Development Fund

TCTA has established a Socio-economic Development Fund to drive the implementation of sustainable development initiatives in project areas and the country in general. The SED Fund is an integral part of TCTA's contribution to the wider transformation agenda.

Positioning the Fund as a transformation medium allows the TCTA to carry out its socio-economic development initiative and fulfil its investment objectives. The main objective is to improve the quality of life in the project host communities by supporting socio-economic ventures. The Fund operates in the areas and provinces of South Africa where TCTA projects are located.

Transformation strategy panel of advisors

The success of the SED Fund and general organisational transformation requires an independent body to drive the strategic direction and provide advocacy services externally to attract funding for this cause.

During the period under review, TCTA nominated a transformation strategy panel of advisors. The panel will be tasked with strategic input and general determination, management and governance of transformation direction. Furthermore, the panel will provide a forum for the exchange of views and ideas among the multiple stakeholders of transformation and SED and offer advice to the SED Fund.

Project Naledi

As part of the transformative process, Project Naledi is in its third year of contributing to the creation of core skills and job opportunities for deserving but unemployed youth. This project consists of two components: The intership and bursary schemes.

Internship scheme

This component recruits unemployed graduates from historically disadvantaged backgrounds for a two-year internship, exposing them to specific functions within TCTA and providing them with valuable workplace experience. The contracts of our current interns expire in April and

May 2010. Thereafter, each division has the option of engaging them on a permanent basis, depending on performance and resource availability.

Currently, the organisation has six interns in four divisions. A further six interns will be engaged in the Project Management and Implementation Division, specialising in engineering, environment and land acquisition. The recruitment of these interns commenced in January 2010 and it is expected that they will formally begin their careers with TCTA in the financial year 2010/2011.

Bursary scheme

The second component is the bursary scheme which has offered nine students the opportunity to study accounting and engineering at institutions of higher learning. Two students are registered at the University of the Witwatersrand, four at the University of Johannesburg, one each at Vaal and Mangosuthu Universities of Technology and the University of KwaZulu-Natal.

This component of the project has been running for the past three years and it is expected that some of these students should graduate in the financial year 2010/2011. Though all come from disadvantaged backgrounds, their academic performance has been astounding, with three students attaining a combined 14 distinctions.

Annually, students participate in a team-building excursion. This has proved to be meaningful and productive as they gather together, share tips and ideas on studying and attend a meet-and-greet breakfast session hosted by the Chief Executive and his team, which is highly motivational.

A mentorship programme assigns each student and intern to a senior employee in their particular field of study, instilling in them a greater understanding of the workplace and associated activities.

Sustainable utilisation plan

The completion and launch of the Berg Water Project in Franschhoek marked the start of a Sustainable Utilisation Plan. The SUP is a development framework formulated to guide the long-term management and land use of the Berg River Dam water body and surrounding state land. The SUP maximises post-construction local economic development opportunities.

The SUP provides 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 is still under consideration.

During the period under review, TCTA engaged critical stakeholders involved in this process to ensure that final implementation takes effect without further delay. The adjacent land owners were consulted and broad agreement was reached that the beneficiaries were to be the communities around Franschhoek. Various potential funders and stakeholders have been co-opted to fast-track the implementation. The SUP will be implemented during the new financial year.

Broad-based black economic empowerment

TCTA adheres to the applicable six elements that underpin broad-based black economic empowerment (BBBEE). The ultimate aim is to address these six elements, not only to ensure that TCTA achieves a Level 4 contributor status, but to play an active role in society to create opportunities that redress the skewed economy of our country.

According to the final gazetted Codes of Good Practice of 2007, state-owned enterprises (SOEs) use the adjusted generic scorecard. The adjusted generic scorecard makes allowance for the fact that SOEs cannot be expected to measure equity ownership and therefore exclude this element from the adjusted scorecard with a redistributed weighting of the remaining six elements as follows:

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

At the end of the financial year, the following scores were achieved in each of the six elements of the BBBEE scorecard:

BBBEE scorecard – 31 March 2010

Category	BEE score target	TCTA score
Management control	16	16,00
Employment equity	18	12,84
Preferential procurement	20	8,97
Skills development	20	16,03
Enterprise development	15	11,66
Socio-economic development	15	15,00
Overall	104	80,05

Community empowerment

During the reporting period, significant progress was made with respect to a number of outstanding and emerging issues of community empowerment, including:

- Arranging to properly dispose of houses in Khubetswana Township, Clarens, eastern Free State, built as part of the LHWP.
- Negotiating and agreeing to formally transfer an office block in Pietersdal, Clarens, also constructed during LHWP, to the Free State Provincial Department of Public Works for which an official naming and handover function is planned in the new financial year.
- Planning an official function with project partners to formally open and hand over a mobile park home, built as part of VRESAP, to the Charl Cilliers Police Station to use as a Victim Empowerment Centre.
- Exploring options for putting the Botterkloof Farm, purchased during the course of LHWP, to community use and to the benefit of disadvantaged populations around Clarens.
- Exploring avenues of entering into productive partnerships with organised black contractors in the interest of greater participation in construction projects.

The TCTA Bursary Scheme has offered nine students the opportunity to study accounting and engineering at institutions of higher learning. Two students are registered at the University of the Witwatersrand, four at the University of Johannesburg, one each at Vaal and Mangosuthu Universities of Technology and the University of KwaZulu-Natal. Below, bursars during a meet-and-greet breakfast with the CEO, Mr James Ndlovu (far right)

Knowledge Management

In pursuit of its visionary and progressive ideals, TCTA has taken yet another pioneering and unconventional step by establishing a Knowledge Management Programme and Coordinating Division. An executive manager has been in place since November 2009, providing strategic leadership to accelerate the generation and application of knowledge throughout the organisation. Affirming the importance of this new division is the fact that the three approved managerial positions in the division have now been filled, paving the way to advance the critical dimensions of the Knowledge Management Programme during the new performance year. This positive development will, in effect, precipitate swift execution of the suite of critical tasks stipulated by the Board. Key areas include reinforcing the organisation's role in the policy and advocacy domain, and to position it within the water sector as a leader in enlightened and astute thought.

Knowledge is a critical driver of TCTA's core business strategy of sector leadership, and of being a catalyst of change by providing water infrastructure to service the growing economy. It is also a core component in expanding the product-service range applied in addressing water security challenges and identifying appropriate conditions where these solutions can be effectively directed.

The link between investment in managing knowledge and these strategic goals was highlighted by recent TCTA experiences with client uncertainties, project complexities and product lifecycle distortions, compelling the organisation to stimulate innovation, diversify approaches to project financing and implementation, and improve delivery cycles.

While TCTA's business model is perceived as knowledge-rich, this has been predominantly implicit. During the year under review, we deliberately repositioned ourselves as a knowledge institution, using the strategic value of knowledge management as leverage for the benefit of ourselves, our partners and stakeholders.

The heart of the medium-term knowledge management strategy, developed in March 2010, is the deployment of specialist skills and smart partnerships as a differentiating factor for innovative solutions to development challenges, while fostering a corporate environment that values learning and knowledge sharing, and reinforcing supportive mechanisms for knowledge integration across the entire organisation.

TCTA has commenced exploratory discussions with the German GTZ/InWent initiative to formalise shared knowledge platforms, staff exchange and the hosting of capacity building programmes on an agency basis. Strategic discussions were also held with the Vice-President of the African Development Bank on a wide range of partnerships, including development financing and knowledge interventions.

To raise the profile of TCTA as a knowledge institution, professional papers were presented at international forums, and subsequently published in technical journals, with TCTA speakers also chairing and facilitating sessions. These included presentations at the Second Africa Water Week in Johannesburg and the Seventh International Conference on Environment, Ecosystems and Development in Spain.

Employees from all levels participating in a workshop to craft their desired values and corporate culture


GROWTH


UNITY

Corporate governance

Vaal River Eastern Subsystem Augmentation Project: Networking with stakeholders

Board of Directors

The Board of Directors embraces the principles of corporate governance and considers these as the underlying philosophy in creating organisational excellence at all levels within TCTA, and across the entire spectrum where our operations influence the broader public. In essence, we are committed to protecting the interests of our stakeholders, our employees, our contractors and South Africa as a whole. We conduct our business according to the principles of openness, integrity and accountability, as advocated in the Code of Corporate Practices and Conduct in the King Report. The Board remains steadfast in maintaining high standards of corporate governance and implementing corporate governance principles, policies and practices.

The Board sets the precedent in driving the ethics of good governance, and the directors, collectively and individually, acknowledge their responsibilities and duties in terms of the Board Charter and other governance, regulatory and legislative requirements.

The Board is accountable for overall guidance on strategy, business plans and related affairs of the organisation, delegating to management the responsibility for business performance and achievement of the organisation's objectives.

Term of office

The term of office for the current Board of Directors was due to end on 30 June 2009. However, the Minister of Water and Environmental Affairs extended the term to 30 June 2010.

Governance and regulatory framework

TCTA, as a state-owned entity, was founded and is governed by the Notice of Establishment of 24 March 2000 as promulgated in terms of the National Water Act of 1998. TCTA is also subject to the provisions of the Public Finance Management Act, No 1 of 1999, and it adheres to the applicable laws, regulations, rules and standards, in the spirit of achieving the good governance principles and practices set out in the King Report.

The South African Government, through the Minister of Water Affairs, is the Executive Authority, and has ultimate responsibility for TCTA.

The Board subscribes, and is fully committed to sound business principles and practices of integrity and accountability, and values of good corporate governance as espoused in the Code of Corporate Practices and Conduct of King III.

The Board regards corporate governance as vitally important to the success of TCTA's business and is unreservedly committed to applying the principles necessary to ensure that good corporate governance is practised in all its business dealings with its shareholder and key stakeholders.

TCTA's directors, management and employees are committed to transparent, sound and ethical business practices as expressed in its Code of Conduct through regular declarations of interests. The organisational delegation matrix provides a clear delineation of responsibilities between the Board, Board committees and the Executive Management committees. The Board has delegated certain of its responsibilities, in writing, to the Chief Executive Officer in compliance with section 56 of the PFMA. The delegation matrix assists decision-making without diluting the Board's responsibility and accountability.

Stakeholder relationship

The TCTA Board recognises the legitimate interests of its shareholder and stakeholders in its business processes and decisions, that its activities do not exist in a vacuum, and that its stakeholders can affect or be affected by the organisation in the achievement of its strategies and long-term sustained growth.

The Board approved and implemented the stakeholder management strategy, and continues to engage all its stakeholders on a regular basis in order to facilitate effective performance monitoring, evaluation and corrective action as required by clause 29.3 of the Treasury Regulations.

We have begun implementing policies to ensure that all tender awards create opportunities for partnerships between established entities and small enterprises

In the year under review, the Board agreed with its shareholder on the key performance indicators and measures by way of Shareholder Compact as required in terms of the Treasury Regulation 29.2 of the PFMA. The Shareholder's Compact, Corporate Plan and annual report were released and presented within the prescribed time framework to the shareholder and stakeholders as outlined in the Public Finance Management Act.

Board composition

Board role and functions

The Board operates within a unified structure that encourages interaction between directors and consolidates 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 regular quarterly meetings.

Board independence

The independence of the Board is observed through compliance with certain key principles:

- The Minister appoints the directors of the Board for three years in terms of the Notice of Establishment.
- The positions of Chairman and Chief Executive Officer are unrelated.
- The Chairman is an impartial non-executive Board member.
- All Board committees are chaired by independent non-executive directors. Specialist and co-opted committee members are appointed to provide expert advice as and when required.
- The Chief Executive Officer is an ex officio member on the Board and Board committees.

All directors are entitled to seek professional specialist advice regarding the affairs of TCTA. Such advice or services are paid by TCTA once prior approval has been given by the Board Chairman.

Board Charter

The Board Charter regulates the Board in accordance with the principles of good corporate governance. The Charter sets out the specific duties and responsibilities to be discharged by the Board members collectively, and the individual roles, functions and performance expected of them.

The Charter ensures that all Board members acting on behalf of the Authority are aware of the legislation and regulations affecting their conduct and to ensure that the principles of good corporate governance are applied in all their dealings in respect and on behalf of the TCTA.

The Board is fully committed to maintaining the standards of integrity, accountability and openness required to achieve effective corporate governance.

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

The Charter defines the Board's responsibility to:

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

Board remuneration

The directors are remunerated in line with the non-executive directors' remuneration policies and procedures as approved by the Minister of Water and Environmental Affairs, effective 1 October 2008. The policies ensure that remuneration of directors is appropriate to the level, skill and expertise required from the Board directors and in accordance with current market practice and the guidelines of state-owned entities. Details of directors' remuneration are listed in notes to the annual financial statements.

Corporate governance continued

The Board's independent non-executive directors are remunerated by a monthly retainer and Board meeting attendance, committee meeting attendance and any additional tasks undertaken at the request of the Board.

Board effectiveness

The Board operates within a structured environment and is subject to appropriate monitoring and evaluation procedures. The effectiveness of both the structure and procedures of the Board reflect on TCTA's ability to play a meaningful role in the water industry.

Company Secretary

All directors have access to the advice and services of the Company Secretary, who is responsible for ensuring proper administration of Board and corporate governance procedures.

The Company Secretary provides guidance to the directors relating to their responsibilities and the manner in which these should be discharged. She is also responsible for ensuring that rules are properly observed and that the Board complies with the regulatory and statutory environment, as well as with corporate governance tenets.

The Company Secretary attends all Board and Board Committee meetings.

Compliance

The Board is responsible for the organisation's compliance with laws and regulations, ensuring that effective governance, risk management and compliance framework and processes are implemented.

TCTA's governance and statutory framework includes, but is not limited to, the following:

Board committees

The following Board committees assume responsibility on behalf of the Board:

- Remuneration and Nominations Committee (REMCO)[1].
- Audit and Risk Committee (A&R).
- Assets and Liabilities Committee (ALCO).
- Human Resources and Transformation Committee (HR&TR).
- VRESAP Technical Committee (VRESAP).
- Technical Committee (TC)[2].
- Information Communication and Technology and Knowledge Management (ICT&KM)[3].

The Board is aware that it is ultimately accountable for the performance and affairs of TCTA and that the contributions made by Board committees in no way diminish or absolve the Board and its directors from their duties and responsibilities. Board committees operate within written Terms of Reference approved by the Board. Committee members are appointed by the Board, and to support transparency and full disclosure, the committees are chaired by independent non-executive Board members who reports directly to the Board.

The Board committee chairmen submit quarterly reports to the Board, covering their areas of responsibility and giving the Board an overview of all operations. TCTA directors have full access to committee documentation and, where required, the Board committees are free to make use of independent professional advice.

In line with TCTA's Delegation Matrix, the Board delegates authority to its committees and TCTA Executive Management and performance is reviewed annually. Since the Board is predominantly non-executive, this deployment of authority facilitates and consolidates the diverse operations of the organisation. The Board has, however, reserved the right to ratify or veto decisions that affect organisational operations, thus retaining control of the implementation of procedures that influence significant strategic, financial, organisational and compliance matters. Under these circumstances, the Board takes into consideration committee guidance and recommendations.

An office block in Pietersdal, Clarens, built during LHWP, donated by TCTA to the Free State Provincial Government

Corporate governance continued

An overview of Board Committee Membership

HR and Transformation	Audit and Risk	Remuneration and Nominations	VRESAP Technical	Asset and Liability	Technical	Information and Communication Technology and Knowledge Management
Membership Three non-executive directors, chaired by an independent non-executive director Chief Executive Officer	Membership Three non-executive directors, chaired by an independent non-executive director Chief Executive Officer	Membership Seven non-executive directors, chairing other Board committees, chaired by non-executive director Chief Executive Officer	Membership Four non-executive directors, chaired by a non-executive director Independent Specialist Committee member Chief Executive Officer	Membership Three non-executive directors, chaired by a non-executive director Chief Executive Officer	Membership Four non-executive directors, chaired by a non-executive director Chief Executive Officer	Membership Three non-executive directors, chaired by a non-executive director Chief Executive Officer
Invitees Executive Manager: Human Resources Management and Organisational Development Chief Operating Officer Chief Financial Officer	Invitees Chief Risk Officer: Assurance Chief Operating Officer Chief Financial Officer External auditors	Invitees Chief Operating Officer	Invitees Executive Manager: Project Management and Implementation Chief Operating Officer Chief Financial Officer Stakeholder representatives from: DWA, Sasol and Eskom	Invitees Chief Financial Officer Executive Manager: Project Finance and Structuring Chief Operating Officer	Invitees Executive Manager: Project Management and Implementation Chief Operating Officer Chief Financial Officer Stakeholder representative from: DWA	Invitees Executive Manager: Knowledge Management Executive Manager: Enterprise-wide Support Services Chief Operating Officer

Roles of Board committees

HR and Transformation	Audit and Risk	Remuneration and Nominations	VRESAP Technical	Asset and Liability	Technical	Information and Communication Technology and Knowledge Management
Objectives	Objectives	Objectives	Objectives	Objectives	Objectives	Objectives
Organisational structure, appointment of staff, and budget Remuneration and performance management strategies, policies and systems relating to staff Performance review of the organisation and the staff Manage, approve and monitor compliance with all applicable human resources and transformation laws, policies, strategies and frameworks	Manage, approve and monitor compliance with all internal, financial and operating controls Manage strategic risks and oversee the mitigation plans and strategies for implementation Manage standards of governance, reporting and compliance processes and systems Apply enterprise-wide risk management strategies Manage resources, performance and budget	Organisational structure and appointment of CEO and executive managers Remuneration and performance management strategies, policies and systems relating to the Board, CEO and executive managers Performance review of the organisation, Board, CEO and executive managers	Implementation of the mandates from the shareholder Monitor adherence to the Project Charter and the Project Implementation Plan and Strategy Manage, approve and monitor compliance with all applicable strategies, policies and processes for awarding of tenders on contracts Monitor adherence to capital expenditure policies and project risks Manage resources, performance and budget	Manage funding and risk strategies to meet business requirements Manage, approve and monitor compliance with all applicable laws, financial policies, procurement policies, systems and strategies Measure and report the financial performance of TCTA Manage resources, performance and budget	Implementation of the mandates from the shareholder Monitor adherence to the Project Charters and the Project Implementation Plans and strategies Manage, approve and monitor compliance with all applicable strategies, policies and processes for awarding of tenders on contracts Monitor adherence to capital expenditure policies and project risks Manage resources, performance and budget	ICT Manage, approve and monitor compliance with all ICT laws, strategies, plans and systems Alignment of information technology and business information needs Manage resources, performance and budget Manage information technology risks KM Manage, approve and monitor compliance with all applicable laws, strategies, plans and systems Alignment of knowledge management and business needs Manage resources, performance and budget Manage potential risks

Corporate governance continued

Meeting attendance

TCTA Board Committee members and stakeholder representatives attended the meetings in the year under review as follows:

Board

Board members	28/08/09	26/06/09	10/09/09 (Special meeting)	22 – 23/09/09 (Strategy session)	22/10/09 (Special meeting)	30/10/09	10/12/09	22/02/10 (Board risk workshop)	23/02/10
Snowy Khoza (Chairperson)	√	√	√	√	√	√	√	√	√
Lebohang Thotanyana (Deputy Chairperson)	√	√	√	√ 22/09 A 23/09	√	√	√	√	√
Robert Mbwana	√	√	A	√	√	A	A	√	√
Greg White	√	√	√	√	√	√	√	√	√
Simphiwe Kondlo	√	√	√	√	√	A	√	√	√
Jan Geenen	√	√	√	√	√	√	√	√	√
Makano Mosidi	√	√	√	√	A	√	√	√	√
Evodia Malefane	√	√	√	√	A	√	√	√	√
Patricia Makhesha	√	√	A	√	A	A	A	A	√
Angie Makwetla	√	√	A	√	√	√	√	√	√
Onesmus Ayaya	A	A	√	√	√	√	A	√	√
James Ndlovu (CEO)	√	√	√	√	√	√	√	√	√

Note: √ denotes attendance
A denotes apology

Board Committee meeting attendance

REMCO

Committee member	29/05/09
Snowy Khoza (Chairperson)	√
Lebohang Thotanyana	√
Greg White	√
Robert Mbwana	√
Simphiwe Kondlo	√
Jan Geenen	√
Makano Mosidi	√
James Ndlovu (CEO)	√

ALCO

Committee member	14/05/09 (Strategy session)	28/05/09	12/08/09	22/10/09 (Special meeting)	25/11/09	12/02/10
Jan Geenen (Chairperson)	√	√	√	√	√	√
Lebohang Thotanyana	A	√	√	√	√	√
Greg White	√	√	√	√	√	√
James Ndlovu (CEO)	√	√	√	√	√	√

Human Resources and Transformation

Committee member	23/04/09 (Strategy session)	18/05/09	5/06/09	11/08/09	15/09/09	11/11/09	10/02/10
Greg White (Chairperson)	√	√	√	√	√	√	√
Angie Makwetla	A	√	√	√	√	√	√
Patricia Makhesha	√	√	√	√	√	√	√
James Ndlovu (CEO)	√	√	√	√	√	√	√

Audit and Risk

Committee member	28/05/09	15/06/09 (Joint ALCO & ARC)	12/08/09	25/11/09	12/02/10
Lebohang Thotanyana (Chairperson)	√	√	√	√	√
Jan Geenen	√	√	√	√	√
Evodia Malefane	√	√	√	√	√
James Ndlovu (CEO)	√	√	√	√	√

Corporate governance continued

VRESAP Technical Committee

Committee member	13/05/09	24/11/09	2/02/10 (Special meeting) 1	2/03/10 (Special meeting) 2	10/02/10
Robert Mbwana (Chairperson)	√	√	√	√	√
Simphiwe Kondlo	√	√	–	–	√
Evodia Malefane	√	√	–	–	√
Snowy Khoza (Board Chairperson)	–	–	–	√	A
James Ndlovu (CEO)	√	A	A	–	A
Paul Roberts (Specialist member)	√	√	–	–	√
Stakeholder representative DWA: Willie Croucamp	√	A	–	–	A
DWA: Lehasa Moloi (Alternate member)	–	√	–	–	A
Sasol: Hennie Schoeman	√	A	–	–	√
Sasol: Andries Meyer (Alternate member)	√	√	–	–	√
Eskom: Nanda Govender	A	A	–	–	√
Eskom: Ian Midley (Alternate member)	√	√	–	–	√

Technical Committee

Committee member	13/05/09	06/08/09	24/11/09	29/03/10
Simphiwe Kondlo (Chairperson)	√	√	√	√
Robert Mbwana	√	√	A	√
Evodia Malefane	√	√	√	√
Makano Mosidi	√	√	√	√
James Ndlovu (CEO)	A	√	√	√
Stakeholder representatives DWA: Willie Croucamp	√	√	A	√
DWA: J Kroon (Alternate member)	–	–	√	–

ICT and KM(3)

Committee member	
Makano Mosidi (Chairperson)	√

Note:

√ denotes attendance

A denotes apology

1. *Only the Committee Chairperson and the CEO were required to attend this meeting.*
2. *Only the Committee Chairperson, Board Chairperson and the CEO were required to attend this meeting. The Board Chairperson is not a member of this Committee.*
3. *ICT and KM was established in September 2009. Only the Chairperson was appointed as at end March 2010. The meeting was held between the Chairperson and Management to recommend the Committee Terms of Reference and appointment of Committee members to Board meeting of February 2010 for approval.*
4. *Company Secretary attends all Board and Board Committee meetings.*

We have committed ourselves to the progressive ideals and principles of sustainable development to create value for stakeholders within the social, economic and environmental spheres

Employee Top Achiever Awards, Feb 2010: (L – R) Hermina Monama, Natascha Trainor, James Nyakale, Hanlie Vermaak, Tapiwa Zvandasara, Brenda Groenewald and Sharonese Pillay

Risk management

The Komati Water Scheme Augmentation Project will supply water to Eskom's Duvha and Matla power stations in Mpumalanga

The nature of TCTA's activities places us at risk in several different spheres. The risks that we are likely to encounter differ considerably from those that face commercial operating companies. Accordingly, over the past year we have monitored our risk profile trends and developed a streamlined risk management framework which effectively acts as an early warning system, alerting management to potential risks and facilitating timely action in managing and defusing situations that would otherwise have an adverse effect on the organisation.

Our risk management philosophy is based on best practice methodologies for high-risk operations such as ISO 31000, PMBOK for project management and the Committee of Sponsoring Organisations of the Treadway Commission (COSO).

Risk management function

TCTA's Risk Management Department was centralised during 2008/2009, consolidating Risk Management, Internal Audit and Legal Compliance into a single, independently functioning unit which oversees both financial and non-financial risks. The risk management framework, policy and philosophy have been approved by the Board through its subcommittees. Although risk management is centrally monitored, all facets of the business are involved in risk assessment and management processes. Organisational risks continue to be managed at both the divisional and departmental level. All business risks are taken into account when formulating risk management strategies. The volatility of markets and the introduction of Basel II are expected to reduce the availability of cost-effective funding. Appropriate risk management strategies to address this risk include:

- obtaining approved funding for project facilities;
- building strong relationships with local and international financiers;
- constantly evaluating our corporate credit ratings and good governance practices, making us a preferred recipient of funding; and
- assessing the advantages of the domestic medium-term note (DMTN) in raising bridging finance.

Responsibilities and reporting

The primary responsibility for management of risk within TCTA lies with line management. As the second line of defence, in terms of King III, the Risk Management Department facilitates the identification, assessment, management, monitoring and reporting of risks throughout the organisation.

Internal audit examines and ensures compliance with risk management processes and internal control.

High risks are reported to the Board of Directors through the Board Audit and Risk Committee. In line with developments in risk management, TCTA is installing risk management software. It is anticipated that the use of this technology will increase the effective and efficient management of risk and serve as a central repository of enterprise-wide risk management information.

Major risk categories and responses

TCTA's exposure is predominantly to project financial risks associated with the liability management portfolio. Major risks, listed below, are managed on an ongoing basis.

Strategic risks

Strategic risk is defined as the adverse impact of business policy decisions, changes in the economic environment or failure to adapt to these changes. Identifying the risks that impact TCTA's ability to achieve its business objectives, as defined by the corporate business plan, is the most effective risk management tool. Risks are mitigated by TCTA's strong governance and reporting structures which ensure delivery against the business plan.

Project implementation risks

TCTA manages project implementation risks associated with contractual arrangements, geotechnical considerations, contractors/consultant performance risk, as well as construction risks, all of which may cause delays in project completion and have an adverse effect on TCTA's reputation. Appropriate measures are incorporated into the project criteria, in terms of contractual and

Our risk management philosophy is based on best practice methodologies for high risk operations such as ISO 31000, PMBOK for project management and the Committee of Sponsoring Organisations of the Treadway Commission (COSO)

commercial agreements with contractors, to prevent delays, and continue throughout the project life cycle.

Liquidity risks

This risk relates to situations where TCTA is unable to secure sufficient funds, in the right currency, at the right time, to meet financial obligations. The risk is managed by, inter alia, retaining adequate government guaranteed facilities with domestic banks to act as a liquidity buffer, detailed and regular cash flow forecasting, building redemption portfolios for maturing debt, as well as conducting repos and reverse repo transactions in water stock.

Interest rate risks

This is the risk where either dropping or escalating interest rate levels precipitate a reduction in net income from financial assets and/or increased cost from financial liabilities. TCTA manages this risk by ensuring an optimal capital structure of fixed to floating rate debt.

Foreign currency risk

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

Credit risk

This is the risk that a counterparty may default on its obligations on redemption, maturity or presentation of paper for settlement. This risk is managed through a careful selection of counterparties and setting limits within which Treasury can deal with the respective counterparty.

Operational risks

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

Internal audit

TCTA's internal audit function is mandated to independently appraise the appropriateness, adequacy and effectiveness of the organisation's risk management, internal control and governance processes. It also prescribes corrective actions and recommends improvements to such controls and processes. Its findings are reported to management and the Board of TCTA through the Audit and Risk Committee.

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

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

The external auditors are responsible for independently auditing TCTA and reporting on its financial statements in conformance to the International Financial Reporting Standards. Internal audit, external audit and other assurance providers collaborate on the scope of audit coverage to minimise duplication of effort.

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

Risk management continued

Legal and compliance

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

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

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

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

TCTA celebrated along with the rest of the world when South Africa represented the African continent as proud host of the 2010 FIFA World Cup tournament

Acting together, we have placed ourselves on course to emerge as a winning nation. What our country has been about is to give itself a new birth

Our projects

Community life in Franschhoek – home to the Berg Water Project

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

TCTA managed seven projects during the year under review, meeting its mandate to finance and implement bulk raw water infrastructure like dams, tunnels, pipelines and pump stations. These projects are the Lesotho Highlands Water Project, the Berg Water Project, the Vaal River Eastern Subsystem Augmentation Project, the Mooi-Mgeni Transfer Scheme Phase 2, the Olifants River Water Resource Development Project Phase 2, the Komati Water Scheme Augmentation Project and Mokolo-Crocodile Water Augmentation Project.

Vaal River Eastern Subsystem Augmentation Project: TCTA staff listening attentively to a presentation during a site visit

The Water Affairs Department is planning seven new bulk water projects to be completed in the next three years

Minister Buyelwa Sonjica

Lesotho Highlands Water Project: View of snow-covered mountain tops

Lesotho Highlands Water Project: Mohale Reservoir at Senqunyane and Likalaneng confluence

Lesotho Highlands Water Project

The Lesotho Highlands Water Project was instituted as a bi-national project spanning the borders of South Africa and Lesotho in accordance with a treaty signed in 1986. This almost miraculous engineering feat diverts water from the Senqu River System in Lesotho to South Africa's economic hub, the water-stressed Gauteng region.

Project profile

The year 2003 saw the completion of the project's Phase 1B. TCTA was responsible for the section of infrastructure development under Phase 1A. TCTA is now fully accountable for the debt management and funding of the water transfer portion of the project as well as the operation and maintenance of the Delivery Tunnel North.

The LHWP's primary infrastructure for Phases 1A and 1B encompasses building of three dams, ie, the Katse, Mohale and Muela; an intake tower; transfer tunnel; a delivery tunnel; and a hydropower station.

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

Some 2,32 million m^3 of concrete were used to build the dam wall, 60 m thick at the base and 9 m at the crest. The contractor was an international consortium of companies from Italy, France, Germany, the United Kingdom and South Africa.

The Lesotho Highlands Water Project is a multipurpose undertaking that transfers water and generates hydropower at the Muela Power Station. The water en route to South Africa is put to good use, powering an underground hydroelectric power station that generates electricity to meet the needs of Lesotho. Before the station was built, Lesotho depended entirely on South Africa for its electricity requirements.

Water exits from the three 24 MW turbines into the Muela tailpond, a 55-m-high, 6-million m^3 capacity dam. Built on the Nqoe River, it supplies the headwater, allowing uninterrupted water delivery to South Africa. Water from Katse Dam is delivered to the power station through the transfer tunnel, and the delivery tunnel transports it from there to South Africa.

Associated social development and environmental programmes were, to a large extent, completed by the end of 2009.

Funding

The total project cost was R16 400 million. Water delivery from Phase 1A began in January 1996, and the project funding relies on the revenues generated by water sales from the Vaal River System. It is a sustainable, bankable, bulk infrastructure project and is fully subsidised by payments from water users. The funding is done off the statement of financial position from government and is explicitly government guaranteed.

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

In the year under review, revenue from the sale of raw water from the project amounted to over R2 420 million, compared to R2 283 million in the previous year.

Income is sufficient to repay all water transfer debt over approximately 20 years after completion of each subphase of the project, which is in line with the Water Pricing Strategy of the Department of Water Affairs.

Water flows from high in the mountains. Water runs deep in the earth miraculously. Water comes to us, and sustains all life

Our projects continued

Debt servicing

Management of project-related debt until final payment in 2022 continues to be TCTA's core treasury activity. During the past financial year, R990 million was borrowed to meet funding and redemption requirements.

The project debt stood at R18 404 million as at 31 March 2010 and is expected to be repaid by 2022. Revenues from water sales to end-users is used for debt servicing.

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

Social performance

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

Social issues were assessed at the Annual Stakeholder Conference in 2009. The Katse project area was awarded an overall score of 88%, while the Mohale and Muela areas received an 85% and 75% score respectively. A second annual national stakeholders' conference, attended by representatives of local, regional and international stakeholders, scored the project's overall performance on social and environmental issues at 84%, an increase of 6% over the previous year.

Environmental performance

The agreement between South Africa and Lesotho stipulates environmental protection and sustainability of the river system. In Lesotho, the Lesotho Highlands Development Authority implements the programme, whilst in South Africa, TCTA is responsible. The Lesotho Highlands Commission monitors both bodies.

No significant incidents marred the project's overall environmental performance. The project is accredited by the International Register of Certificated Auditors, who also awarded the Muela operations with two regional awards of excellence:

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

Future phases

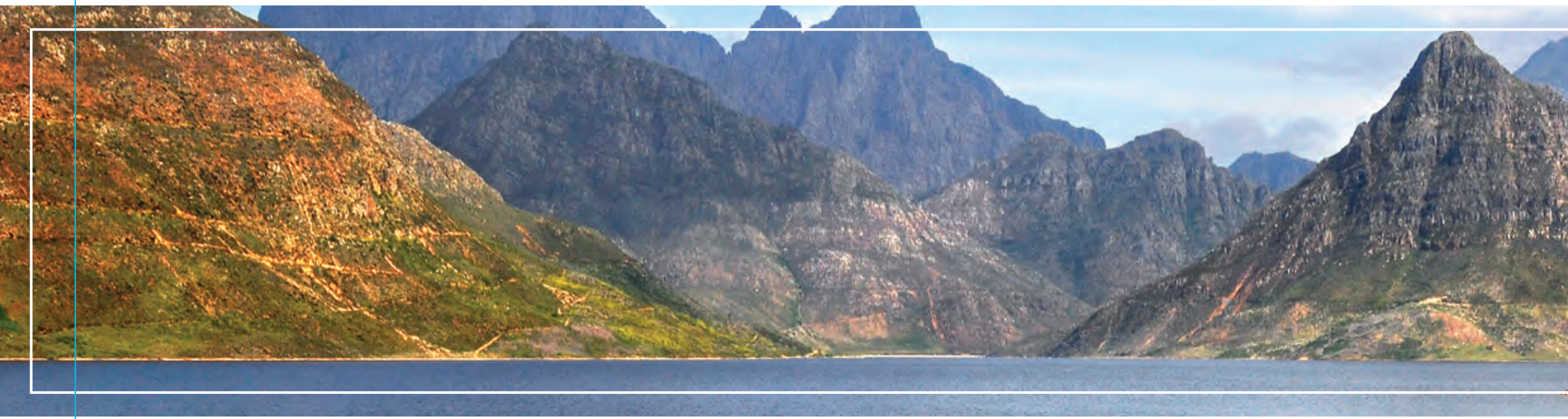
The South African Government has approved the second phase of the project at an estimated cost at 2008 price levels of R7 500 million for the water transfer segment of Phase 2. Subject to the signing of a protocol with the Lesotho Government, the Phase 2 project entails the construction of the Polihali Dam; a transfer tunnel from Polihali Dam to the Muela hydropower complex; expansions to the existing Muela hydropower complex; advance infrastructure; and environmental and social development programmes in Lesotho.

Construction of this dam and related infrastructure will guarantee the desired level of water availability in Gauteng and the Vaal River water supply region in the most cost-effective manner. In parallel with water conservation measures in the Vaal River, it will influence the improvement of water quality and curb illegal water use. Phase 2 water delivery is expected to come on line from January 2020.

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

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

Lesotho Highlands Water Project: Mohale Reservoir at Senqunyane and Likalaneng confluence



Berg Water Project: View from surrounding mountains

Berg Water Project

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

The project, mandated in May 2002, became operational in December 2007, supplementing Cape Town's water supply by 81 million m^3 per year, an 18% increase, bringing the total available water to 523 million m^3 per year.

Project profile

A new dam with a capacity of 130 million m^3 was constructed together with a supplementary scheme, consisting of a two pump station river abstraction weir and a pipeline matrix of 12 km.

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

In addition to the dam, an extension scheme located 10 km downstream, alongside the Drakenstein Prison, diverts winter high flows entering the Berg River from the Franschhoek, Wemmershoek and Dwars River tributaries, supplementing water stored in the dam. Water from the scheme is pumped to the dam via the Drakenstein Pump Station, along a 9,5-km pipeline.

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

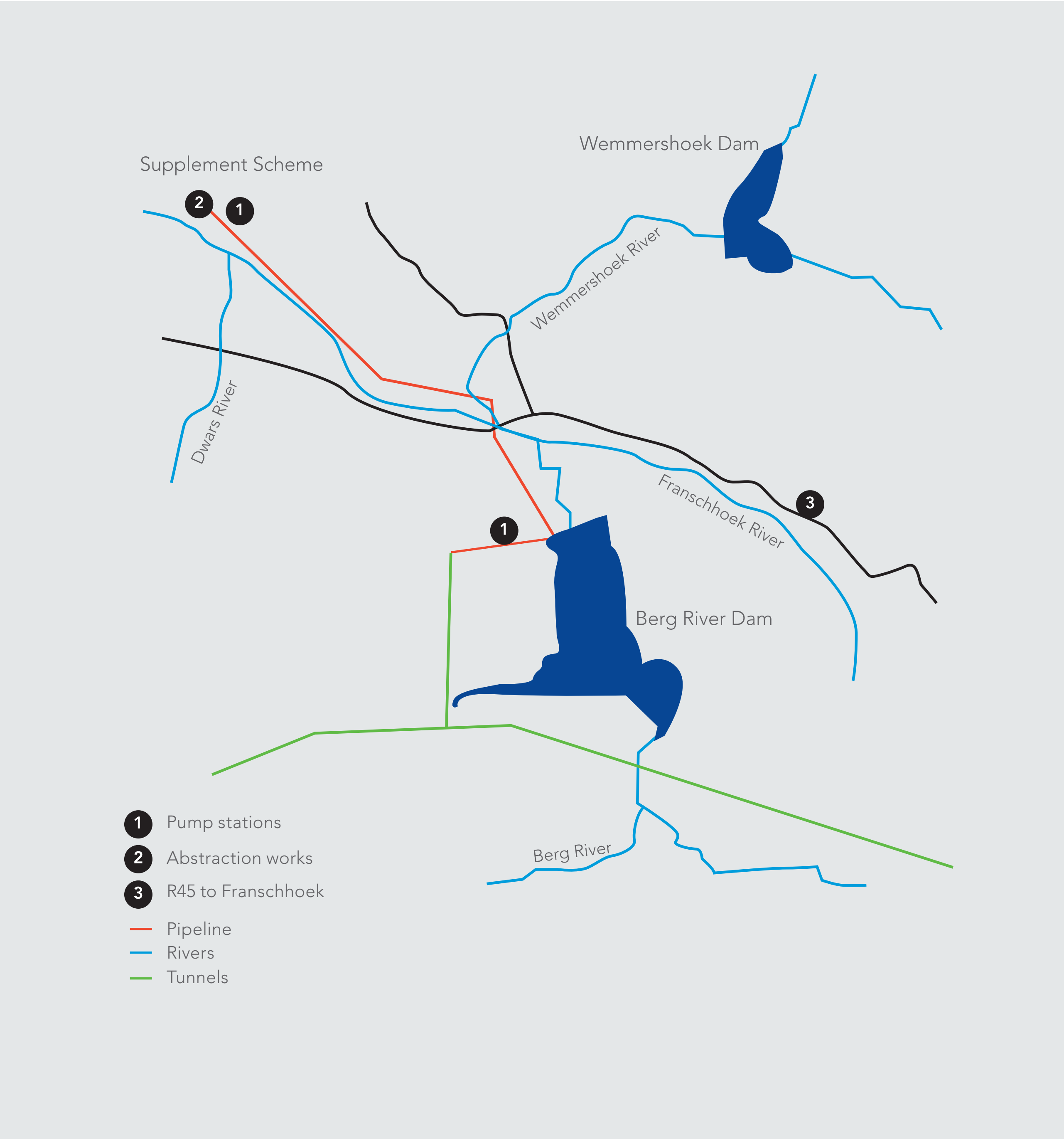
Funding

The project was funded on an off-budget basis, however, the repayment of the long-term loan will be made from the revenue generated from the sale of water to the City of Cape Town.

Long-term funding facilities

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

The completion and launch of the Berg Water Project in Franschhoek marked the start of a Sustainable Utilisation Plan



Our projects continued

Sources of project funding activities for the year to 31 March 2010

Funding source	R million	% of total funding
Money market	(43)	(35)
Long-term loans	166	135
Redemption	–	–
Total	123	100

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

The project maintained its excellent long-term credit rating of AA+(zaf) by Fitch Ratings.

Debt servicing

The project debt on 31 March 2010 stood at R1 296 million and is expected to be repaid by 2028. Revenues from bulk raw water sales to the City of Cape Town service this debt. The Berg Water capital charge is reviewed annually ensuring that sufficient revenues are generated to fully service the debt by 2028.

During this financial year, a prior period error of R147 million was processed to the Berg Water capital charge to adjust for actual meter readings. Refer to note 26 of the notes to the annual financial statements for further information.

Contractors

Engineering contract

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

TCTA engaged the service of a panel of engineering and environmental experts to facilitate quality assurance during project implementation.

Dam contract

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

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

Supplementary scheme

Civil works contract

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

Electrical and mechanical works contract

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

Construction of pipelines contract

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

La Motte Village

The R30-million La Motte Village made available 80 houses for service providers involved in the project. Emerging contractors from the project area were awarded contracts to build 40 houses. At the conclusion of the project, the village was transferred to the Stellenbosch Municipality. Proceeds from the sale of the houses are used to fund further housing development in the area.

La Motte Village contracts

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

Social performance

TCTA introduced the Franschhoek First Policy to escalate the socio-economic project benefits of employment, training and procurement opportunities for the local community. The Integrated Employment and Training Committee representing local interests monitored, on a monthly basis, the targets set. At the conclusion of the project, all targets were exceeded.

TCTA donated the construction housing free of charge to the local municipality for the benefit of the community. TCTA designed an innovative mechanism where as much income as possible is generated from the sale of the houses, providing funds for further investment in community housing. This is a revolving fund, utilising income generated from each housing project to finance subsequent projects. The Stellenbosch Municipality is responsible for implementation of the governing agreement that pronounces the criteria applicable to local communities in purchasing the houses and accessing benefits from the Housing Benefits Fund.

Environmental performance

Prior to construction, an Environmental Management Plan was tabled, incorporating environmental social strategies, detailed design guidelines, and social and river monitoring programmes. It also served as the guideline document for environmental governance whereby the natural environment and social components of the project were actively monitored by the Environmental Monitoring Committee.

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

The Berg Water Project consistently achieved a high level of compliance with the Environmental Impact Assessment, Record of Decision and the Environmental Management Plan requirements. Periodic external compliance auditing was undertaken by the environmental control officer during the construction period. The audit findings quantified project compliance from 82% at the start of construction to 96% at the end.

Increased levels of social and environmental awareness emanating from the World Commission on Dams' Guidelines influenced the design of the Berg River Dam, inhibiting negative downstream environmental and social impacts. As a result, the BWP is the first dam in the world that has complied fully with the World Commission on Dams' Guidelines and with the Ecological Reserve, and is heralded as an international example in engineering design and operation. It is an exceptional demonstration of integrated project development with an explicit sustainable development strategy in project implementation.

Another unique feature of South Africa's Berg River Dam is the fact that it is the first large dam in the world where provision has been made to prevent environmental catastrophes by putting into place flood release mechanisms.

To further respond to environmental concerns and to promote good project governance, a panel of environmental and social experts independently reviewed all environmental and social monitoring programmes. In the year under review, progressive studies by the panel examined the performance of the BWP against the WCD guidelines. The results of this performance review will be available towards the end of 2010.

Our projects continued

Project pump station showing Mamello Township (one of the beneficiary communities) in the background

Vaal River Eastern Subsystem Augmentation Project

One of South Africa's largest water supply projects, the R2 700-million Vaal River Eastern Subsystem Augmentation Project (VRESAP), is nearing completion. VRESAP was declared operational in June 2009 when water delivery from the project commenced. The water delivery timeline was expedited by installing a temporary floating pump station as an interim measure, pending completion of the permanent abstraction works which were delayed.

Water flowing through the new 125-km pipeline to two of South Africa's most important industries, Eskom and Sasol, is now augmenting the earlier supply by 160 million m^3 per annum.

Project profile

The project system is a serial component connection transferring water from the Vaal Dam to the diversion structure at Knoppiesfontein near Secunda. From the diversion structure water is discharged to the Trichardtsfontein or Bosjesspruit dams, from where Eskom and Sasol abstract their water.

The VRESAP's six major components.

Abstraction works

A reinforced concrete intake structure is under construction in a 24-metre-deep shaft. The deep excavation is required to position the low lift pumps at a level from which they can deliver the full abstraction volume from Vaal Dam even if the level is as low as 15%. This will be enabled through the excavation of an underwater approaching channel that will be linked with the intake structure, thus securing an adequate water supply to the intake.

A delay in construction of the first component in the series, the abstraction works, was identified soon after the appointment of the contractor. The option to bypass the first component with a temporary pump station was approved by management, enabling the remainder of the project components to be commissioned prior to completion of the abstraction works.

Balancing dams

The construction of three trapezium-shaped earth canals reduce the velocity of the water pumped from the abstraction works, allowing settlement of course sedimentation of particles which could otherwise damage the pump propellers before the water gravitates to the high lift pump station.

High lift pump station

The concrete pump station structure, measuring 27 m by 72 m, with an inner height of 17,1 m, houses four sets of pumps, three of which are engaged in pumping the full water capacity. The fourth pump set is on standby for use if one of the other pump sets fails or requires maintenance.

Pipelines

Pipelines constructed include the 115-km, 1,9-m-diameter pipeline running from the abstraction works to the diversion structure near Secunda, and a further 5,6-km, 1,2-m-diameter gravity line to Bosjesspruit Dam. Over 6 200 pipe lengths (average: 18,1 m) were delivered to site.

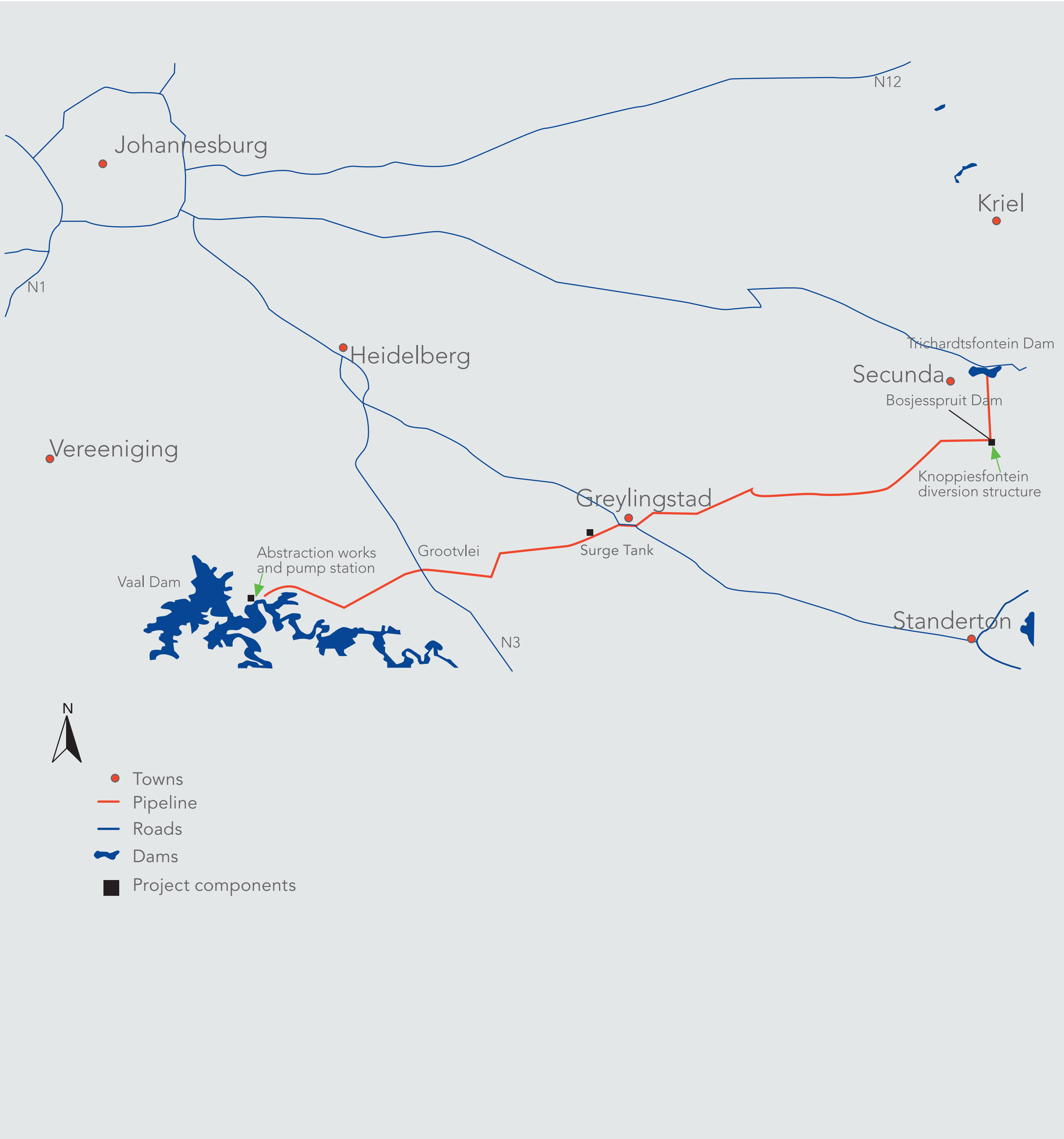
Surge tank

The 50-m-diameter, 6-m-high reinforced concrete structure is situated approximately midpoint between the high lift pump station and the diversion structure. A control valve system keeps the surge tank full under normal operating conditions. Any surges in the pipeline can therefore be controlled utilising the water in the surge tank, thus preventing water hammer in the pipeline.

Diversion structure

The new pipeline from Vaal Dam connects with the existing diversion works that provide Eskom and Sasol with water. A new reinforced structure, 10 m in diameter, and 16 m high, was constructed as a diversion tank with valve-controlled outlets feeding the Trichardsfontein and Bosjesspruit dams.

All affected landowners were compensated for temporary access to their land during the construction phases



Our projects continued

Work on all the components, except for the abstraction works, is complete and operational. Outstanding work on the abstraction works are the mechanical and electrical installations, the underwater excavation of the approach channel in front of the abstraction works, and the removal of the coffer dam. Anticipated completion date is April 2011.

The project is remotely operated from Grootdraai Dam, where the existing water supply to Eskom and Sasol is also located, an ideal situation with both systems managed from a common point. Fibre-optic technology regulates the variable pump drives, ensuring efficient management of a demand-based water supply. Rehabilitation of the pipeline servitude and borrow areas are about 80% complete, with the first land portions ready for return to the owners. TCTA has submitted closure plans for approval to the Department of Mineral Resources for all 29 borrow pits used by the project.

Funding

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

The project was funded on an off-government budget basis without an explicit government guarantee. Project costs will be recovered by 31 March 2028 from revenue generated by the sale of water to Eskom, Sasol and the Vaal River Eastern Subsystem users.

Sources of project funding activities for the year to 31 March 2010

Funding source	R million	% of total funding
Money market	(268)	(29)
Long-term loans	1 204	129
Redemption	–	–
Total	936	100

Debt servicing

The project debt as at 31 March 2010 stood at R3 199 million. The raw water tariff used to determine revenue for this project is reviewed annually to ensure that sufficient revenues are generated to fully service the debt by 2028.

Capital expenditure

Project capital expenditure for the review year totalled R263,5 million, compared to R786,6 million in the previous year. The project also maintained its excellent long-term credit rating of AA+(zaf) by Fitch Ratings.

Contractors

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

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

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

Social performance

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

Contract conditions state that the principle contractors recruit 45% of their total workforce from local communities of which 75% should be historically disadvantaged individuals. Contractors regularly report conformance to these targets, and TCTA, together with the Project Engineer, monitor progress on a monthly basis. Contractors are also required to present reports prepared by a qualified auditor bi-annually. Accomplishment of these targets is assessed at the end of each contract. Failure to reach the set targets could imply levying penalties to the contractor(s) using an agreed formula under the contract.

Category	Preferential procurement targets							
	2009/10				Cumulative to date (March 2010)			
	BEE (15%)	BE (10%)	SMME (7,5%)	LE (2,5%)	BEE (15%)	BE (10%)	SMME (7,5%)	LE (2,5%)
Total	R21 338 253	R2 101 224	R6 631 214	–	R129 428 201	R213 428 347	R238 935 623	R28 722 835

BEE – Black economic empowerment
BE – Black enterprises
SMME – Small medium and micro enterprises
LE – Local enterprises

Land acquisition and compensations

All land required for the construction of the project was successfully acquired. All affected landowners were compensated for temporary access to their land during the construction phases. Compensation for permanent servitude is awaiting finalisation of servitude diagrams and approval of these by the Surveyor General.

Environmental performance

Environmental performance on the project for the period under review generally met compliance targets. Compliance against the Environmental Management Plan as audited by an Independent Environmental Control Officer (ECO) was 95%, compared to 94% in the previous year.

The affected communities are represented on the VRESAP Environmental Monitoring Committee (EMC), together with farmers' associations and local and national stakeholders. This committee meets every quarter to review environmental performance on site.

In this reporting period, TCTA also witnessed a significant decrease in hunting of wild animals for human consumption in the project area. This is probably due to a more vigilant programme of environmental awareness and routine site monitoring.

Rehabilitation of working areas, especially the servitude, has been satisfactory, with 56 out of 93 land portions ready for handover to the landowners, after reaching an 80% grass coverage. Rehabilitation of borrow pits was also completed in the reporting period in accordance with the requirements of the Minerals and Petroleum Resources Development Act, No 28 of 2002. Applications for closure of 25 borrow pits out of 26 were submitted to the Department of Mineral Resources for consideration. Inspections by Mpumalanga Parks and Tourism Agency, Department of Water Affairs, and the Department of Mineral Resources were conducted in October and December 2009 to determine if rehabilitation of these borrow pits was in line with the approved EMPR for each borrow pit. TCTA is awaiting final approval from the Authority.

Those plant species protected under the provincial ordinances, and other plants also, were removed prior to the construction phase and stored at an on-site nursery throughout the construction period for later use during rehabilitation of the servitude. They were returned to their original habitat. An assessment conducted by the engineer indicated a high rate of successful re-establishment.

Key challenges

The major challenge that the project faced during the past financial year was completion of the project components necessary to deliver water and achieve operational status. This was successful, and VRESAP was declared operational on 1 June 2009 by the Department of Water Affairs.

The incompatibility problem between the variable speed drives and the Eskom substation was resolved by providing for isolation transformers. The isolating transformers have been ordered and start-up operation is expected in mid-September 2010.

A delay was experienced in completing the outstanding work by the contractor on the permanent abstraction works, which relates to the completion of the mechanical and electrical installations in the pump station, underwater excavation of the approach channel to the intake structure and removal of a coffer dam.

The slow progress on the permanent abstraction works received priority attention from management. Several steps were taken in accordance with the provisions of the contract to facilitate progress and completion within the contractual time frame.

During the period under review, the contractors endeavoured to meet the socio-economic development targets. Overall performance will be measured at contract closeout.


A water release structure from the existing Mooi-Mgeni Transfer Scheme into the Mpofana River (Natal midlands)

Mooi-Mgeni Transfer Scheme Phase 2

The Mooi-Mgeni Transfer Scheme Phase 2 (MMTS2) to be constructed in the KwaZulu-Natal midlands calls for the construction of the Spring Grove Dam and associated infrastructure to augment the yield of the Mgeni System by 60 million m^3 per annum to a total of 394 m^3 per annum. The project cost, estimated in November 2008, is R1 700 million including escalation and contigencies.

Project profile

Phase 2, upstream from Mearns Weir, incorporates constructing a new Spring Grove Dam on the Mooi River and a pump station. A pipeline from the dam to the Mpofana River and a fish barrier upstream of the dam tail waters will cut off the access of small-mouthed bass from the brown trout waters upstream.

The main beneficiaries for this project include eThekwini Metropolitan, uMgungundlovu District, and Msunduzi local municipalities.

Funding

The project will be funded on an off-budget basis and the capital costs recovered from the revenue generated by the sale of water. The European Investment Bank (EIB), Agence Française de Développement (AFD) and the German Development Bank (KfW) evaluated this project during August and September 2009 with the intention of providing long-term funding. The finalisation of the evaluation process depends on the outcome of negotiations on the Raw Water Supply Agreement between DWA and the off-takers.

Engineering

BKS (Pty) Limited was appointed as the professional services provider to supervise the project's design and construction. The dam's tender design began in February 2009. Following a competitive prequalification process, five organisations were shortlisted to tender for construction.

The issuance of tender documents for construction contracts and commencement of construction is planned to take place in the 2010/11 financial year. However, this is dependent on the speedy conclusion of the Raw Water Supply Agreements and resolution of environmental appeals. Water delivery is scheduled to start in mid-2012.

Environmental performance

The Record of Decision for the project was issued in June 2009. Two appeals against the Record of Decision were lodged in July 2009. The Department of Water Affairs responded formally to the appeals in November 2009. In January 2010, one of the appellants formally withdrew its objection to the building of the dam. The remaining appeal is still to be adjudicated by the Minister. If the appeal is not upheld, construction of the dam can proceed in 2010.

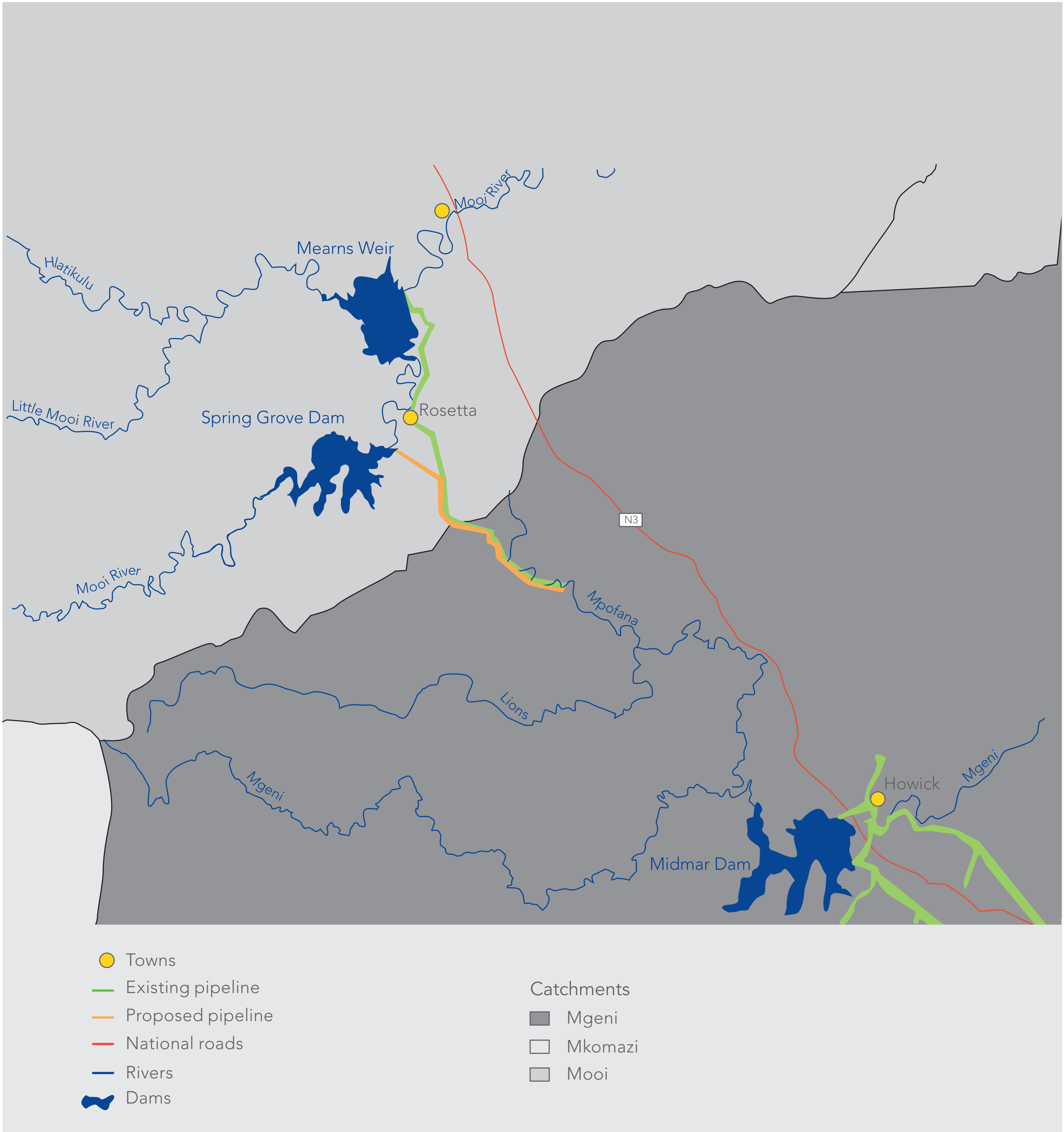
Valuation of priority properties (ie properties preventing the development of the dam embankment and the large commercial farms in the basin) for expropriation purposes commenced in December 2009. The process will be completed in the 2010/11 financial year.

Key challenges

Delays were experienced during the financial year due to appeals against the Record of Decision and protracted negotiation processes on the institutional arrangements. However, in its endeavour to find a long-lasting solution, TCTA has maintained ongoing engagements with stakeholders.

Domestic water will come from the Mooi-Mgeni scheme, which includes the construction of the Spring Grove Dam. We expect the first water delivery from this initiative will take place by 2013

Minister Buyelwa Sonjica



Olifants River Water Resources Development Project will augment water supply at the Olifantspoort weir

Olifants River Water Resources Development Project Phase 2

The second phase of the Olifants River Water Resources Development Project Phase 2 (ORWRDP2) is intended to supply bulk water to meet the requirements of new mining developments in the Limpopo province as well as community needs.

The project is located in the Olifants River catchment area, incorporating the Steelpoort River catchment area, and extends into the Mogalakwena and Sand River catchments. Within this region are the towns of Mokopane, Burgersfort, Steelpoort, Roossenekal, Jane Furse, Polokwane, Lebowakgomo and the rural communities of the Lepelle-Nkumpi, Fetakgomo and Greater Tubatse municipalities.

Project profile

The project encompasses the De Hoop Dam – currently under construction by the Department of Water Affairs with funds from the fiscus – and bulk water transfer pipelines to be funded and implemented by TCTA.

ORWRDP's five major distribution components:

- Bulk water pipeline from De Hoop Dam to Steelpoort.
- A bulk distribution system comprising pipelines and pump stations from Steelpoort along the R37 road that links with the existing Olifants-Sand Transfer Scheme at Olifantspoort.
- A bulk distribution system from the Flag Boshielo Dam to the Mokopane area.
- Acquisition of the Lebalelo Water User Association infrastructure for incorporation into the project.

The bulk distribution system will enable the Flag Boshielo Dam and De Hoop Dam to function as a single system, ensuring a higher water supply assurance level. The additional yield is expected to be approximately 80 million m^3 per year.

Funding

Mining activities and municipalities are the two main user groups. The municipalities, through National Treasury, will fund approximately 50% of the project, and the balance is to be funded off-budget. The project cost at completion of TCTA's mandated subphases is estimated to be R7,9 billion. The capital costs of the commercial portion will be recovered from the revenue generated from the sale of water to industrial users.

Engineering

An open tender process was followed for the procurement of consultancy services. The contract was awarded in September 2009 to a joint venture between Aurecon and Ndodana Consulting Engineers. Tender design work has since commenced, and construction is expected to begin in 2011 subject to a successful conclusion of water supply agreements with water users and funding availability. Water delivery is expected by 2013.

Environmental performance

During the period under review, environmental activities pertaining to the planning and tender design phase were undertaken, including a review of feasibility stage studies. Baseline studies will continue in the 2010/11 financial year, which will inform the development of the Environmental Management Plan.

Key challenge

This project has experienced delays due to ongoing consultations to determine a hybrid funding model for a water resource infrastructure development that caters for the staggered interests of the mining sector.

An open tender process was followed for the procurement of consultancy services. The contract was awarded in September 2009 to a joint venture between Aurecon and Ndodana Consulting Engineers

The Reitfontein weir, from which water will be pumped to the Duvha and Matla power stations in Mpumalanga

Komati Water Scheme Augmentation Project

The Komati Water Scheme Augmentation Project (KWSAP) has been designed to resolve the water supply problems to Eskom's Duvha and Matla power stations in Mpumalanga. It augments the Komati Water Scheme from the Vaal Eastern Subsystem for the sole benefit of Eskom.

Project profile

The Komati Water Scheme Augmentation Project involves the construction of:

- an additional pump station at the Rietfontein Weir with a total flow rate capacity of 2,16 m^3/s;
- a 1 100-mm nominal-diameter steel pipeline from Rietfontein Weir to the Duvha Power Station over a distance of 58,4 km with a flow rate capacity of 1,684 m^3/s; and
- a 600-mm nominal-diameter steel pipeline from Rietfontein Weir to the Matla Power Station over a distance of 12,9 km with a flow rate capacity of 0,474 m^3/s.

The additional water yield is expected to be approximately 57 million m^3 per year.

Funding

The Minister of Finance, with the concurrence of the Minister of Water and Environmental Affairs, approved a project budget of about R1 700 million funded on an off-budget basis. The capital costs will be recovered from the revenue generated by the sale of water to Eskom over a 20-year period after commissioning.

Engineering

Following an open public tender process, a professional engineering services provider, BKS Consulting Engineers South Africa, was appointed. The design has been completed, and again, through an open public tender process, four contractors have been shortlisted for the construction contracts.

The issuance of tender documents to the shortlisted contractors and the commencement of construction is planned to take place in the 2010/11 financial year. Water delivery is anticipated by August 2012.

Environmental performance

During the period under review, a revised environmental authorisation was sought by TCTA from the Department of Environmental Affairs (DEA). This was due to certain gaps that were identified in the Environmental Impact Assessment conducted by Eskom. It is expected that the DEA will issue an amended RoD in the 2010/11 financial year.

The additional water yield is expected to be approximately 57 million m^3 per year

Water release from Mokolo Dam in Limpopo

Mokolo-Crocodile Water Augmentation Project

To meet South Africa's future energy needs, water requirements in the Waterberg coal fields in Limpopo are expected to increase tenfold over the next 20 years. The importance of increasing bulk water supply to the area is further accentuated by the possibility of a Sasol plant being located in the area to produce liquid fuel from coal.

The project will be commercially viable with all costs recovered from water users, with the exception of a small municipal portion.

Project profile

The project will be implemented in two phases. Phase 1 comprises a pump station and a 45-km pipeline. The approximately one-metre-diameter pipes will deliver 30-million m^3 bulk water per year from the Mokolo Dam.

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

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

Phase 2 consists of an abstraction weir in the Crocodile River at Vlieepoort near Thabazimbi, degritting channels with high and low lift pump stations and a 160-km pipeline of pipes with a diameter of up to two metres. It also entails the erection of break pressure and balancing reservoirs to deliver up to 197-million m^3 bulk water per year to Steenbokpan, tying in with Phase 1 infrastructure.

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

Funding

The project budget for Phase 1 is estimated at R2 090 million at completion. It will be largely funded by off-budget sources, and the Minister will direct TCTA to procure funding and implement the project. Funding will be repaid through revenues from the sale of water delivered to the off-takers.

Engineering

An open tender process was followed for the procurement of consultancy services. The contract was awarded to Mokolo Crocodile Consultants, a joint venture between Aurecon, Goba, KweziV3, PD Naidoo and Associates, and Vela VKE Consulting Engineers in September 2009. Geotechnical investigations and tender design work has since commenced and is progressing on schedule.

Construction of Phase 1 is expected to begin in July 2011, which will enable delivery of water by July 2013, supplying Medupi Power Station, currently under construction.

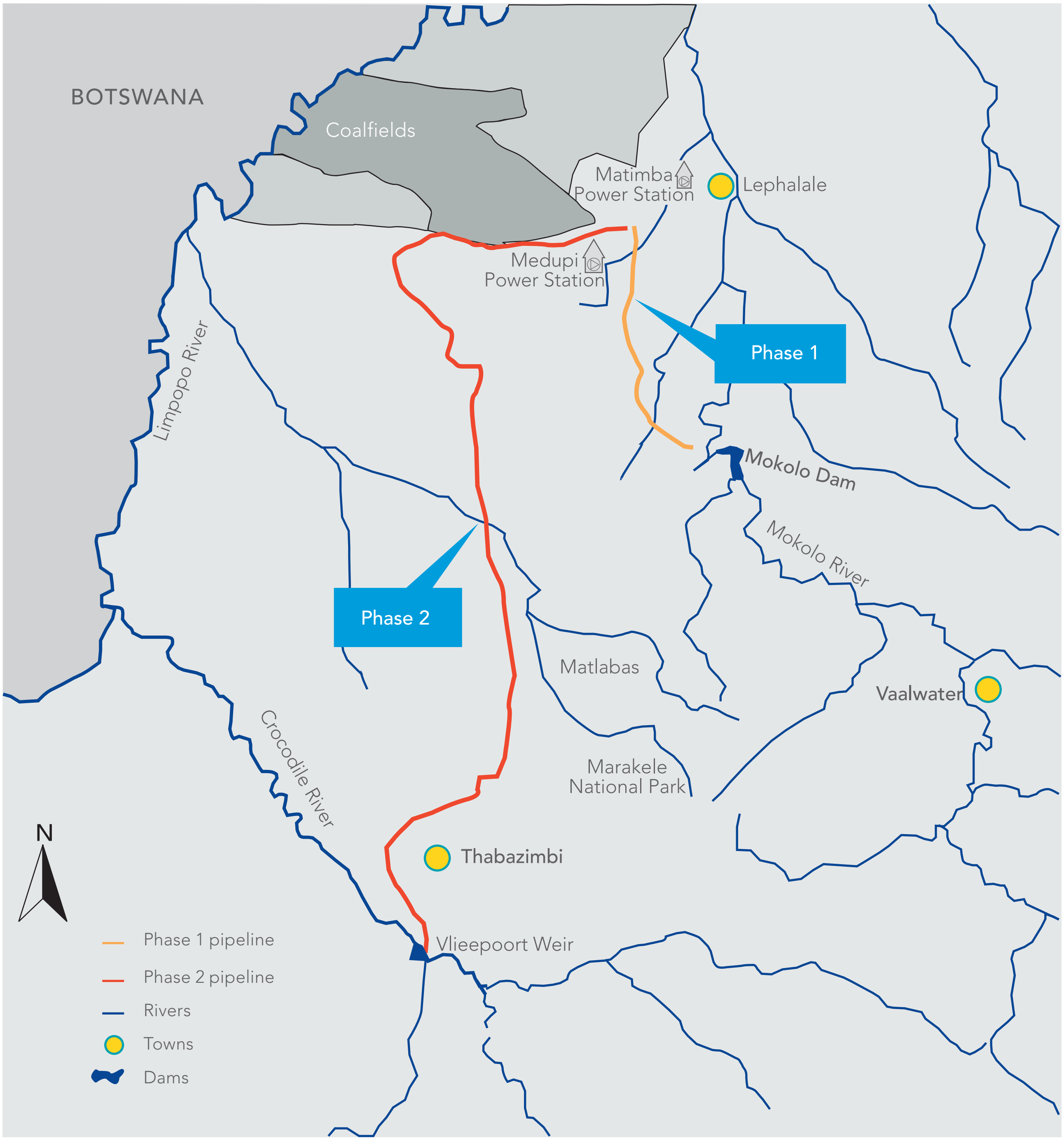
The design of Phase 2 has not yet commenced, as the capacity of Phase 2 is subject to the government's Integrated Resource Power Plan, which may recommend nuclear power as the preferred future energy source, negating the need for additional coal-fired power stations in the Waterberg area. Clarity on this matter is not expected before the end of 2010, at which time the implementation programme will be consolidated. Sasol anticipates a decision to proceed with the Mafutha Coal-to-Liquid Plant only in late 2011. Consequently, our implementation programme will be significantly delayed. This has also affected the issuance of a directive from the Minister of Water and Environmental Affairs to the TCTA to finance and implement the project.

Environmental performance

In February 2009, the Department of Water Affairs commissioned and continues to manage the MCWAP Environmental Assessment. The Environmental Assessment for both MCWAP phases is being conducted concurrently. The Environmental Authorisation for Phase 1 is expected in the latter part of 2010. DWA has alerted TCTA to the risk of appeals that may result in delayed commencement of construction.

The seven new bulk water schemes include the Mokolo-Crocodile Water Augmentation project that will supply water to the Medupi Power Station in Limpopo

Minister Buyelwa Sonjica



Annual financial statements

Contents

Responsibility of directors for the annual financial statements

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

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

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

TCTA is a going concern. The long-term solvency of TCTA is determined by its tariff methodology, income agreements and guarantees (explicit and implicit). TCTA's tariffing methodology seeks to provide a stable planning platform for the future by smoothing the tariff over the period of repayment which is significantly less than the project life and results in end-user affordability. The income agreements allow for a CPI-adjusted increase on an annual basis. Furthermore, additional increases are provided for in the income agreements for any changes in the input assumptions, including changes in water demand and operations costs. TCTA will thus show a deficit, after interest, in the first number of years after completion of an infrastructure project. However, when matched to the income stream, underwritten by government guarantees, both explicit (LHWP) and implicit (BWP and VRESAP), and the useful life of the projects, it is clear that the debt will be repaid over the planned repayment period and that the organisation is a going concern.

The financial statements were approved by the Board of Directors on 22 June 2010 and are signed on its behalf by the Chairman and Chief Executive Officer.

Dr Snowy Khoza
Chairman

James Ndlovu
Chief Executive Officer

The Audit and Risk Committee's report

To stakeholders and other users of the financial statements

Report by the Audit and Risk Committee in terms of Regulations 27(1) (10)(b) and (c) of the Public Finance Management Act of 1999 (as amended by Act 29 of 1999).

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, and internal controls;
- 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 TCTA;
- 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 were 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.

The Audit and Risk Committee has adopted formal terms of reference in line with the Public Finance Management Act and King Report on Good Corporate Governance. The Audit and Risk Committee has met its objective in complying with its terms of reference and is satisfied with the level of disclosure to it and to the stakeholders.

Following our review of the financial statements for the year ended 31 March 2010, we are of the opinion that TCTA is compliant with the relevant provisions of the Public Finance Management Act 1999, 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.

Lebohang Thotanyana
Chairman: Audit and Risk Committee

22 June 2010

Independent auditors' report

for the year ended 31 March 2010

To parliament on the financial statements of the Trans-Caledon Tunnel Authority

Introduction

We have audited the accompanying financial statements of the Trans-Caledon Tunnel Authority (TCTA), which comprise the statement of financial position as at 31 March 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 86 to 175.

Accounting authority's responsibility for the financial statements

The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Public Finance Management Act, 1999 (Act No 1 of 1999) (PFMA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 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 policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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 the TCTA as at 31 March 2010, and its financial performance and its cash flows for the year then ended in accordance with IFRS and in the manner required by the PFMA.

Report on other legal and regulatory requirements

In terms of the Public Audit Act of South Africa and General Notice 1570 of 2009, issued in *Government Gazette* No 32758 of 27 November 2009, we include below our findings on the report on predetermined objectives, compliance with the PFMA and financial management (internal control).

Findings

Predetermined objectives

No matters to report.

Compliance with laws and regulations

No matters to report.

Internal control

We considered internal control relevant to our audit of the financial statements and the report on predetermined objectives and compliance with the PFMA, but not for the purposes of expressing an opinion on the effectiveness of internal control. The matters reported in this report are limited to the deficiencies identified during the audit.

Other reports

Engagements to perform agreed-upon procedures

Bond exchange agreed-upon procedures

As requested by the TCTA, a review engagement is currently being conducted concerning the TCTA's compliance with the Bond Exchange of South Africa rules. The report will be issued at the end of June 2010.

National Treasury certificate agreed-upon procedures

As requested by the TCTA, a review engagement is currently being conducted concerning the TCTA's completion of the National Treasury certificate. The report will be issued at the end of July 2010.

Special audits

Tax opinion

As requested by the TCTA, a special audit was conducted during the year under review to determine the tax implications concerning tariff payments made by end users on the TCTA mandates, acquisition of Exxaro water infrastructure by the TCTA, and acquisition of the Lebalelo water infrastructure by the TCTA from end users. The report was issued on 8 January 2010.

Deloitte & Touche

Deloitte & Touche
Per Mgcinisihlalo Jordan
Registered Auditor
22 June 2010

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SizweNtsaluba VSP

SizweNtsaluba VSP
Per Anoosh Rooplal
Registered Auditor
22 June 2010

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Joint Auditors

Aggregated statement of financial position

as at 31 March 2010

	Notes	**Total 2010 R million**	Restated total 2009 R million	Total 2008 R million
Assets				
Non-current assets		**19 368**	21 169	19 677
Property, plant and equipment	6	**6 221**	6 026	5 461
Intangible assets	7	**13 123**	13 107	13 073
Investment properties	8	**14**	14	15
Long-term financial market investments	9	**–**	2 000	1 114
Derivative financial instruments	9	**5**	17	14
Loans and other receivables	10	**5**	5	–
Current assets		**5 258**	2 691	1 276
Loans and other receivables	10	**955**	753	397
Derivative financial instruments	9	**3**	6	2
Short-term financial market investments	9	**4 198**	1 819	794
Prepaid expenditure	11	**73**	88	70
Non-contractual amounts	15	**29**	9	13
Cash and cash equivalents	18	**–**	16	–
Total assets		**24 626**	23 860	20 953
Equity and liabilities				
Reserves and deficit		**(3 913)**	(3 761)	(3 551)
Non-distributable reserves	12	**119**	120	121
Cumulative deficit	13	**(4 032)**	(3 881)	(3 672)
Total equity		**(3 913)**	(3 761)	(3 551)
Liabilities				
Non-current liabilities		**22 648**	23 637	21 966
Long-term financial market liabilities	9	**22 307**	23 312	21 694
Long-term liabilities	17	**339**	282	227
Derivative financial instruments	9	**2**	43	45
Current liabilities		**5 891**	3 984	2 538
Trade and other payables	14	**967**	837	688
Non-contractual amounts	15	**61**	56	51
Provisions	16	**5**	3	3
Derivative financial instruments	9	**80**	36	27
Short-term financial market liabilities	9	**4 778**	3 046	1 769
Overdraft	18	**–**	6	–
Total liabilities		**28 539**	27 621	24 504
Total equity and liabilities		**24 626**	23 860	20 953

Aggregated statement of comprehensive income

for the year ended 31 March 2010

	Notes	Total 2010 R million	Restated total 2009 R million
Revenue	19	**2 757**	2 361
Other income	20	**3**	8
Expenses		**(734)**	(613)
Legal fees and litigation costs		**(2)**	(1)
Depreciation and amortisation	6, 7	**(130)**	(40)
Operating costs for the work in Lesotho		**(102)**	(71)
Lesotho Highlands Water Commission (LHWC) costs		**(9)**	(8)
Staff costs		**(102)**	(101)
Directors' emoluments		**(5)**	(5)
Development contribution		**–**	(31)
Royalties paid	22	**(342)**	(325)
Other operating expenses	23	**(42)**	(31)
Operating surplus		**2 026**	1 756
Net finance costs		**(2 177)**	(1 965)
Finance income	21	**849**	639
Finance costs	21	**(3 026)**	(2 604)
Deficit for the year		**(151)**	(209)
Other comprehensive loss			
Realisation of revaluation	12	**(1)**	(1)
Other comprehensive loss for the year		**(1)**	(1)
Total comprehensive deficit for the year		**(152)**	(210)

Aggregated statement of changes in equity

for the year ended 31 March 2010

	Non-distributable reserves Revaluation reserve R million	Total reserves R million	Cumulative deficit R million	Total recognised income and expense for the year[1] R million
Opening balance at 1 April 2008	121	121	(3 672)	(3 551)
Realisation of revaluation	(1)	(1)	–	(1)
Net deficit for the year	–	–	(209)	(209)
Total comprehensive deficit for the year	(1)	(1)	(209)	(210)
Balance at 31 March 2009	120	120	(3 881)	(3 761)
Opening balance at 1 April 2009	**120**	**120**	**(3 881)**	**(3 761)**
Realisation of revaluation	**(1)**	**(1)**	**–**	**(1)**
Net deficit for the year	**–**	**–**	**(151)**	**(151)**
Total comprehensive deficit for the year	**(1)**	**(1)**	**(151)**	**(152)**
Balance at 31 March 2010	**119**	**119**	**(4 032)**	**(3 913)**

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

Aggregated statement of cash flows

for the year ended 31 March 2010

	Notes	Total 2010 R million	Restated total 2009 R million
Cash flows from operating activities			
Cash receipts from customers		**2 722**	2 098
Cash paid to suppliers and employees		**(604)**	(478)
Cash generated from project activities	A	**2 118**	1 620
Interest paid	C	**(2 367)**	(2 351)
Net cash outflow from operating activities		**(249)**	(731)
Cash flows from investing activities			
Payments to acquire financial assets		**(216)**	(2 515)
Proceeds on the sale of financial assets		**64**	700
Interest received	B	**198**	210
Capitalised to works in RSA		**(284)**	(395)
Addition of other assets		**(4)**	(4)
Net cash outflow from investing activities		**(242)**	(2 004)
Cash flows from financing activities			
Proceeds from long-term borrowings		**2 550**	1 670
Repayments on long-term borrowings		**(1 114)**	(980)
Proceeds from short-term borrowings		**1 039**	2 667
Repayments on short-term borrowings		**(1 994)**	(612)
Net cash inflow from financing activities		**481**	2 745
Net (decrease)/increase in cash and cash equivalents		**(10)**	10
Cash and cash equivalents at beginning of period		**10**	–
Cash and cash equivalents at end of period	D	**–**	10

Notes to the aggregated statement of cash flows

for the year ended 31 March 2010

	Total 2010 R million	Total 2009 R million
A. Cash generated from project activities		
Deficit for the year	**(151)**	(209)
Adjustments for non-cash flow items and amounts separately disclosed:		
Depreciation on non-current assets	**130**	40
Finance cost recognised in deficit	**2 193**	1 952
Net foreign exchange gains	**(62)**	(39)
Net foreign exchange losses	**88**	52
Higher than actual O&M costs	**28**	21
Rental income – RSA account	**(2)**	(1)
Development contribution	**–**	31
Changes in working capital:		
(Increase)/decrease in trade and other receivables	**(70)**	(320)
(Increase)/decrease in other assets	**(101)**	–
Decrease/(increase) in prepayments	**35**	(18)
Increase in payables and provisions (excluding interest payable)	**42**	109
Non-cash flow item in accounts receivable	**(22)**	10
Non-cash flow item in accounts payable	**10**	(8)
Cash generated from project activities	**2 118**	1 620
B. Interest received		
Amount due at beginning of year	**234**	136
Income during the year adjusted for non-cash items	**422**	308
Amount received	**788**	601
Profit on switch auction	**(1)**	–
Loan premium amortised	**(152)**	(123)
Transfer to funding portfolio	**(209)**	(165)
Interest on RSA account	**(3)**	(5)
Profit on sale of financial asset	**(1)**	–
Amount due at end of year	**(458)**	(234)
Interest received	**198**	210

	Total 2010 R million	Total 2009 R million
C. Interest paid		
Amount not paid at beginning of year	**(510)**	(503)
Expensed during the year adjusted for non-cash items	**(2 410)**	(2 358)
Amount expensed	**(2 988)**	(2 805)
Less: Loan discount amortised	**30**	17
Foreign loan payments	**(7)**	(4)
Transfer to redemption portfolio	**209**	165
Loss on switch auction	**–**	39
Capital adjustment to inflation-linked liability	**143**	102
Concessionary portion – on EIB loan	**3**	4
Interest capitalised	**224**	173
Cash flow in cum/ex dividend reflected under cash flow from financing activities	**(24)**	(49)
Amount not paid at end of year	**553**	510
Interest paid	**(2 367)**	(2 351)

D. Cash and cash equivalents at end of period

Cash and cash equivalents consist of cash on hand and balances with banks.

Notes to the annual financial statements

for the year ended 31 March 2010

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 No 277 in *Government Gazette* No 21017, dated 24 March 2000. The entity is domiciled in South Africa. The address of the registered office is 265 West Avenue, Tuinhof Building, 1st Floor, Centurion.

2. Adoption of new and revised standards and interpretations

2.1 Standards, amendments and interpretations effective and adopted in the current period:

The following new and revised standards and interpretations have been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements:

Standard/interpretation	Impact
Standards effective for periods beginning on or after 1 April 2009 or later and that are required to be applied in annual periods ending 31 March 2010	
Amendments to IFRS 2: Share-based Payment – Vesting Conditions and Cancellations	The amendments clarify the definition of vesting conditions for the purposes of IFRS 2. Vesting conditions are limited to service conditions and performance conditions and all other conditions are considered to be non-vesting. The amendments provide guidance for the concept of 'non-vesting' conditions, and clarify the accounting treatment for cancellations. The adoption of the amendments to IFRS 2 did not have any effects on TCTA.
IFRS 8: Operating Segments	IFRS 8 is a disclosure standard which resulted in the segmental statement of position and statement of comprehensive income being included in the notes to the financial statements. The standard requires the identification of operating segments based on the reporting to the Chief Operating Decision-maker. Refer to note 4.
Embedded Derivatives (Amendments to IFRIC 9 and IAS 39)	The amendments clarify the accounting for embedded derivatives in the case of a reclassification of a financial asset out of the 'fair value through profit or loss' category as permitted by the October 2008 amendments to IAS 39: Financial Instruments: Recognition and Measurement. There was no reclassification of financial assets in the 2010 financial year and the amendments to the interpretation and IAS 39 had no impact on the financial information presented. TCTA early adopted IFRS 9 and accounted for financial assets in accordance with the adopted standard retrospectively.

2.2 Early adoption of standards and interpretations

Standard/interpretation	Impact
IFRS 3 (as revised in 2008): Business Combinations	IFRS 3 (2008) has been adopted in the current year in advance of its effective date (business combinations for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 July 2009). The objective of the standard is to enhance the relevance, reliability and comparability of the information that the entity provides in its financial statements about business combinations and its effects. As all TCTA's projects relate to specific directives, and each project being ring-fenced, it is not foreseen that TCTA would be entering into any business combination. The early adoption of this revised standard did not have any impact on the financial information presented.

Standard/interpretation	Impact
IFRS 9: Financial Instruments	TCTA has adopted IFRS 9: Financial Instruments (IFRS 9) in 2009 in advance of its effective date. TCTA has chosen 31 March 2010 as its date of initial application as this is the first reporting period-end since the standard was issued on 12 November 2009. The standard has been applied prospectively and comparative amounts have been restated where required. Refer to note 9.2. IFRS 9 specifies how an entity should classify and measure its financial assets. It requires all financial assets to be classified in their entirety on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured either at amortised cost or at fair value. Only financial assets that are classified as measured at amortised cost are tested for impairment. As the majority of TCTA's financial assets have been previously classified as held-to-maturity due to it forming part of TCTA's redemption portfolio, the assets had been accounted for at amortised cost. The adoption of IFRS 9 thus had no impact on the measurement of TCTA's financial assets. Financial assets will be reviewed for impairment as previously under IAS 39. All derivatives are accounted for at fair value through profit or loss. TCTA had accounted for derivatives at fair value. The adoption of IFRS 9 had no impact on the measurement of derivatives.
Amendments to IAS 7: Statement of Cash Flows	The amendments (part of improvements to IFRSs (2009)) specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows. Consequently, cash flows in respect of development costs that do not meet the criteria in IAS 38: Intangible Assets for capitalisation as part of an internally generated intangible asset (and, therefore, are recognised in surplus or deficit as incurred) will be classified as operating activities in the statement of cash flows. No amendments to prior year amounts have been required for the early adoption of this amendment.
IFRIC 18: Transfers of Assets from Customers	The interpretation addresses the accounting by recipients for transfers of property, plant and equipment from 'customers' and concludes that when the item of property, plant and equipment transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognise the asset at its fair value on the date of the transfer, with the credit recognised as revenue in accordance with IAS 18: Revenue. The adoption of this interpretation had no impact on the financial information presented.

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

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

Standard/interpretation	Impact
Amendments to IAS 32: Financial Instruments: Presentation regarding classifications of rights issues	The amendments to IAS 32 address classification of certain rights issues denominated in a foreign currency as either an equity instrument or a financial liability. TCTA has not entered into any rights issues in the current or comparative period. Adoption of these amendments are not expected to have an impact on TCTA's financial statements.
IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments	The interpretation provides guidance on how to account for the extinguishment of a financial liability by the issue of equity instruments. The adoption of this amendment is not expected to have an impact on TCTA's financial statements.
IAS 24: Related-party Disclosures	In November 2009, the IASB issued amendments to IAS 24: Related-party Disclosures. The amendments modify the definition of a related party and simplify related-party disclosures for government-related entities. TCTA is a government-related entity, therefore the disclosure exemptions might affect TCTA. Some disclosures may be affected with the changes in the detailed definition of a related party. This may result in amendments to the relevant related-party disclosures in the financial statements.
Amendments to IFRIC 14: Prepayments of a Minimum Funding Requirement	The amendment addresses the situations when an entity with minimum funding requirements makes a prepayment of contributions to cover those requirements. The amendments permit the benefit of such prepayment to be recognised as an asset rather than an expense. TCTA does not have defined benefit plans and the adoption of this amendment is not expected to have an impact on TCTA's financial statements.
Amendments to IAS 17: Leases	As part of improvements to IFRSs (2009) issued in April 2009, the International Accounting Standards Board amended the requirements of IAS 17: Leases regarding the classification of leases of land. Prior to amendment, IAS 17 generally required leases of land with an indefinite useful life to be classified as operating leases. This was inconsistent with the general principles of the standard, and the relevant guidance has been removed due to concerns that it could lead to accounting that did not reflect the substance of arrangements. Following the amendments, leases of land are classified as either 'finance' or 'operating' in accordance with the general principles of IAS 17. These amendments are effective for annual periods beginning on or after 1 January 2010, and they are to be applied retrospectively to unexpired leases at 1 January 2010 if the necessary information was available at the inception of the lease. Otherwise, the revised standard will be applied based on the facts and circumstances existing on 1 January 2010 (ie the date of adoption of the amendments) and TCTA will recognise assets and liabilities related to land leases newly classified as finance leases at their fair values on that date; any difference between those fair values will be recognised in cumulative deficit.

Standard/interpretation	Impact
IFRS 2: Share-based Payment	In June 2009, the IASB issued amendments to IFRS 2: Share-based Payment. These amendments clarify the scope of IFRS 2, as well as the accounting for cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award. The adoption of the amendment to the standard is not expected to have any impact on TCTA's financial statements.
IAS 27: Consolidated and separate financial statements	The revised consolidation standard moves IFRS to a mandatory adoption of the economic entity model. Current practice under IFRS is overwhelmingly the parent company approach. The economic entity approach treats all providers of equity capital as the entity's shareholders, even when they are not shareholders in the parent company. The parent company approach sees the financial statements from the perspective of the parent company shareholders. A partial disposal of an interest in a subsidiary in which the parent company retains control does not result in a gain or loss but in an increase or decrease in equity under the economic entity approach. Purchase of some or all of the non-controlling interest is treated as a treasury transaction and accounted for in equity. A partial disposal of an interest in a subsidiary in which the parent company loses control but retains an interest (say an associate) triggers recognition of gain or loss on the entire interest. A gain or loss is recognised on the portion that has been disposed of; a further holding gain is recognised on the interest retained, being the difference between the fair value of the interest and the book value of the interest. Both are recognised in the statement of comprehensive income. The adoption of the amendment to the standard is not expected to have any impact on TCTA's financial statements.
IFRS 1: Amendment: financial instrument disclosures	This amendment to IFRS 1 provides first-time adopters with the same transition provisions (and thereby the same relief) as included in the amendment to IFRS 7. Any comparative periods that end before 31 December 2009 are exempt from the disclosures required by the amendments to IFRS 7. The relief applies to disclosures related to both the statement of comprehensive income and the statement of financial position. A first-time adopter may use the relief offered under the amendment to the extent that its first IFRS financial statements present comparative periods that end before 31 December 2009. The adoption of this amendment will not have an impact on TCTA's financial statements as TCTA had already adopted IFRS.
IFRS 1: Amendment: oil and gas assets and lease classification	An amendment to IFRS 1: First-time adoption of IFRS, was issued to exempt entities that use the full cost method for oil and gas properties from retrospective application of IFRSs; it also exempts entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, determining whether an arrangement contains a lease. The adoption of this amendment will not have an impact on TCTA's financial statements as TCTA had already adopted IFRS.

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

2.3 Standards, amendments and interpretations in issue but not yet adopted (continued)

Standard/interpretation	Impact
IAS 1: Presentation of financial statements	Clarification of the current/non-current classification of liabilities that are convertible into equity instruments at the option of the holder. The amendment clarifies that conversion features that are at the holder's discretion do not impact the classification of the liability component of the convertible instrument. TCTA does not have any equity instruments and the adoption of this improvement is not expected to have any impact on TCTA's financial statements.
IAS 36: Impairment of assets	For the purpose of impairment testing, the cash-generating unit or groups of cash-generating units to which goodwill is allocated should not be larger than an operating segment (as defined by IFRS 8: Operating segments) before aggregation. Entities that use aggregated operating segments to determine their cash-generating units will be forced to disaggregate them when the amendment becomes effective. This might result in the recognition of an impairment charge. TCTA is reporting each of its projects as a separate segment. This improvement has no impact on TCTA as segments are ring-fenced and have to be reported on separately.
IAS 38: Intangible assets	The amendment removes the exceptions from recognising intangible assets on the basis that their fair values cannot be reliably measured, which has the following impact: • Intangible assets acquired in a business combination that are separable or arise from contractual or other legal rights should be recognised. • Complementary assets may only be recognised as a single asset if they have similar useful lives. The amendment also specifies different valuation techniques that may be used to value intangible assets where there is no active market. These valuation techniques are set as guidance in determining the fair value of intangible assets in business combinations when there is no active market for the asset. This amendment is not expected to have an impact on TCTA.

Standard/interpretation	Impact
IAS 39: Financial instruments: Recognition and measurement	The scope exemption within IAS 39.2(g) was amended to clarify that it only applies to forward contracts that will result in a business combination at a future date, as long as the term of the forward contract does 'not exceed a reasonable period normally necessary to obtain any required approvals and to complete the transaction'. The amendment to IAS 39.2(g) applies prospectively to all unexpired contracts at the date of adoption. Removal of reference to transactions between segments as being hedgeable transactions in individual or separate financial statements. An additional example of a closely related embedded prepayment option in a debt instrument was added to the adoption guidance in IAS 39 AG 30. Wording with respect to the assessment of put and call features in convertible instruments was clarified. These amendments are not expected to have an impact on TCTA.
Amendments to IAS 28: Investments in Associates	The amendments clarify: • the disclosures required by an investor in an associate that accounts for its investment in an associate at fair value through profit or loss; • that after applying the equity method, an impairment loss on an investment in associate is not allocated to any asset that forms part of the carrying amount of the investment in associate; and • that any reversal of a previously recognised impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment in associate subsequently increases. TCTA has no associates and these amendments will therefore have no impact on the financial statements.
Amendments to IAS 31: Interests in Joint Ventures	The amendment clarifies the disclosure required by a venturer in a jointly controlled entity that accounts for its interest in the jointly controlled entity at fair value through profit or loss in accordance with IAS 39; this also resulted in amendments to IFRS 7 and IAS 32. TCTA does not have any joint ventures and it is not foreseen that the amendment will have any impact on TCTA.
Amendments to IFRS 5: Non-current Assets Held for Sale and Discontinued Operations	• The amendment clarifies that IFRS 5 specifies the disclosures required for assets held for sale and discontinued operations. • Disclosures in other IFRSs do not apply, unless those IFRSs require: – disclosures specifically in relation to assets held for sale and discontinued operations; or – disclosures about measurement of assets and liabilities within a disposal group that are not within the scope of the measurement requirement of IFRS 5. Adoption of these amendments are not expected to have an impact on disclosures in TCTA's financial statements.

3. Significant accounting policies

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

3.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards.

3.2 Basis of preparation

The annual financial statements have been prepared on the accrual and historical-cost convention, except for the revaluation of the works in South Africa and certain financial instruments which are stated at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS), requires the use of certain critical accounting estimates and judgements. 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 27.

3.3 Property, plant and equipment

3.3.1 Land

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

3.3.2 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 construction is completed. Thereafter the depreciable portion is amortised over the estimated useful life.

During construction

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

(a) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.

(b) Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

(c) The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

- Contract costs and directly attributable overheads are only capitalised when certified progress reports or reasonable estimates of work performed are received in accordance with IAS 16: Property, Plant and Equipment.
- Interest and finance charges, which are a result of funding works in connection with the project, are capitalised to works during the period of construction in accordance with IAS 23: Borrowing Costs.

LHWP

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

BWP

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

Once construction is complete

LHWP

- The depreciable portion is estimated to be the mechanical components of the completed works and is amortised over an estimated useful life of 45 years, based on deliverable volumes of water per annum, in accordance with the Treaty[1].
- Full technical revaluations are carried out every five years as required by the Water Resource Pricing Strategy as published in *Government Gazette* No 20615, dated 12 November 1999. The remaining useful lives of assets and the depreciable portion will also be reassessed during the revaluations. The recoverable amount is determined annually. As there is no active market for the works, it is difficult to determine the fair value less cost to sell. The value in use is calculated based on the estimated future cash flows that are expected to flow from the asset, using an appropriately adjusted risk-free discount rate. Future revaluations will be based on the fair value of the future income streams and an appropriately qualified independent expert will be sourced to perform these fair value calculations every three years.

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

BWP

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

VRESAP

- The depreciable portion is estimated to be the mechanical components of the completed works and is amortised over an estimated useful life of 45 years.
- Full technical revaluations are carried out every five years. The remaining useful lives of assets and the depreciable portion will also be reassessed during the revaluations.

3.3.3 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%

3.3.4 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.

3.3.5 Disposals of property, plant and equipment

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in surplus or deficit. When revalued assets are sold, the amounts included in the revaluation reserves are transferred to cumulative deficit.

3. Significant accounting policies (continued)

3.4 Intangible asset

Enduring benefit

In terms of the Treaty, South Africa is responsible by way of cost-related payments, as defined in the Treaty, for the liabilities incurred by the Lesotho Highlands Development Authority in respect of the water delivery component of the LHWP. This responsibility was given to TCTA in terms of section 24 (a and b) of the Notice of Establishment as published in *Government Gazette* No 21017, March 2000.

Cost-related payments do not confer rights of ownership or equity. The right to receive water is of a perpetual nature and is capitalised as an enduring benefit. The amortisation of the enduring benefit, which commenced upon completion of construction, is directly related to the depreciable component of the underlying assets. The enduring benefit has both a finite and an infinite component. The finite component is the mechanical portion of the works and is estimated to be 5% of the water resource components. This finite portion is amortised over the estimated useful life of the asset, which is deemed to be 45 years.

- 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.
- The depreciable portion is estimated at 5% of the construction costs, which is amortised over an estimated useful life of 45 years (in terms of the National Water Pricing Strategy), based on deliverable volumes of water per annum, in accordance with the Treaty.

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

3.5 Investment property

LHWP

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

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

Investment properties are carried at cost less accumulated depreciation, and accumulated impairment and depreciation is calculated at 2% per annum on the straight-line basis.

3.6 Impairment of assets

At each reporting date, TCTA reviews the carrying amounts of its assets to determine whether there is any indication that those assets may be impaired. Impairment losses are recognised when an asset's carrying value exceeds its estimated recoverable amount.

Fair value less cost to sell

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

3.7 Borrowing costs

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

3.8 Foreign currency translation

Functional and presentation currency

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

Transactions and balances

Transactions in foreign currencies are accounted for at the rates of exchange ruling on the date of the transactions. Foreign exchange gains and losses arising from the settlement of such transactions and from translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in surplus or deficit, 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 surplus or deficit in the year in which they occur.

3.9 Financial assets

The business model for managing financial assets

IFRS 9 introduces a two-step classification approach

First, an entity considers its business model, that is, whether it holds the financial asset to collect contractual cash flows rather than to sell it prior to maturity to realise fair value changes. If the latter, the instrument is measured at fair value through surplus or deficit.

Secondly, if the entity holds the financial asset to collect contractual cash flows, an entity further considers the contractual cash flow characteristics of the instrument.

IFRS 9 requires all financial assets to be measured at either amortised cost or fair value. Amortised cost provides decision-useful information for financial assets that are held primarily to collect cash flows that represent the payment of principal and interest. For all other financial assets, including those held for trading, fair value represents the most relevant measurement basis.

A financial asset within a qualifying business model will be eligible for amortised cost accounting if the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Interest is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time.

3. Significant accounting policies (continued)

3.9 Financial assets (continued)

New classification IFRS 9 (single model that has only two classification categories):

Categories	Initial measurement	Subsequent measurement
Amortised cost	Fair value (ie, the transaction price or the fair value of the consideration given)	Amortised cost – considering (a) the business model of the entity for managing the financial asset and (b) the contractual cash flow characteristics of the financial asset.
Fair value	Fair value (ie, the transaction price or the fair value of the consideration given)	Fair value considering (a) the business model of the entity for managing the financial asset and (b) the contractual cash flow characteristics of the financial asset.

TCTA's financial assets mainly consist of the redemption assets. This is an investment portfolio aggregated for the redemption of the bonds as and when they mature. TCTA currently makes investments in order to smooth the refinancing of its mega bond issues and to market its shorter-dated paper to the market. There have been fundamental changes in the approach to investing following the credit crisis and TCTA's investment policy attempts to address the shortcomings in TCTA's current policies. Credit evaluation is first categorised relative to two other considerations, ie liquidity and price. Any counterpart who would like to see investments from TCTA will have to be evaluated from three perspectives. The first is externally, then internally and finally from a product perspective.

Transition requirements

IFRS 9 is effective for annual periods starting 1 January 2013 and was available for early adoption from 12 November 2009. The standard generally applies retrospectively, with some exceptions. Comparative information is not required to be adjusted retrospectively for adoptions before 2012. If an entity early adopts IFRS 9, it will not be required to early adopt subsequent stages in the IAS 39 replacement project – that is, impairment and hedging. This is to facilitate early adoption of IFRS 9. However, if an entity chooses to early adopt any of the subsequent stages, it will be required to early adopt all preceding stages from the same 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. Derivatives are classified as current and non-current on the basis of their settlement date.

Impairment of financial assets

Financial assets, other than those at 'fair value through profit or loss (FVTPL)', are assessed for indicators of impairment at each reporting 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.

Financial assets that are measured at amortised cost, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when 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 financial asset have been affected.

Objective evidence of impairment could include:
- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganisation.

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. Objective evidence of impairment for a portfolio of receivables could include TCTA's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, reflecting the impact of collateral and guarantees, 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 with the exception of trade receivables. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. TCTA's business model includes the securing of income agreements with Department of Water and Environmental Affairs (DWA) to guarantee the future cash flow streams.

Derecognition of financial assets

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

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

3.10 Financial liabilities

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

3.10.1 Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with TCTA's documented risk management or investment strategy, and information 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 surplus or deficit.

3. Significant accounting policies (continued)

3.10 Financial liabilities (continued)

3.10.1 Financial liabilities at FVTPL (continued)

Short-term financial market liabilities

Funding portfolio

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

Strategic portfolio

The strategic portfolio is a trading portfolio established for interest rate risk management purposes.

Locally registered bonds held for trading purposes are carried at fair value, which is determined with reference to exchange quoted prices at the close of business on the reporting 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.

3.10.2 Other financial liabilities

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

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

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

Long-term financial market liabilities

Funding portfolio

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

Locally registered bonds in issue are classified as 'other liabilities' in terms of IAS 39 and are hence stated at amortised cost, applying the yield-to-maturity method. Borrow transactions are offset against the short-term portion of the locally issued bonds as the transactions in the borrows in substance 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 reporting date, foreign loans are stated at amortised cost and restated at the rates of exchange ruling at that date. Gains or losses are recognised in the net surplus or deficit.

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

Trade and other payables

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

3.10.3 Derecognition of financial liabilities

TCTA 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 statement of financial position when it is extinguished, ie when the obligation specified in the contract is discharged, cancelled or expires.

3.10.4 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 been disposed of, those gains and losses are included in net surplus or deficit for the year.

3.10.5 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.

3.10.6 Fair value estimation

The fair values of the listed bonds are the Bond Market of the JSE Limited closing rate as at the reporting date. Unlisted financial instruments are fair valued using rates as determined by the industry.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. TCTA uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. However, there were no such instruments in the current year as well as in the prior year.

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 reporting 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 contractual future cash flows at the current market interest rate that is available to TCTA for similar financial instruments.

3.11 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.

3.12 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 reporting 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.

3. Significant accounting policies (continued)

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

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

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

BWP

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

VRESAP

'VRESAP Water User Tariffs' means the amount expressed as a tariff levied by DWA on users, where the relevant portion shall be paid by DWA to TCTA and which shall be applied against the repayment of the outstanding amount, in accordance with and as described in the implementation agreement. The users are Sasol Synfuels (Proprietary) Limited (Sasol) and Eskom Holdings Limited (Eskom).

3.15 Other income

Rental income is generated from the properties that were acquired during the construction of the project and is recognised when earned on a straight-line basis.

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.

3.16 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 surplus or deficit on a straight-line basis over the period of the lease.

3.17 Related-party transactions

In terms of IAS 24: Related-party Disclosures, 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.

4. Segmental information

4.1 Adoption of IFRS 8: Operating Segments

TCTA adopted IFRS 8: Operating Segments, which replaces IAS 14: Segment Reporting. TCTA adopted IFRS 8: Operating Segments with effect from 1 March 2009. 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 (CODM) in order to allocate resources to the segments and to assess their performance. In contrast, IAS 14 required TCTA to identify two sets of segments (business and geographical) based on risks and rewards of the operating segments. The standard is applied retrospectively. The accounting policy for identifying segments is still based on internal management reporting information that is regularly reviewed by the CODM.

The CODM identifies the function to allocate resources to and assess the performance of the operating segments of an entity. The CODM is the highest level of management at which decisions are made, but if a supervisory body is required to provide approval for those decisions then judgement is needed as to whether this supervisory body is the CODM. The Board of Directors of TCTA is the supervisory body as envisaged by IFRS 8 but delegated its day-to-day decision-making functions to the Chief Executive Officer and the TCTA executive members. The Chief Executive Officer and Exco members review the financial results of TCTA on a monthly basis.

4.2 Identification of operating segments

An important criterion for identifying operating segments is that the operating results are regularly reviewed by the entity's CODM to make decisions about resources to be allocated to the segment and assess its performance. IFRS 8 does not define 'regularly' so judgement may be needed to decide if this condition is met. Segments consist of the different projects for which TCTA received directives to implement and fund. TCTA provides various services to its customers such as liability management, treasury management services as well as project implementation. TCTA received new directives during the 2009 year for the following projects which will be treated as separate segments for accounting and disclosure purposes for the duration of each project. Each project is ring-fenced and management is reporting to the CODM, government as well as external stakeholders on the performance and financial position of each project.

TCTA may not aggregate any segmental information as each project is ring-fenced by government. The funding obtained is project-specific and the revenue streams received or to be received will be for the repayment of any liabilities incurred during the course of the project. IFRS 8.13 stating the quantitative criteria for the separate disclosure of segmental information, does thus not apply as TCTA is legally obliged to report on each segment and its results.

TCTA is managed in the following operating segments:

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

On 5 June 2009, TCTA was given the instruction to proceed on the Mokolo-Crocodile Water Augmentation Project (MCWAP) by DWA. The project is currently disclosed as an advisory service and all costs are recovered from DWA.

The accounting policies and procedures adopted by TCTA are also applicable to each individual segment.

4.3 TCTA's operation area in relation to National Water Resource Infrastructure

The National Water Resource Infrastructure is described in the previous section of the annual report.

It generally comprises, but is not limited to, water storage dams, water transfer schemes and flood attenuation works. The primary objective of TCTA is to build these structures off-budget for the DWA so as to:

- ensure that the cost of the infrastructure is paid for by the benefiting end-consumer and not by the entire tax base; and
- reduce the government borrowing requirements.

In cases where benefiting municipalities have large indigent populations, without a strong revenue base, the government may fund this portion of the works through the fiscus. However, indigent consumers are still expected to pay the return-on-asset charge as set out in the Pricing Strategy for Water Use Charges in terms of section 56(1) of the National Water Act.

By utilising TCTA, the DWA is able to ensure that the full cost of providing the infrastructure is known and that developmental decisions are not influenced by the provision of subsidised water. With water being a finite resource, and South Africa being near the limit of what it is able to allocate, it is essential that the correct signals are sent to consumers to ensure a sustainable supply of water.

Notes to the annual financial statements continued

for the year ended 31 March 2010

4. Segmental information (continued)

4.4 Operating segments: Financial results

TCTA will report detailed statements of financial position for each project as well as statements of comprehensive income.

Segmental statement of financial position as at 31 March 2010

	Notes	LHWP[1] 2010 R million	BWP[2] 2010 R million	VRESAP[3] 2010 R million	Advisory services[7] 2010 R million	MMTS2[4] 2010 R million	ORWRDP[5] 2010 R million	KWSAP[6] 2010 R million	Total 2010 R million
Assets									
Non-current assets		15 205	1 230	2 853	23	26	8	24	19 369
Property, plant and equipment	6	2 063	1 225	2 853	23	26	8	24	6 222
Intangible assets	7	13 123	–	–	–	–	–	–	13 123
Investment properties	8	14	–	–	–	–	–	–	14
Long-term financial market investments	9	–	–	–	–	–	–	–	–
Derivative financial instruments	9	5	–	–	–	–	–	–	5
Loans and other receivables	10	–	5	–	–	–	–	–	5
Current assets		4 941	25	164	10	66	46	6	5 258
Loans and other receivables	10	838	–	50	–	25	40	2	955
Derivative financial instruments	9	3	–	–	–	–	–	–	3
Short-term financial market investments	9	4 076	6	78	–	38	–	–	4 198
Prepaid expenditure	11	24	–	36	7	–	5	1	73
Non-contractual amounts	15	–	19	–	3	3	1	3	29
Cash and cash equivalents	18	–	–	–	–	–	–	–	–
Total assets		20 146	1 255	3 017	33	92	54	30	24 627
Equity and liabilities									
Reserves and deficit		(3 391)	(111)	(303)	(25)	(35)	(38)	(10)	(3 913)
Non-distributable reserves	12	119	–	–	–	–	–	–	119
Cumulative deficit	13	(3 510)	(111)	(303)	(25)	(35)	(38)	(10)	(4 032)
Total equity		(3 391)	(111)	(303)	(25)	(35)	(38)	(10)	(3 913)
Liabilities									
Non-current liabilities		18 375	1 055	3 219	–	–	–	–	22 649
Long-term financial market liabilities	9	18 033	1 055	3 219	–	–	–	–	22 307
Long-term liabilities	17	340	–	–	–	–	–	–	340
Derivative financial instruments	9	2	–	–	–	–	–	–	2
Current liabilities		5 162	311	101	58	127	92	40	5 891
Trade and other payables	14	644	64	42	58	27	92	40	967
Non-contractual amounts	15	60	–	1	–	–	–	–	61
Provisions	16	5	–	–	–	–	–	–	5
Derivative financial instruments	9	80	–	–	–	–	–	–	80
Short-term financial market liabilities	9	4 373	247	58	–	100	–	–	4 778
Overdraft	18	–	–	–	–	–	–	–	–
Total liabilities		23 537	1 366	3 320	58	127	92	40	28 540
Total equity and liabilities		20 146	1 255	3 017	33	92	54	30	24 627

Refer to page 111 for footnotes.

Segmental statement of financial position as at 31 March 2009

	Notes	LHWP[1] 2009 R million	BWP[2] 2009 R million	VRESAP[3] 2009 R million	Advisory services[7] 2009 R million	MMTS2[4] 2009 R million	ORWRDP[5] 2009 R million	KWSAP[6] 2009 R million	Restated total 2009 R million
Assets									
Non-current assets		17 202	1 216	2 749	–	2	–	–	21 169
Property, plant and equipment	6	2 064	1 211	2 749	–	2	–	–	6 026
Intangible assets	7	13 107	–	–	–	–	–	–	13 107
Investment properties	8	14	–	–	–	–	–	–	14
Long-term financial market investments	9	2 000	–	–	–	–	–	–	2 000
Derivative financial instruments	9	17	–	–	–	–	–	–	17
Loans and other receivables	10	–	5	–	–	–	–	–	5
Current assets		2 504	90	95	–	2	–	–	2 691
Loans and other receivables	10	707	–	46	–	–	–	–	753
Derivative financial instruments	9	6	–	–	–	–	–	–	6
Short-term financial market investments	9	1 745	68	6	–	–	–	–	1 819
Prepaid expenditure	11	46	1	39	–	2	–	–	88
Non-contractual amounts	15	–	5	4	–	–	–	–	9
Cash and cash equivalents	18	–	16	–	–	–	–	–	16
Total assets		19 706	1 306	2 844	–	4	–	–	23 860
Equity and liabilities									
Reserves and deficit		(3 490)	(159)	(66)	(6)	(18)	(15)	(7)	(3 761)
Non-distributable reserves	12	120	–	–	–	–	–	–	120
Cumulative deficit	13	(3 610)	(159)	(66)	(6)	(18)	(15)	(7)	(3 881)
Total equity		(3 490)	(159)	(66)	(6)	(18)	(15)	(7)	(3 761)
Liabilities									
Non-current liabilities		20 023	993	2 621	–	–	–	–	23 637
Long-term financial market liabilities	9	19 698	993	2 621	–	–	–	–	23 312
Long-term liabilities	17	282	–	–	–	–	–	–	282
Derivative financial instruments	9	43	–	–	–	–	–	–	43
Current liabilities		3 173	472	289	6	22	15	7	3 984
Trade and other payables	14	593	158	36	6	22	15	7	837
Non-contractual amounts	15	56	–	–	–	–	–	–	56
Provisions	16	3	–	–	–	–	–	–	3
Derivative financial instruments	9	36	–	–	–	–	–	–	36
Short-term financial market liabilities	9	2 479	314	253	–	–	–	–	3 046
Overdraft	18	6	–	–	–	–	–	–	6
Total liabilities		23 196	1 465	2 910	6	22	15	7	27 621
Total equity and liabilities		19 706	1 306	2 844	–	4	–	–	23 860

Refer to page 111 for footnotes.

4. Segmental information (continued)

4.4 Operating segments: Financial results (continued)

Segmental statement of comprehensive income for the year ended 31 March 2010

	Notes	LHWP[1] 2010 R million	BWP[2] 2010 R million	VRESAP[3] 2010 R million	Advisory services[7] 2010 R million	MMTS2[4] 2010 R million	ORWRDP[5] 2010 R million	KWSAP[6] 2010 R million	Total 2010 R million
Revenue	19	2 420	173	145	1	–	–	18	2 757
Other income	20	3	–	–	–	–	–	–	3
Expenses		(537)	(20)	(96)	(20)	(17)	(23)	(21)	(734)
Legal fees and litigation costs		(2)	–	–	–	–	–	–	(2)
Depreciation and amortisation		(36)	(13)	(81)	–	–	–	–	(130)
Operating costs for the work in Lesotho		(102)	–	–	–	–	–	–	(102)
Lesotho Highlands Water Commission (LHWC) costs		(9)	–	–	–	–	–	–	(9)
Staff costs		(101)	–	–	(1)	–	–	–	(102)
Directors' emoluments		(5)	–	–	–	–	–	–	(5)
Development contribution		–	–	–	–	–	–	–	–
Royalties paid	22	(342)	–	–	–	–	–	–	(342)
Other operating expenses	23	60	(7)	(15)	(19)	(17)	(23)	(21)	(42)
Operating surplus/(deficit)		1 886	153	49	(19)	(17)	(23)	(3)	2 026
Net finance costs		(1 786)	(105)	(286)	–	–	–	–	(2 177)
Finance income	21	832	4	13	–	–	–	–	849
Finance costs	21	(2 618)	(109)	(299)	–	–	–	–	(3 026)
Surplus/(deficit) for the year		100	48	(237)	(19)	(17)	(23)	(3)	(151)
Other comprehensive loss									
Realisation of revaluation		(1)	–	–	–	–	–	–	(1)
Other comprehensive loss for the year		(1)	–	–	–	–	–	–	(1)
Total comprehensive surplus/(deficit) for the year		99	48	(237)	(19)	(17)	(23)	(3)	(152)

Refer to page 111 for footnotes.

Segmental statement of comprehensive income for the year ended 31 March 2009

	Notes	LHWP[1] 2009 R million	BWP[2] 2009 R million	VRESAP[3] 2009 R million	Advisory services[7] 2009 R million	MMTS2[4] 2009 R million	ORWRDP[5] 2009 R million	KWSAP[6] 2009 R million	Restated total 2009 R million
Revenue	19	2 283	70	–	8	–	–	–	2 361
Other income	20	3	5	–	–	–	–	–	8
Expenses		(484)	(51)	(24)	(14)	(18)	(15)	(7)	(613)
Legal fees and litigation costs		(1)	–	–	–	–	–	–	(1)
Depreciation and amortisation		(35)	(5)	–	–	–	–	–	(40)
Operating costs for the work in Lesotho		(71)	–	–	–	–	–	–	(71)
Lesotho Highlands Water Commission (LHWC) costs		(8)	–	–	–	–	–	–	(8)
Staff costs		(90)	(3)	–	(8)	–	–	–	(101)
Directors' emoluments		(5)	–	–	–	–	–	–	(5)
Development contribution		–	(31)	–	–	–	–	–	(31)
Royalties paid	22	(325)	–	–	–	–	–	–	(325)
Other operating expenses	23	51	(12)	(24)	(6)	(18)	(15)	(7)	(31)
Operating surplus/(deficit)		1 802	24	(24)	(6)	(18)	(15)	(7)	1 756
Net finance costs		(1 835)	(130)	–	–	–	–	–	(1 965)
Finance income	21	638	1	–	–	–	–	–	639
Finance costs	21	(2 473)	(131)	–	–	–	–	–	(2 604)
Deficit for the year		(33)	(106)	(24)	(6)	(18)	(15)	(7)	(209)
Other comprehensive loss									
Realisation of revaluation		(1)	–	–	–	–	–	–	(1)
Other comprehensive loss for the year		(1)	–	–	–	–	–	–	(1)
Total comprehensive deficit for the year		(34)	(106)	(24)	(6)	(18)	(15)	(7)	(210)

1 *LHWP – Lesotho Highlands Water Project*
2 *BWP – Berg Water Project*
3 *VRESAP – Vaal River Eastern Subsystem Augmentation Project*
4 *MMTS – Mooi-Mgeni Transfer Scheme Phase 2*
5 *ORWRDP – Olifants River Water Resource Development Project Phase 2*
6 *KWSAP – Komati Water Scheme Augmentation Project*
7 *Advisory services – includes Mokolo-Crocodile Water Augmentation Project (MCWAP)*

4. Segmental information (continued)
4.4 Operating segments: Financial results (continued)
4.4.2 Major customers

Segmental statement of cash flows. See detailed cash flow statement attached as Annexure A.

LHWP

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

BWP

In terms of the National Water Policy (1997) water development projects should be funded by users, if possible. Water users in the City of Cape Town will repay this scheme through a Berg Water capital charge. The City of Cape Town pays a water tariff based on WCWS usage to DWA, which pays TCTA to cover the costs and repay the debt incurred for funding the project.

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[1] in any given year.
- Optimal capital structure.
- Redemption portfolio.
- Active interest rate management.

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

The ALCO comprising 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.

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 five 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 at 31 March 2010:

TCTA funding limits	**Limit R million**	**Utilisation R million**	**Available R million**
Total borrowing authority*	**24 500**	**(20 085)**	**4 415**
Commercial Paper Programme	**4 000**	**(1 736)**	**2 264**
Capital Market – WS03	**4 500**	**(2 585)**	**1 915**
Capital Market – WS04	**10 000**	**(8 934)**	**1 066**
Capital Market – WS05	**7 000**	**(3 525)**	**3 475**
Capital Market – WSP1	**1 000**	**(366)**	**634**
Capital Market – WSP2	**1 000**	**(400)**	**600**
Capital Market – WSP3	**1 000**	**(400)**	**600**
Capital Market – WSP4	**1 000**	**(400)**	**600**
Capital Market – WSP5	**4 000**	**(990)**	**3 010**
Repurchases	**1 000**	**(159)**	**841**

Note:

* *This is total utilisation of all facilities, including both local and foreign loans, against the borrowing limit.*
The CPI-adjusted inflated figure for WS05 is R5 812 million with a nominal value of R3 525 million.
The limits for commercial paper and the individual bonds are the authorised limits.

Funding sources and utilisation at 31 March 2009:

TCTA funding limits	Limit R million	Utilisation R million	Available R million
Total borrowing authority*	23 500	(19 845)	3 655
Commercial Paper Programme	4 000	(2 136)	1 864
Capital Market – WS03	4 500	(2 585)	1 915
Capital Market – WS04	10 000	(7 917)	2 083
Capital Market – WS05	7 000	(3 525)	3 475
Capital Market – WSP1	1 000	(400)	600
Capital Market – WSP2	1 000	(400)	600
Capital Market – WSP3	1 000	(400)	600
Capital Market – WSP4	1 000	(400)	600
Capital Market – WSP5	4 000	(990)	3 010
Repurchases	1 000	(82)	918

Note:

* *This is total utilisation of all facilities, including both local and foreign loans, against the borrowing limit.*
The CPI-adjusted inflated figure for WS05 is R5 438 million with a nominal value of R3 525 million.
The limits for commercial paper and the individual bonds are the authorised limits.

Government-guaranteed facilities

TCTA has in place guaranteed facilities of R673 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 2010, these facilities were not utilised.

5. Financial risk management (continued)

5.1 Liquidity risk (continued)

Contractual maturity analysis report:

2010

Liabilities

Product type	Maturity date	1 – 3 months R million	3 – 12 months R million	1 – 2 years R million	2 – 3 years R million	3 – 4 years R million	4 – 5 years R million	>5 years R million	Total R million
ZAR									
Bonds	15/09/10	–	2 585	–	–	–	–	–	2 585
Bonds	30/05/16	–	–	–	–	–	–	8 934	8 934
Bonds	1/08/18	–	–	–	–	–	–	5 812	5 812
Bonds	28/05/15	–	–	–	–	–	–	366	366
Bonds	28/05/17	–	–	–	–	–	–	400	400
Bonds	28/05/19	–	–	–	–	–	–	400	400
Bonds	28/05/20	–	–	–	–	–	–	400	400
Bonds	28/05/21	–	–	–	–	–	–	990	990
Commercial paper	1/04/10	233	–	–	–	–	–	–	233
Commercial paper	1/04/10	2	–	–	–	–	–	–	2
Commercial paper	1/04/10	20	–	–	–	–	–	–	20
Commercial paper	1/04/10	67	–	–	–	–	–	–	67
Commercial paper	1/04/10	4	–	–	–	–	–	–	4
Commercial paper	1/04/10	24	–	–	–	–	–	–	24
Loan	31/08/10	–	100	–	–	–	–	–	100
Loan	15/12/17	12	12	24	24	24	24	73	193
Loan	15/03/18	–	8	8	8	8	8	23	63
Loan	15/03/18	–	2	2	2	2	2	5	15
Loan	31/03/18	–	15	8	15	23	15	46	122
Loan	15/09/18	–	6	6	6	6	6	20	50
Loan	30/09/22	–	34	5	7	11	7	52	116
Repos	various	59	–	–	–	–	–	–	59
Repos	various	163	–	–	–	–	–	–	163
Repos	various	–	–	–	–	–	–	–	–
Repos	various	–	–	–	–	–	–	–	–
Term	various	–	–	–	–	–	–	–	–
Term	various	62	–	–	–	–	–	–	62
Term	various	50	–	–	–	–	–	–	50
Term	various	614	–	–	–	–	–	–	614
Term	various	200	–	–	–	–	–	–	200
Term	various	–	–	–	–	–	–	–	–
Term	various	120	–	–	–	–	–	–	120
Term	various	45	–	–	–	–	–	–	45
Term	8/04/10	50	–	–	–	–	–	–	50
Term	5/05/10	50	–	–	–	–	–	–	50
Term	28/05/10	100	–	–	–	–	–	–	100
Term funding	various	95	–	–	–	–	–	–	95
EUR									
Loan	31/07/12	–	23	23	11	–	–	–	57
Loan	31/07/12	–	11	11	6	–	–	–	28
Loan	31/01/18	–	7	7	8	8	8	26	64
USD									
Loan	15/05/13	3	3	5	5	3	–	–	19
Total		1 973	2 806	99	92	85	70	17 547	22 672

2009
Liabilities

Product type	Maturity date	1 – 3 months R million	3 – 12 months R million	1 – 2 years R million	2 – 3 years R million	3 – 4 years R million	4 – 5 years R million	>5 years R million	Total R million
ZAR									
Bonds	15/09/10	–	–	2 585	–	–	–	–	2 585
Bonds	30/05/16	–	–	–	–	–	–	7 916	7 916
Bonds	1/08/18	–	–	–	–	–	–	5 438	5 438
Bonds	28/05/15	–	–	–	–	–	–	400	400
Bonds	28/05/17	–	–	–	–	–	–	400	400
Bonds	28/05/19	–	–	–	–	–	–	400	400
Bonds	28/05/20	–	–	–	–	–	–	400	400
Bonds	28/05/21	–	–	–	–	–	–	990	990
Commercial paper	1/04/09	30	–	–	–	–	–	–	30
Commercial paper	1/04/09	160	–	–	–	–	–	–	160
Commercial paper	1/04/09	210	–	–	–	–	–	–	210
Commercial paper	1/04/09	1	–	–	–	–	–	–	1
Commercial paper	1/04/09	30	–	–	–	–	–	–	30
Commercial paper	1/04/09	36	–	–	–	–	–	–	36
Commercial paper	1/04/09	6	–	–	–	–	–	–	6
Loan	31/08/10	–	–	100	–	–	–	–	100
Loan	15/12/17	12	12	24	24	24	24	98	218
Loan	15/03/18	–	8	7	8	7	8	31	69
Loan	15/03/18	–	1	2	1	2	2	6	14
Loan	31/03/18	–	15	15	8	15	23	61	137
Loan	15/09/18	–	5	6	5	6	6	25	53
Loan	30/09/22	–	35	34	8	7	7	60	151
Repos	various	1	–	–	–	–	–	–	1
Repos	various	22	–	–	–	–	–	–	22
Repos	various	248	–	–	–	–	–	–	248
Repos	various	62	–	–	–	–	–	–	62
Term	various	56	–	–	–	–	–	–	56
Term	various	502	–	–	–	–	–	–	502
Term	various	125	–	–	–	–	–	–	125
Term	various	218	–	–	–	–	–	–	218
Term	various	290	–	–	–	–	–	–	290
Term	various	140	–	–	–	–	–	–	140
Term	various	40	–	–	–	–	–	–	40
Term	various	92	–	–	–	–	–	–	92
Term	25/05/09	200	–	–	–	–	–	–	200
EUR									
Loan	31/07/12	–	29	29	29	14	–	–	101
Loan	31/07/12	–	14	14	14	8	–	–	50
Loan	31/01/18	–	9	9	10	10	10	43	91
USD									
Loan	15/05/13	3	3	7	7	7	4	–	31
Total		2 484	131	2 832	114	100	84	16 268	22 013

The above contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the reporting 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 in to the statement of financial position values:

2010

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)	**2**	**251**	**5**	**6**	**1**	**–**	**–**	**265**

2009

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

BWP

Funding limits and facilities at 31 March 2010:

BWP funding limits	Limit R million	Utilisation R million	Available R million
Total borrowing authority	**1 400**	**(1 302)**	**98**
Facilities			
Commercial Paper Programme	**450**	**(178)**	**272**
DBSA loan	**500**	**(380)**	**120**
EIB	**800**	**(704)**	**96**
Absa	**300**	**(40)**	**260**

Funding limits and facilities at 31 March 2009:

BWP funding limits	Limit R million	Utilisation R million	Available R million
Total borrowing authority	1 500	(1 309)	191
Facilities			
Commercial Paper Programme	450	(257)	193
DBSA loan	500	(400)	100
EIB	800	(602)	198
Absa	300	(50)	250

Contractual maturity analysis report

As at 31 March 2010, BWP had contractual maturities as summarised below:

2010

Product type	Maturity date	1 – 3 months R million	3 – 12 months R million	1 – 2 years R million	2 – 3 years R million	3 – 4 years R million	4 – 5 years R million	>5 years R million	Total R million
Commercial Paper	1/04/10	79	–	–	–	–	–	–	79
Commercial Paper	1/04/10	36	–	–	–	–	–	–	36
Commercial Paper	1/04/10	36	–	–	–	–	–	–	36
Commercial Paper	1/04/10	2	–	–	–	–	–	–	2
Commercial Paper	1/04/10	25	–	–	–	–	–	–	25
Loan	15/03/25	–	49	49	49	48	48	461	704
Loan	31/03/28	–	–	–	–	–	–	40	40
Loan	31/03/29	–	20	10	20	30	20	280	380
		108	69	59	69	78	68	781	1 302

2009

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

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

Loan commitments

As at 31 March 2010, BWP has unutilised facilities of R393 million (2009: R250 million).

VRESAP

Funding limits and facilities at 31 March 2010:

VRESAP funding limits	Limit R million	Utilisation R million	Available R million
Total borrowing authority	3 300	(2 995)	305
Facilities			
Commercial Paper Programme	300	(58)	242
EIB	906	(906)	–
Standard Bank	1 350	(1 350)	–
Absa	1 000	(376)	624
Investec	155	(155)	–
Nedbank	350	(150)	200

5. Financial risk management (continued)

5.1 Liquidity risk (continued)

Funding limits and facilities at 31 March 2009:

VRESAP funding limits	Limit R million	Utilisation R million	Available R million
Total borrowing authority	3 300	(2 541)	759
Facilities			
Commercial Paper Programme	300	(253)	47
EIB	500	(282)	218
Standard Bank	1 300	(770)	530
Absa	1 000	(931)	69
Investec	300	(155)	145
Nedbank	150	(150)	–

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

Contractual maturity analysis report

As at 31 March 2010, VRESAP had contractual maturities as summarised below:

2010

Product type	Maturity date	1 – 3 months R million	3 – 12 months R million	1 – 2 years R million	2 – 3 years R million	3 – 4 years R million	4 – 5 years R million	>5 years R million	Total R million
Commercial Paper	1/04/10	25	–	–	–	–	–	–	25
Commercial Paper	1/04/10	33	–	–	–	–	–	–	33
Loan	1/03/28	–	–	–	–	–	–	407	407
Loan	1/03/28	–	–	–	–	75	78	1 460	1 613
Loan	15/03/28	–	–	–	–	–	13	175	188
Loan	31/03/28	–	–	–	–	–	2	153	155
Loan	15/03/28	–	–	–	22	44	46	794	906
		58	–	–	22	119	139	2 989	3 327

2009

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

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

Loan commitments

As at 31 March 2010, VRESAP had unutilised facilities of R824 million (2009: R287 million).

MMTS2

Funding limits and facilities at 31 March 2010:

MMTS2 funding limits	Limit R million	Utilisation R million	Available R million
Total borrowing authority	200	(100)	100
Bridging facility	200	(100)	100

Contractual maturity analysis report

As at 31 March 2010, MMTS2 had contractual maturities as summarised below:

2010

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
Bridging facility	7/02/11	–	100	–	–	–	–	–	100
		–	100	–	–	–	–	–	100

Loan commitments

As at 31 March 2010, MMTS2 had unutilised facilities of R100 million (2009: Rnil).

5.2 Credit risk

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

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

Credit limits are allocated based on the following:

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

In order to further mitigate against the credit risk associated with derivative instruments, TCTA has negotiated International Swap and Derivatives Association Master Agreement (ISDA) agreements with the various market makers.

5. Financial risk management (continued)

5.2 Credit risk (continued)

The table below reflects the utilisation per counterparty against the credit limit at 31 March 2010:

2010

Short term	Rating (Fitch – ABCA) Long term	Credit limit R million	Total utilisation R million	Available R million
F1+	AA+	1 000	1 315	(315)[1]
F1	AA-	600	586	14
F1	AA	1 000	919	81
F1+	AA	1 000	292	708
F1+	AA	200	46	154
F1+	AA-	400	78	322
F1+	AA	200	104	96
F1+	AAA	727	198	529
F1+	AAA	1 000	99	901
F1+	AA	160	61	99
F1+	AAA	1 000	50	950
F1+	AAA	1 000	590	410
		8 287	4 338	3 949

2009

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

1 *The total utilisation exceeded the credit limit. The amount is made up of an initial investment of R841 million and accrued interest of R474 million. The breach is mitigated by the concentration risk policy within TCTA, which limits one counterparty exposure to less than 40% of the total exposure.*

BWP

The table below reflects the utilisation per counterparty against the credit limit at 31 March 2010:

2010

Short term	Rating (Fitch – ABCA) Long term	Credit limit* R million	Total utilisation R million	Available R million
F1	AA-	600	1	599
F1+	AA-	400	4	396
F1+	AAA	1 000	1	999
		2 000	6	1 994

* *This limit is the total for LHWP, BWP, VRESAP and MMTS2 projects.*

2009

Short term	Rating (Fitch – ABCA) Long term	Credit limit* R million	Total utilisation R million	Available R million
F1+	AA-	1 000	–	1 000
F1+	AA	1 000	2	998
F1+	AAA	1 000	50	951
F1+	AA-	1 000	14	986
F1+	AA+	1 000	2	998
		5 000	68	4 932

VRESAP

The table below reflects the utilisation per counterparty against the credit limit at 31 March 2010:

2010

Short term	Rating (Fitch – ABCA) Long term	**Credit limit* R million**	**Total utilisation R million**	**Available R million**
F1	AA-	**600**	**1**	**599**
F1+	AA-	**400**	**72**	**328**
F1+	AAA	**1 000**	**5**	**995**
		2 000	**78**	**1 922**

2009

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

MMTS2

The table below reflects the utilisation per counterparty against the credit limit at 31 March 2010:

2010

Short term	Rating (Fitch – ABCA) Long term	**Credit limit* R million**	**Total Utilisation R million**	**Available R million**
F1	AA	**1 000**	**10**	**990**
F1+	AA-	**400**	**18**	**382**
F1+	AAA	**1 000**	**10**	**990**
		2 400	**38**	**2 362**

* *This limit is the total for LHWP, BWP, VRESAP and MMTS2 projects.*

2009

No table is presented for 2009 as there was no utilisation per counterparty against the credit limit.

5. Financial risk management (continued)

5.3 Market risk

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

a. Currency risk

LHWP

Foreign currency risk arises from the impact of exchange rate fluctuations on the project's foreign currency loan liabilities.

TCTA is currently exposed to euro and United States dollar exchange rate fluctuations. TCTA has a policy to cover 100% of its foreign capital commitments and 75% of interest and fees.

TCTA makes use of forward exchange contracts (FECs) for hedging purposes. The table below shows the foreign exchange cover as at 31 March 2010:

Foreign exchange contracts maturity profile

	2010 Euro million	**2010 USD million**	2009 Euro million	2009 USD million
<1 year	**17**	**1**	11	1
1 – 2 years	**–**	**1**	10	–
2 – 3 years	**–**	**1**	–	1
3 – 4 years	**–**	**–**	–	1
4 – 5 years	**–**	**–**	–	1
>5 years				
	17	**3**	21	4

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 2010 (2009: 25%). A 15% change is considered for the USD-ZAR exchange rate (2009: 15%). The sensitivity analysis is based on foreign currency financial instruments held at each reporting 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% (2009: 25%) and 15% (2009: 15%) respectively, then this would have had the following impact:

Increase in rates	**Change in euro 2010 R million**	**Change in USD 2010 R million**	Change in euro 2009 R million	Change in USD 2009 R million
(Surplus)/deficit	**12**	**2**	5	(3)

If the rand had strengthened against the US dollar and euro by 25% (2009: 25%) and 15% (2009: 15%) respectively, then this would have had the following impact:

	2010 Change in euro R million	2010 Change in USD R million	2009 Change in euro R million	2009 Change in USD R million
(Surplus)/deficit	20	2	33	(3)

BWP

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

VRESAP

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

MMTS2

The MMTS2 is currently not exposed to currency risk as it does not have any foreign exchange liabilities.

b. Interest rate risk

Interest rate risk is the risk of adverse interest rate fluctuations impacting negatively on debt exposures, including the repricing of TCTA's floating rate debt obligations and the short-term rollover of maturing debt.

TCTA manages interest rate risk through the following:

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

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

LHWP

Fixed vs variable rate loans

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

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

	Fixed rate 2010 %	Fixed rate 2009 %	Variable rate 2010 %	Variable rate 2009 %
Euro	1	1	1	1
USD	–	–	1	1
Rand	67	66	30	31
Total liabilities	68	67	32	33

5. Financial risk management (continued)

5.3 Market risk (continued)

Refinancing risk

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

Weighted average duration for bonds

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

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

The table below shows the weighted/modified average duration of bonds as at 31 March 2010:

Bonds	Amount issued R million	Maturity date	Duration (years)	Weighted average duration	Modified duration
WS03	2 585	15/09/10	0,44	0,16	0,43
WS04	8 934	30/05/16	4,45	5,50	4,27
WS05	3 525	1/08/18	7,00	3,41	6,91
WSP1	366	28/05/15	4,11	0,21	3,94
WSP2	400	28/05/17	5,25	0,29	5,03
WSP3	400	28/05/19	6,22	0,34	5,95
WSP4	400	28/05/20	6,62	0,37	6,33
WSP5	990	28/05/21	6,98	0,96	6,67
	17 600		41,07	11,24	39,53

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 (2009: +/-100 bps) and +200 bps and -200 bps (2009: +/-100 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 reporting date. All other variables are held constant:

LHWP

Liabilities	2010 (1,00%) R million	2010 1,00% R million	2009 (1,00%) R million	2009 1,00% R million
(Surplus)/deficit	**25**	**(40)**	6	(48)

Liabilities	2010 (2,00%) R million	2010 2,00% R million	2009 (2,00%) R million	2009 2,00% R million
(Surplus)/deficit	**57**	**(71)**	34	(73)

Financial assets	2010 (1,00%) R million	2010 1,00% R million	2009 (1,00%) R million	2009 1,00% R million
(Surplus)/deficit	**(21)**	**21**	(15)	15

Financial assets	2010 (2,00%) R million	2010 2,00% R million	2009 (2,00%) R million	2009 2,00% R million
(Surplus)/deficit	**(41)**	**41**	(30)	29

BWP

Fixed vs variable rate loans

The ratio of fixed to floating debt as at 31 March 2010 was 41% fixed and 59% floating.

	ZAR values		% of total debt book	
Borrowings	Fixed	Variable	Fixed %	Variable %
ZAR	**465**	**659**	**41%**	**59%**

Refinancing and repricing risk

As at 31 March 2010, VRESAP had no term paper in issue.

Interest rate sensitivity

The following table illustrates the sensitivity of the net result for the year to a reasonably possible change in interest rates of +100 bps and -100 bps (2009: +/-100 bps) and +200 bps and -200 bps (2009: +/-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 reporting date. All other variables are held constant:

Liabilities	2010 (1,00%) R million	2010 1,00% R million	2009 (1,00%) R million	2009 1,00% R million
(Surplus)/deficit	11	(5)	14	1

5. Financial risk management (continued)
5.3 Market risk (continued)

Liabilities	2010 (2,00%) R million	2010 2,00% R million	2009 (2,00%) R million	2009 2,00% R million
(Surplus)/deficit	19	(13)	24	(7)

Financial assets	2010 (1,00%) R million	2010 1,00% R million	2009 (1,00%) R million	2009 1,00% R million
(Surplus)/deficit	–	–	–	–

Financial assets	2010 (2,00%) R million	2010 2,00% R million	2009 (2,00%) R million	2009 2,00% R million
(Surplus)/deficit	–	–	–	–

VRESAP

Fixed vs variable rate loans

The split as at 31 March 2010 between fixed and floating interest rates was 58% fixed and 42% floating. According to policy, projects still under construction are not expected to comply with the 70% to 30% guideline.

	ZAR values		% of total debt book	
Borrowings	Fixed	Variable	Fixed %	Variable %
ZAR	1 274	1 663	44%	56%

Refinancing and repricing risk

As at 31 March 2010, VRESAP had no term paper in issue.

Interest rate sensitivity

The following table illustrates the sensitivity of the net result for the year to a reasonably possible change in interest rates of +100 bps and -100 bps (2009: +/-100 bps) and +200 bps and -200 bps (2009: +/-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 reporting date. All other variables are held constant:

Liabilities	2010 (1,00%) R million	2010 1,00% R million	2009 (1,00%) R million	2009 1,00% R million
(Surplus)/deficit	21	(6)	16	(9)

Liabilities	2010 (2,00%) R million	2010 2,00% R million	2009 (2,00%) R million	2009 2,00% R million
(Surplus)/deficit	34	(19)	28	(21)

Financial assets	2010 (1,00%) R million	2010 1,00% R million	2009 (1,00%) R million	2009 1,00% R million
(Surplus)/deficit	–	–	–	–

Financial assets	2010 (2,00%) R million	2010 2,00% R million	2009 (2,00%) R million	2009 2,00% R million
(Surplus)/deficit	–	–	–	–

MMTS2

Fixed vs variable repricing risk

The split as at 31 March 2010 between fixed and floating interest rates was 0% fixed and 100% floating. According to policy, projects still under construction are not expected to comply with the 70% to 30% guideline.

Borrowings	ZAR values Fixed	Variable	% of total debt book Fixed %	Variable %
ZAR	–	100	–	100

Refinancing and reporting risk

As at 31 March 2010, MMTS2 had no term paper in issue.

Interest rate sensitivity

The following table illustrates the sensitivity of the net result for the year to a reasonably possible change in interest rates of +100 bps and -100 bps and +200 bps and -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 MMTS2's financial instruments held at each reporting date. All other variables are held constant:

Liabilities	2010 (1,00%) R million	2010 1,00% R million
(Surplus)/deficit	–	–

Liabilities	2010 (2,00%) R million	2010 2,00% R million
(Surplus)/deficit	–	–

Financial assets	2010 (1,00%) R million	2010 1,00% R million
(Surplus)/deficit	–	–

Financial assets	2010 (2,00%) R million	2010 2,00% R million
(Surplus)/deficit	–	–[1]

1 *The investment and loan movements are less than R50 000.*

5.4 Fair value hierarchy

As part of the disclosure requirements for fair value measurements, TCTA classifies fair value measurements using a 'fair value hierarchy' that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has three different levels:

- Quoted prices in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs that are based on unobservable inputs (Level 3).

The categorisation of the fair value measurement into one of the three different levels is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The significance of an input is assessed against the fair value measurement in its entirety. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

5. Financial risk management (continued)

5.4 Fair value hierarchy (continued)

	Level 1 inputs	Level 2 inputs	Level 3 inputs
Issued bonds	Bonds are traded in an active market and are listed on the JSE		
Derivative financial instruments		Derive pricing from the market and then derive a curve based on that price	
Local debt: other loans			Pricing is done on Level 1 but the loans are adjusted for future inflation based on the broker quotes
Foreign debt at spot rates		Derive pricing from the market and then derive a curve based on that price	
Borrows and carries		Derive pricing from the market and then derive a curve based on that price	

5.5 Operational risk management

Operational risk is the potential for loss caused by fraud, error, systems failure or other unexpected occurrences. Risks of this nature are mitigated by means of comprehensive systems of internal control, regular internal and independent audits, risk-management programmes and external insurance policies. The primary objective in managing operational risks is to identify and strengthen possible weak links.

International pronouncements on risk management are evaluated on an ongoing basis and, where appropriate, used to provide benchmarks so as to ensure continued compliance with international best practice.

To date, the COSO* framework in treasury management has been evaluated and implemented where deemed appropriate.

* *Committee of Sponsoring Organisation of the Treadway Commission.*

6. Property, plant and equipment

6.1 Works in South Africa

	LHWP 2010 R million	BWP 2010 R million	VRESAP 2010 R million	Advisory services 2010 R million	MMTS2 2010 R million	ORWRDP 2010 R million	KWSAP 2010 R million	Total 2010 R million
Cost as previously stated	2 091	1 217	2 749	–	2	–	–	6 059
Accumulated depreciation	(31)	(6)	–	–	–	–	–	(37)
Carrying amount at beginning of year	2 060	1 211	2 749	–	2	–	–	6 022
During the year:								
Additions	–	27	185	23	24	8	24	291
Disposals	–	–	–	–	–	–	–	–
Depreciation	(3)	(13)	(81)	–	–	–	–	(97)
Cost/depreciated replacement value	2 091	1 244	2 934	23	26	8	24	6 350
Accumulated depreciation	(34)	(19)	(81)	–	–	–	–	(134)
Carrying amount at end of year	2 057	1 225	2 853	23	26	8	24	6 216

	LHWP 2009 R million	BWP 2009 R million	VRESAP 2009 R million	Advisory services 2009 R million	MMTS2 2009 R million	ORWRDP 2009 R million	KWSAP 2009 R million	Total 2009 R million
Cost as previously stated	2 091	1 128	2 269	–	–	–	–	5 488
Accumulated depreciation	(29)	–	–	–	–	–	–	(29)
Carrying amount at beginning of year	2 062	1 128	2 269	–	–	–	–	5 459
Adjustment due to change in estimate in water consumption figures for previous periods	–	(46)	–	–	–	–	–	(46)
Water tariff adjustment[1]	–	(46)	–	–	–	–	–	(46)
Depreciation on adjustment	–	–	–	–	–	–	–	–
During the year:								
Additions	–	165	526	–	2	–	–	694
Disposals	–	(30)	–	–	–	–	–	(30)
Recovery[2]	–	–	(46)	–	–	–	–	(46)
Depreciation	(2)	(6)	–	–	–	–	–	(8)
Cost/depreciated replacement value	2 091	1 217	2 749	–	2	–	–	6 059
Accumulated depreciation	(31)	(6)	–	–	–	–	–	(37)
Carrying amount at end of year	2 060	1 211	2 749	–	2	–	–	6 022

1 *TCTA recognises revenue on a monthly basis based on budgeted water demand volume projections and invoices CCT based thereon. These budgeted amounts are then adjusted by the actual water volumes based on meter readings provided by DWA. DWA is responsible for collecting water revenue from the Western Cape Water System and is therefore also responsible for the completeness and accuracy of invoicing and revenue collection. TCTA capitalised all directly attributable income and expenditure to the Project until water delivery commenced and capitalisation ceased as at 31 March 2008. During the 2008 year, TCTA was unable to obtain the actual water consumption figures up to end of March and did an adjustment based on the confirmed consumption for year-end purposes. During the 2009 financial year-end, TCTA obtained the actual consumption for the years ended 31 March 2008 and 31 March 2009. However, these volumes consisted of the total demand from the Western Cape Water System whereas TCTA could only charge for water utilised from the Government Water Sources. The adjustments made during 2009 were reversed. Please refer to note 26.*

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

6. Property, plant and equipment (continued)

6.2 Other assets

	LHWP 2010 R million	BWP 2010 R million	VRESAP 2010 R million	Total 2010 R million
Cost as previously stated	**20**	**–**	**–**	**20**
Accumulated depreciation	**(16)**	**–**	**–**	**(16)**
Carrying amount at beginning of year	**4**	**–**	**–**	**4**
During the year:				
Additions	**5**	**–**	**–**	**5**
Disposals	**–**	**–**	**–**	**–**
Depreciation	**(3)**	**–**	**–**	**(3)**
Cost/depreciated replacement value	**25**	**–**	**–**	**25**
Accumulated depreciation	**(19)**	**–**	**–**	**(19)**
Carrying amount at end of year	**6**	**–**	**–**	**6**

	LHWP 2009 R million	BWP 2009 R million	VRESAP 2009 R million	Total 2009 R million
Cost as previously stated	16	1	–	17
Accumulated depreciation	(14)	(1)	–	(15)
Carrying amount at beginning of year	2	–	–	2
During the year:				
Additions	4	–	–	4
Disposals	–	–	–	–
Depreciation	(2)	–	–	(2)
Cost/depreciated replacement value	20	1	–	21
Accumulated depreciation	(16)	(1)	–	(17)
Carrying amount at end of year	4	–	–	4

6.3 Total property, plant and equipment

	Works capitalised R million	Other R million	2010 Total R million	2009 Total R million
LHWP	2 057	6	**2 063**	2 064
BWP	1 225	–	**1 225**	1 211
VRESAP	2 853	–	**2 853**	2 749
Advisory services	23	–	**23**	–
MMTS2	26	–	**26**	2
ORWRDP	8	–	**8**	–
KWSAP	24	–	**24**	–
	6 216	6	**6 222**	6 026

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

6.4 Works in RSA

LHWP

The works in South Africa comprise the Delivery Tunnel North and appurtenances. Construction on Phase 1B was completed in October 2003, hence no further capital costs have been incurred in the current financial year.

Background

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

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

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

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

BWP

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

6. Property, plant and equipment (continued)

6.4 Works in RSA (continued)

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

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

6.5 Works in RSA/Works capitalised

	LHWP 2010 R million	BWP 2010 R million	VRESAP 2010 R million	Advisory services 2010 R million	MMTS2 2010 R million	ORWRDP 2010 R million	KWSAP 2010 R million	Total 2010 R million
The carrying amount consists of:								
– Costs capitalised	**2 207**	**1 733**	**2 935**	**23**	**26**	**8**	**24**	**6 956**
– Levies/income received	**(253)**	**(443)**	**(1)**	**–**	**–**	**–**	**–**	**(697)**
– Depreciation	**(34)**	**(19)**	**(81)**	**–**	**–**	**–**	**–**	**(134)**
– Berg Water capital charge adjustment	**–**	**(46)**	**–**	**–**	**–**	**–**	**–**	**(46)**
– Revaluation	**137**	**–**	**–**	**–**	**–**	**–**	**–**	**137**
	2 057	**1 225**	**2 853**	**23**	**26**	**8**	**24**	**6 216**

	LHWP 2009 R million	BWP 2009 R million	VRESAP 2009 R million	Advisory services 2009 R million	MMTS2 2009 R million	ORWRDP 2009 R million	KWSAP 2009 R million	Total 2009 R million
The carrying amount consists of:								
– Costs capitalised	2 207	1 706	2 750	–	2	–	–	6 665
– Levies/income received	(253)	(443)	(1)	–	–	–	–	(697)
– Depreciation	(31)	(6)	–	–	–	–	–	(37)
– Berg Water capital charge adjustment	–	(46)	–	–	–	–	–	(46)
– Revaluation	137	–	–	–	–	–	–	137
	2 060	1 211	2 749	–	2	–	–	6 022

6.6 Costs capitalised

	BWP 2010 R million	VRESAP 2010 R million	Advisory services 2010 R million	MMTS2 2010 R million	ORWRDP 2010 R million	KWSAP 2010 R million	Total 2010 R million
Costs capitalised comprise:							
– Engineering and construction	1 493	2 419	21	22	7	21	3 983
– Fixed assets	–	–	–	–	–	–	–
– Finance costs	199	499	2	3	1	2	706
– Directly attributable costs	41	17	–	1	–	1	60
	1 733	2 937	23	26	8	24	4 749

	BWP 2009 R million	VRESAP 2009 R million	Advisory services 2009 R million	MMTS2 2009 R million	ORWRDP 2009 R million	KWSAP 2009 R million	Total 2009 R million
Costs capitalised comprise:							
– Engineering and construction	1 466	2 234	–	2	–	–	3 702
– Fixed assets	–	–	–	–	–	–	–
– Finance costs	199	499	–	–	–	–	698
– Directly attributable costs	41	17	–	–	–	–	58
	1 706	2 750	–	2	–	–	4 458

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

	Cost R million	Accumulated depreciation R million	Carrying amount 2010 R million	Carrying amount 2009 R million
LHWP	1 953	(25)	1 928	1 930
BWP	1 225	–	1 225	1 211
VRESAP	2 853	–	2 853	2 749
MMTS2	26	–	26	2
Advisory services	23	–	23	–
ORWRDP	8	–	8	–
KWSAP	24	–	24	–
	6 112	(25)	6 087	5 892

7. Intangible asset

7.1 Enduring benefit

	Total 2010 R million	Total 2009 R million
LHWP		
Cost as previously stated	13 322	13 258
Accumulated amortisation	(215)	(185)
Carrying amount at beginning of year	13 107	13 073
Compensation	46	64
Amortisation	(30)	(30)
Cost/depreciated replacement value	13 368	13 322
Accumulated amortisation	(245)	(215)
Carrying amount at end of year	13 123	13 107

The enduring benefit comprises the right to receive water at the designated delivery point (as defined in Article 1 of the Treaty).

The carrying amount of the indefinite portion of the enduring benefit as at 31 March 2010 is R12 031 274 525 (2009: R11 989 391 892).

Enduring benefit

	Carrying amount		Capitalised/(recovered) for the year	
	2010 R million	2009 R million	2010 R million	2009 R million
LHWP				
Cost-related payments (borrowing costs)	7 367	7 367	–	–
Cost-related payments (capital)	4 029	3 983	46	64
Capital market funds utilised by the LHDA	3 640	3 640	–	–
Levies received from DWA	(1 435)	(1 435)	–	–
Protocol V refund on previously charged taxes	(233)	(233)	–	–
Amortisation	(245)	(215)	(30)	(30)
	13 123	13 107	16	34

7.2 Cost-related payments

Cost-related payments made in terms of the Treaty, on behalf of the LHDA, include payments made directly to contractors and consultants, interest and fees on foreign loans, costs relating to foreign exchange payments, interest and interest subsidies on certain local loans and the refinancing of loans at the time when they become redeemable.

7.3 Future cost-related payments

LHWP

Future cost-related payments to be made in accordance with the Treaty for liabilities already incurred on project expenditure are included in the amount capitalised as enduring benefit.

7.4 Cost control

LHWP

In accordance with the Treaty, costs incurred by the LHDA with respect to the water delivery component of the project are under their control, but are subject to the monitoring and approval powers of the LHWC.

8. Investment property

LHWP

	Total 2010 R million	Total 2009 R million
Land and buildings		
Carrying amount at beginning of year	**15**	15
Reclassifications	**–**	–
Additions	**–**	–
Depreciation	**–**	(1)
Cost/depreciated replacement value	**15**	15
Accumulated depreciation	**(1)**	(1)
Carrying amount at end of year	**14**	14

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

TCTA constructed 41 residential houses for its employees and contractors during the implementation of the Lesotho Highlands Water Project (LHWP) in the area known as Khubetswana Township, in Clarens in the Free State (Khubetswana). After completion of LHWP, TCTA donated and transferred some of the houses within the project area, eg in Fouriesburg, to the then Mashae-Fourie Transitional Local Council. However, the houses in Khubetswana were never disposed of by TCTA.

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

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

- the value of the properties, by appointing a professional valuator in order to determine the market value of the houses; and
- the criteria for the disposal of the properties, the criteria to be based on the current socio-economic conditions including the intended date of transfer.

The estimated useful life of the buildings have been estimated as 50 years as at 31 March 2005 and depreciation is written off over the estimated useful life of the buildings at a rate of 2% per annum. Post-construction, the houses at Khubetswana have been rented out to the local community and will continue as such until a disposal strategy has been finalised. However, no fair value can be determined as there is no active market for the buildings. The replacement value per house has been determined as R417 725 for each of the five houses where valuations were performed in March 2009.

8. Investment property (continued)

The additions during the 2008 year consist of the Lesotho Bank Towers purchased by the LHDA from Lesotho Bank Tower 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. The sum insured (cost replacement value) has been based upon the value used for the 2009/10 insurance year and is R95 million (2009: R95 million).

Total rental received for the 2010 financial year amounts to R2 512 747 (2009: R1 116 140). The fair value of the building was estimated at R60 million (2009) R57 million (2008). However, the LHDA 2009 states that the market value of this investment property was still in line with its original cost price. This was due to the fact that the property was purchased 15 months prior to the 2009 financial year-end and due to the economic circumstances, the value of the property would not have increased. No indicators of impairment were identified.

9. Financial instruments

9.1 Capital management

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

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

In terms of clause 26 (a) of TCTA's revised Notice of Establishment published in *Government Gazette* 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 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, Act No 36 of 1998.

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

- Asset and liability matching: TCTA strives to minimise both refinancing and repricing risks associated with maturing debt by matching the maturity dates of debt issued with free cash generated by the project.
- Optimal capital structure: TCTA determines an optimal capital structure for each project, selecting an appropriate mix between fixed and floating debt, taking into account the debt repayment profile and tariff parameters for the project. This is effective 1 April 2010. For the year ended 31 March 2010, the optimal capital structure was 70% fixed and 30% floating for all projects.
- Redemption portfolio management: Refinancing and repricing risks are 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.
- Pro active risk management: The following market risks are actively managed and monitored on a continuous basis:
  * Liquidity risk
  * Interest rate risk
  * Credit risk
  * Currency risk

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

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

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

9.2 Reclassification of financial assets at the date of initial application of IFRS 9

	Original measurement category: IAS 39	New measurement category: IFRS 9	Original carrying amount at 31 March 2010 R million	New carrying amount at 31 March 2010 R million
Derivative financial instruments	Assets at fair value through profit and loss	Financial assets at fair value through profit or loss	8	8
Loans and other receivables	Loans and receivables	Financial assets at amortised cost	960	960
Financial market investments	Held-to-maturity investments	Financial assets at amortised cost	4 198	4 198
Cash and cash equivalents	Loans and receivables	Financial assets at amortised cost	–	–
Carrying amount at end of year			5 166	5 166

9.3 Financial instruments by category

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

Financial assets	Financial assets at fair value through profit or loss R million	Financial assets at amortised cost R million	Carrying amount R million	Fair value R million
Assets as per statement of financial position at 31 March 2010				
Derivative financial instruments	8	–	8	8
Loans and other receivables	–	960	960	960
Financial market investments	–	4 198	4 198	4 198
Cash and cash equivalents	–	–	–	–
Total	8	5 158	5 166	5 166
Assets as per statement of financial position at 31 March 2009				
Derivative financial instruments	23	–	23	23
Loans and other receivables	–	758	758	758
Financial market investments	–	3 819	3 819	3 819
Cash and cash equivalents	–	16	16	16
Total	23	4 593	4 616	4 616

Notes to the annual financial statements continued

for the year ended 31 March 2010

9. Financial instruments (continued)

9.3 Financial instruments by category (continued)

Financial liabilities	Liabilities at fair value through profit or loss R million	Other financial liabilities R million	Carrying amount R million	Fair value R million
Liabilities per statement of financial position at 31 March 2010				
Financial market liabilities	**–**	**27 085**	**27 085**	**30 333**
Derivative financial instruments	**82**	**–**	**82**	**82**
Trade and other payables	**–**	**967**	**967**	**967**
Bank overdraft	**–**	**–**	**–**	**–**
Total	**82**	**28 052**	**28 134**	**31 382**
Liabilities per statement of financial position at 31 March 2009				
Financial market liabilities	–	26 358	26 358	33 644
Derivative financial instruments	79	–	79	79
Trade and other payables	–	837	837	837
Bank overdraft	–	6	6	6
Total	79	27 201	27 280	34 566

9.4 Financial instruments in time buckets

Financial instruments	Current (one year and less) 2010 R million	Current (one year and less) 2009 R million
Financial assets		
LHWP		
Amortised cost		
Other financial assets	**4 076**	1 745
Financial assets at fair value through profit or loss		
Derivative asset	**3**	6
Total	**4 079**	1 751
BWP		
Amortised cost		
Other financial assets	**6**	68
Total	**6**	68
VRESAP		
Amortised cost		
Other financial assets	**78**	6
Total	**78**	6
MMTS2		
Amortised cost		
Other financial assets	**38**	–
Total	**38**	–
Total financial assets	**4 201**	1 825

(One to five years) R million	Non-current (five to 10 years) R million	(10 years and longer) R million	**Non-current 2010 R million**	Non-current 2009 R million	**Total 2010 R million**	Total 2009 R million
–	–	–	**–**	2 000	**4 076**	3 745
5	–	–	**5**	17	**8**	23
5	–	–	**5**	2 017	**4 084**	3 768
–	–	–	**–**	–	**6**	68
–	–	–	**–**	–	**6**	68
–	–	–	**–**	–	**78**	6
–	–	–	**–**	–	**78**	6
–	–	–	**–**		**38**	–
–	–	–	**–**		**38**	–
5	–	–	**5**	2 017	**4 206**	3 842

Notes to the annual financial statements continued
for the year ended 31 March 2010

9. Financial instruments (continued)
9.4 Financial instruments in time buckets (continued)

	Current (one year and less) 2010 R million	Current (one year and less) 2009 R million
Financial liabilities		
Liabilities at fair value through profit or loss		
LHWP		
Derivative liability	80	36
Total liabilities at fair value through profit or loss	80	36
Other financial liabilities		
LHWP		
Local debt		
Issued bonds	1 877	(306)
LHDA	989	–
Repo borrows	(690)	(306)
TCTA	1 578	–
Other loans	1 912	2 196
TCTA	1 765	2 149
LHDA	147	47
Foreign debt		
Debt translated at spot rates	46	58
TCTA	–	–
LHDA	46	58
Repo carries	538	531
Other financial liabilities	4 373	2 479
BWP		
Other financial liabilities		
Local debt	247	314
Other loans	247	314
VRESAP		
Other financial liabilities		
Local debt	58	253
Other loans	58	253
MMTS2		
Other financial liabilities		
Local debt	100	–
Other loans	100	–
Total other financial liabilities	4 778	3 046
Total financial liabilities	4 858	3 082
Net financial market liabilities	657	1 257

(One to five years) R million	Non-current (five to 10 years) R million	(10 years and longer) R million	**Non-current 2010 R million**	Non-current 2009 R million	**Total 2010 R million**	Total 2009 R million
2	–	–	2	43	82	79
2	–	–	2	43	82	79
–	16 034	1 419	17 453	18 840	19 330	18 534
–	–	–	–	974	989	974
–	–	–	–	–	(690)	(306)
–	16 034	1 419	17 453	17 866	19 031	17 866
244	217	–	461	647	2 373	2 843
158	118	–	276	316	2 041	2 465
86	99	–	185	331	332	378
94	25	–	119	211	165	269
–	–	–	–	–	–	–
94	25	–	119	211	165	269
–	–	–	–	–	538	531
338	16 276	1 419	18 033	19 698	22 406	22 177
274	343	438	1 055	993	1 302	1 307
274	343	438	1 055	993	1 302	1 307
278	789	2 152	3 219	2 621	3 277	2 874
278	789	2 152	3 219	2 621	3 277	2 874
–	–	–	–	–	100	–
–	–	–	–	–	100	–
890	17 408	4 009	22 307	23 312	27 085	26 358
892	17 408	4 009	22 309	23 355	27 167	26 437
887	17 408	4 009	22 304	21 338	22 961	22 595

9. Financial instruments (continued)

9.5 Interest rates

	2010 %	2009 %
Loans bear effective interest at rates ranging from	**5,1* to 21,5**	7,4* to 21,7
TCTA funded at a weighted average rate of	**10,11**	10,30
Project funded at a weighted average rate of	**10,23**	10,61

* *The interest rate applicable to one of the development funding foreign loans is 5,1%. This is a Euro loan facility drawn as ZAR funding. The 21,5% relates to a Calyon loan for Mohale Tunnel, valued at spot at R28 million (2009: R50 million). The interest rate applicable to this loan is 5,7%, however, due to Forward Exchange Contract costs, the overall effective interest rate on this loan amounts to 21,5% (2009: 21,7%).*

BWP	2010 %	2009 %
The project funded at a weighted average rate of	**7,75**	9,53
VRESAP		
The project funded at a weighted average rate of	**8,71**	9,76
MMTS2		
The project funded at a weighted average rate of	**8,01**	–

9.6 Exchange rates (closing rates)

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

Foreign currency	2010 Bid Rand	2010 Offer Rand	2009 Bid Rand	2009 Offer Rand
US dollars	**9,911**	**9,921**	9,473	9,492
Euros	**7,335**	**7,345**	12,608	12,633

9.7 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	2 585
WS04	Nominal	30 May 2016	12,50	10 000	8 934
WS05	Inflation indexed	1 August 2018	5,00	7 000	5 812*
WSP01	Nominal	28 May 2015	9,00	1 000	366
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	990

* *Inflation indexed bond reflected at CPI value.*

Value of bonds	Fair value 2010 R million	Nominal value 2010 R million	Fair value 2009 R million	Nominal value 2009 R million
Authorised	–	29 500	–	29 500
Issued	23 236*	19 887**	21 838*	18 530**
Unrealised premium to be amortised over the life of the loan	–	1 522	–	1 508
Unrealised discount to be amortised over the life of the loan	–	(94)	–	(134)
Unrealised amortisation of CPI upliftment for WS05	–	(1 294)	–	(1 064)

* *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.*

9.8 Guarantees

LHWP

In terms of the Treaty, the South African Government has agreed to provide, on request, guarantees for loans, credit facilities or other borrowings entered into by the LHDA and TCTA for financing the water-delivery component of the project.

Particulars of the guarantees issued and the amounts utilised (including short-term loans but excluding accrued interest) are set out below. The amounts are stated in the currency of the issued guarantee to indicate the utilisation:

Currency	Amount guaranteed 2010 million	Amount utilised 2010 million	Amount guaranteed 2009 million	Amount utilised 2009 million
TCTA loans:				
Euro	101	20	101	27*
Rand	26 100	20 022	26 100	18 933
LHDA loans:				
USD	51	2	51	3
Euro	94	37	94	51**
Rand	600	13	600	58

* *Included in the euro amount is the European Investment Bank facility which was drawn in rands, R194 million (2009: R218 million) and will be repaid in rands.*

** *Included in the euro amount is the European Investment Bank facility which was drawn in rands, R222 million (2009: R237 million) and will be repaid in rands.*

9. Financial instruments (continued)

9.8 Guarantees (continued)

BWP

On the Berg Water Project, guarantees have been provided by TCTA as follows:

In favour of	Nature	**Amount guaranteed 2010 R million**	Amount guaranteed 2009 R million
Eskom	Permanent power supply for construction of the dam as well as the Daspoort Tunnel	**2**	2
Drakenstein Municipality	For electricity consumption on the Supplement Scheme	**(1)**	(1)
Emiratethe: Emira Property Fund	Rental deposit	**(2)**	(2)
Stellenbosch Municipality	Cost of new sewer pipeline to be replaced by contractor at TCTA's cost	**1**	1
Stellenbosch Municipality	Costs to be borne by TCTA should electrical works not be in terms of the municipality's standards	**–**	–

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

In favour of	Nature	**Amount guaranteed 2010 R million**	Amount guaranteed 2009 R million
Department of Minerals and Energy	Guarantees provided for rehabilitation of burrow pits	**5**	5

1 *The amount of the guarantee is R24 800.*
2 *The amount of the guarantee is R90 000.*

9.9 Derivative exposures

LHWP

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

Forward exchange contracts	**Non-current 2010 R million**	**Current 2010 R million**	Non-current 2009 R million	Current 2009 R million
Assets				
Fair value amount	**3**	**5**	6	17
Liabilities				
Fair value amount	**80**	**2**	36	43

Forward exchange contracts	Foreign amount 2010 million	Rand amount 2010 R million	Foreign amount 2009 million	Rand amount 2009 R million
– Euro	17	248	21	359
– USD	3	17	4	21

Net foreign exchange contracts are stated at fair value and match specific underlying commitments recorded on the statement of financial position at year-end.

Derivatives are used to hedge currency exposures.

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

9.10 Interest rate risk management

Maturity periods: Interest exposure

	LHWP		BWP		VRESAP		MMTS2		Total	
Liabilities	2010 R million	2009 R million	2010 R million	2009 R million	2010 R million	2009 R million	2010 R million	2009 R million	2010 R million	2009 R million
Floating										
<1 month	892	1 044	178	221	58	253	–	–	1 128	1 518
1 – 3 months	696	1 090	–	–	–	–	–	–	696	1 090
3 – 12 months	146	325	49	73	–	–	100	–	295	398
1 – 2 years	75	126	48	39	–	–	–	–	123	165
2 – 3 years	71	83	49	39	13	–	–	–	133	122
3 – 4 years	64	78	48	39	79	10	–	–	191	127
4 – 5 years	54	64	49	38	94	32	–	–	197	134
>5 years	5 070	5 022	501	458	1 547	1 015	–	–	7 118	6 495
	7 068	7 832	922	907	1 791	1 310	100	–	9 881	10 049
Fixed										
<1 year	2 718	56	20	20	–	–	–	–	2 738	76
1 – 2 years	23	2 694	10	20	–	–	–	–	33	2 714
2 – 3 years	20	31	20	10	8	–	–	–	48	41
3 – 4 years	18	24	30	20	40	–	–	–	88	44
4 – 5 years	15	17	20	30	44	23	–	–	79	70
>5 years	12 626	11 602	280	300	1 394	1 541	–	–	14 300	13 443
	15 420	14 424	380	400	1 486	1 564	–	–	17 286	16 388

Notes to the annual financial statements continued
for the year ended 31 March 2010

9. Financial instruments (continued)
9.10 Interest rate risk management (continued)

Assets	LHWP 2010 R million	LHWP 2009 R million	BWP 2010 R million	BWP 2009 R million	VRESAP 2010 R million	VRESAP 2009 R million	MMTS2 2010 R million	MMTS2 2009 R million	Total 2010 R million	Total 2009 R million
Floating										
<1 month	160	–	6	–	78	–	38	–	282	–
1 – 3 months	–	–	–	–	–	–	–	–	–	–
3 – 12 months	3	6	–	–	–	–	–	–	3	6
1 – 2 years	2	5	–	–	–	–	–	–	2	5
2 – 3 years	–	5	–	–	–	–	–	–	–	5
3 – 4 years	2	5	–	–	–	–	–	–	2	5
4 – 5 years	–	2	–	–	–	–	–	–	–	2
>5 years	–	–	–	–	–	–	–	–	–	–
	167	23	6	–	78	–	38	–	289	23
Fixed										
<1 year	3 917	1 745	–	68	–	6	–	–	3 917	1 819
1 – 2 years	–	2 000	–	–	–	–	–	–	–	2 000
2 – 3 years	–	–	–	–	–	–	–	–	–	–
3 – 4 years	–	–	–	–	–	–	–	–	–	–
4 – 5 years	–	–	–	–	–	–	–	–	–	–
>5 years	–	–	–	–	–	–	–	–	–	–
	3 917	3 745	–	68	–	6	–	–	3 917	3 819

10. Loans and other receivables

Non-current	LHWP 2010 R million	LHWP 2009 R million	BWP 2010 R million	BWP 2009 R million	VRESAP 2010 R million	VRESAP 2009 R million	Total 2010 R million	Total 2009 R million
Other debtors	–	–	5	5	–	–	5	5
Total	–	–	5	5	–	–	5	5

Current	LHWP 2010 R million	BWP 2010 R million	VRESAP 2010 R million	Advisory services 2010 R million	MMTS2 2010 R million	ORWRDP 2010 R million	KWSAP 2010 R million	Total 2010 R million
Water income receivables[1]	682	–	33	–	–	–	–	715
Other debtors	1	–	17	–	–	40	2	60
Loan account: BWP	1	–	–	–	–	–	–	1
Loan account: VRESAP	2	–	–	–	–	–	–	2
Loan account: MMTS2	2	–	–	–	–	–	–	2
Loan account: KWSAP	41	–	–	–	–	–	–	41
Loan account: ORWRDP	51	–	–	–	–	–	–	51
Loan account: Advisory services	58	–	–	–	–	–	–	58
Loan account: LHWP	–	–	–	–	25	–	–	25
Total	838	–	50	–	25	40	2	955

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

Current	LHWP 2009 R million	BWP 2009 R million	VRESAP 2009 R million	Total 2009 R million
Water income receivables[1]	643	–	–	643
Other debtors	10	–	46	56
Loan account: BWP	1	–	–	1
Loan account: VRESAP	3	–	–	3
Loan account: MMTS2	22	–	–	22
Loan account: KWSAP	7	–	–	7
Loan account: ORWRDP	15	–	–	15
Loan account: Advisory services	6	–	–	6
Total	707	–	46	753

Current	LHWP 2008 R million	BWP 2008 R million	VRESAP 2008 R million	Total 2008 R million
Water income receivables[1]	380	–	–	380
Other debtors	1	–	–	1
Loan account: BWP	7	–	–	7
Loan account: VRESAP	9	–	–	9
Loan account: MMTS-2	–	–	–	–
Loan account: KWSAP	–	–	–	–
Loan account: ORWRDP	–	–	–	–
Loan account: Advisory services	–	–	–	–
Total	397	–	–	397

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

Total

	2010 R million	2009 R million
Non-current		
BWP	**5**	5
Total	**5**	5

	2010 R million	2009 R million	2008 R million
Current			
LHWP	**838**	707	397
BWP	**–**	–	–
VRESAP	**50**	46	–
MMTS2	**25**	–	–
Advisory services	**–**	–	–
ORWRDP	**40**	–	–
KWSAP	**2**	–	–
Total	**955**	753	397

11. Prepaid expenditure

	LHWP 2010 R million	BWP 2010 R million	VRESAP 2010 R million	Advisory services 2010 R million	MMTS2 2010 R million	ORWRDP 2010 R million	KWSAP 2010 R million	Total 2010 R million
Prepayments	**24**	**–**	**36**	**7**	**–**	**5**	**1**	**73**
Total	**24**	**–**	**36**	**7**	**–**	**5**	**1**	**73**

	LHWP 2009 R million	BWP 2009 R million	VRESAP 2009 R million	Advisory services 2009 R million	MMTS2 2009 R million	ORWRDP 2009 R million	KWSAP 2009 R million	Total 2009 R million
Prepayments	46	1	39	–	2	–	–	88
Total	46	1	39	–	2	–	–	88

Total

	2010 R million	2009 R million
LHWP	**24**	46
BWP	**–**	1
VRESAP	**36**	39
MMTS2	**–**	2
Advisory services	**7**	–
ORWRDP	**5**	–
KWSAP	**1**	–
Total	**73**	88

12. Non-distributable reserves

	2010 R million	2009 R million
Balance at beginning of year	**120**	121
Movement during the year	**(1)**	(1)
– Revaluation gains relating to hedges of future anticipated transactions	**–**	–
– Revaluation losses relating to hedges of future anticipated transactions	**–**	–
– Amounts released to deficit during the year	**–**	–
– Reversal of revaluation	**–**	–
– Accumulated depreciation adjusted against NDR	**–**	–
– Realisation of revaluation surplus	**(1)**	(1)
The balance comprises	**119**	120
Revaluation reserve	**119**	120
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 surplus or deficit to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of an asset is charged as an expense to the extent that it exceeds the balance, if any, held in the asset's revaluation reserve relating to a previous revaluation of that asset.

13. Cumulative deficit

	2010 R million	2009 R million	2008 R million
Balance at beginning of year	(3 881)	(3 672)	(3 510)
Movement during the year	(151)	(209)	(162)
– Net deficit for the year	(151)	(209)	(162)
– Realisation of revaluation surplus	–	–	–
Balance at end of year	(4 032)	(3 881)	(3 672)

14. Trade and other payables

	LHWP 2010 R million	BWP 2010 R million	VRESAP 2010 R million	Advisory services 2010 R million	MMTS2 2010 R million	ORWRDP 2010 R million	KWSAP 2010 R million	Total 2010 R million
Interest payable								
• TCTA	517	3	24	–	–	–	–	544
• LHDA	7	–	–	–	–	–	–	7
Loan account: LHWP	–	1	2	27	–	40	16	86
Other creditors	90	6	16	31	27	12	24	206
Working capital: Advance payment[1]	–	–	–	–	–	40	–	40
Royalties (see note 22)	29	–	–	–	–	–	–	29
Water income receivables	–	54	–	–	–	–	–	54
Total	643	64	42	58	27	92	40	966

1 *TCTA entered into a Memorandum of Understanding on Advance Payments with DWA on 30 March 2010. This memorandum provides that TCTA will receive an advance payment from the DWA amounting to R40,0 million for working capital to defray internal and external TCTA operational costs relating to the ORWRDP2 for the 2010/11 year. This working capital will be restored subject to the issuing of certified VAT invoices and supporting documentation of actual internal and external costs incurred by TCTA. Once TCTA has secured loans following the signing of water supply agreements by social and commercial users, any working capital still held by the TCTA would be credited to the social portion then payable in the ratio of the committed water demands of social and commercial users. If the ORWRDP2 does not proceed beyond the tender design stage, any balance of the working capital not spent by TCTA shall be refunded to DWA.*

	LHWP 2009 R million	BWP 2009 R million	VRESAP 2009 R million	Advisory services 2009 R million	MMTS2 2009 R million	ORWRDP 2009 R million	KWSAP 2009 R million	Total 2009 R million
Interest payable								
• TCTA	481	4	15	–	–	–	–	500
• LHDA	10	–	–	–	–	–	–	10
Loan account: LHWP	–	1	3	6	17	15	7	49
Other creditors	50	113	18	–	5	–	–	186
Royalties (see note 22)	52	–	–	–	–	–	–	52
Water income receivables	–	40	–	–	–	–	–	40
Total	593	158	36	6	22	15	7	837

14. Trade and other payables (continued)

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

Total

	2010 R million	2009 R million	2008 R million
LHWP	**643**	593	560
BWP	**64**	158	40
VRESAP	**42**	36	88
MMTS2	**27**	22	–
Advisory services	**58**	6	–
ORWRDP	**92**	15	–
KWSAP	**40**	7	–
Total	**966**	837	688

15. Non-contractual amounts

	LHWP 2010 R million	**BWP 2010 R million**	**VRESAP 2010 R million**	**Advisory services 2010 R million**	**MMTS2 2010 R million**	**ORWRDP 2010 R million**	**KWSAP 2010 R million**	**Total 2010 R million**
Receiver of revenue – VAT	**(60)**	**19**	**(1)**	**3**	**3**	**1**	**3**	**(32)**
Receiver of revenue – SDL, PAYE, UIF	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**(60)**	**19**	**(1)**	**3**	**3**	**1**	**3**	**(32)**

	LHWP 2009 R million	BWP 2009 R million	VRESAP 2009 R million	Total 2009 R million
Receiver of revenue – VAT[1]	(56)	5	4	(47)
Receiver of revenue – SDL, PAYE, UIF	–	–	–	–
Total	(56)	5	4	(47)

	LHWP 2008 R million	BWP 2008 R million	VRESAP 2008 R million	Total 2008 R million
Receiver of revenue – VAT[1]	(50)	3	10	(37)
Receiver of revenue – SDL, PAYE, UIF	(1)	–	–	(1)
Total	(51)	3	10	(38)

1 *BWP balance has been restated due to the correction of prior period error. Refer to note 26.*

Total

	2010 R million	2009 R million	2008 R million
LHWP	(60)	(56)	(51)
BWP	19	5	3
VRESAP	(1)	4	10
MMTS2	3	–	–
Advisory services	3	–	–
ORWRDP	1	–	–
KWSAP	3	–	–
Total	(32)	(47)	(38)

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

16. Provisions

16.1 Provision for leave pay

	LHWP 2010 R million	BWP 2010 R million	VRESAP 2010 R million	Total 2010 R million	Total 2009 R million
Balance at beginning of year	3	–	–	3	3
Leave accrued during the year	6	–	–	6	4
Leave utilised or paid	(4)	–	–	(4)	(4)
Total	5	–	–	5	3

In terms of TCTA's policy, employees are entitled to accumulate annual leave not taken to a maximum of 40 working days. Accumulated annual leave exceeding the maximum of 40 working days is forfeited on 30 June of the succeeding year.

17. Long-term liabilities

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

Reconciliation of long-term liability	R million
Balance at 31 March 2009	308
– Long-term portion of future compensation	282
– Short-term portion of future compensation[1]	26
Payment in current year	(11)
Adjustments made based on findings from external report	5
Increase in provision based on revised rates	15
Increase in LT provision based on payments not made	38
Balance at 31 March 2010	**355**
– Long-term portion of future compensation	**339**
– Short-term portion of future compensation[1]	**16**

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

18. Cash and cash equivalents

	LHWP 2010 R million	BWP 2010 R million	VRESAP 2010 R million	Advisory services 2010 R million	MMTS2 2010 R million	ORWRDP 2010 R million	KWSAP 2010 R million	Total 2010 R million
Bank	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–

	LHWP 2009 R million	BWP 2009 R million	VRESAP 2009 R million	Advisory services 2009 R million	MMTS2 2009 R million	ORWRDP 2009 R million	KWSAP 2009 R million	Total 2009 R million
Bank[1]	(6)	16	–	–	–	–	–	10
	(6)	16	–	–	–	–	–	10

Total

	2010 R million	2009 R million
LHWP	–	(6)
BWP	–	16
VRESAP	–	–
MMTS2	–	–
Advisory services	–	–
ORWRDP	–	–
KWSAP	–	–
	–	10

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

19. Revenue

	Notes	LHWP 2010 R million	BWP 2010 R million	VRESAP 2010 R million	Advisory services 2010 R million	MMTS2 2010 R million	ORWRDP 2010 R million	KWSAP 2010 R million	Total 2010 R million
Bulk raw water tariff	19.1	**2 420**	**173**	**145**	**–**	**–**	**–**	**–**	**2 738**
Advisory services[1]	19.2	**–**	**–**	**–**	**1**	**–**	**–**	**18**	**19**
		2 420	**173**	**145**	**1**	**–**	**–**	**–**	**2 757**

	Notes	LHWP 2009 R million	BWP 2009 R million	VRESAP 2009 R million	Advisory services 2009 R million	MMTS2 2009 R million	ORWRDP 2009 R million	KWSAP 2009 R million	Total 2009 R million
Bulk raw water tariff	19.1	2 283	70	–	–	–	–	–	2 353
Advisory services[1]	19.2	–	–	–	8	–	–	–	8
		2 283	70	–	8	–	–	–	2 361

1 BWP balance has been restated due to the correction of prior period error. Refer to note 26.

Total

	2010 R million	2009 R million
LHWP	**2 420**	2 283
BWP	**173**	70
VRESAP	**145**	–
MMTS2	**–**	–
Advisory services	**1**	8
ORWRDP	**–**	–
KWSAP	**18**	–
	2 757	2 361

1 Advisory services have been delivered to MCWAP.

19.1 Bulk raw water tariff

Income is based on the part of the bulk raw water tariff due to TCTA as set out below:

Project	2009/2010 Tariff cents per m³	2009/2010 Volume million m³	2008/2009 Tariff cents per m³	2008/2009 million m³
LHWP	**168,82**	**1 433,56**	157,04	1 454,00
BWP				
April to June	**0,6315**	**77,02**	0,5935	184,71
July to March	**0,4831**	**256,58**	0,6315	159,34
VRESAP				
Eskom	**0,44**	**196,24**	–	–
Sasol	**0,81**	**727,11**	–	–

19. Revenue (continued)

19.2 Advisory services

TCTA performed advisory services for Mokolo-Crocodile Water Augmentation Project (MCWAP) in 2010. TCTA recovered all costs incurred on the project from DWA. TCTA received a directive to co-finance an and implement Phase 1, Subphase 2 and Phase 3 of the project.

20. Other income

	LHWP 2010 R million	BWP 2010 R million	Total 2010 R million
Rental income[1]	**3**	**–**	**3**
Recovery – La Motte[2]	**–**	**–**	**–**
Other income	**–**	**–**	**–**
	3	**–**	**3**

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

Total

	2010 R million	2009 R million
LHWP	**3**	3
BWP	**–**	5
	–	–
	3	8

Rental income

1 *Rental income includes rental derived from leasing office space in the LHDA office building, to external parties, amounting to R2 512 747 (2009: R1 116 140,18). Income received from the leasing of the houses at Khubetswana is also included in rental income.*

2 *TCTA has handed the management and control of the La Motte Village extensions over to the Stellenbosch Municipality, the effective date being 7 January 2009. The municipality shall pay TCTA for the costs incurred pertaining to the construction of Wemmershoek/La Motte Link Service Sewer Line as well as costs paid to the municipality for the establishment of the La Motte Village extension. The amount payable is R5 526 236,00 paid in three annual instalments starting April 2009. The present value is R5 050 157 (refer to critical accounting estimates and judgements.) First payment was received in April 2010.*

21. Finance income and costs

21.1 Finance income

	LHWP		BWP		VRESAP		Total	
	2010 R million	2009 R million	**2010 R million**	2009 R million	**2010 R million**	2009 R million	**2010 R million**	2009 R million
Interest income on financial assets carried at amortised cost	**770**	599	**4**	1	**13**	–	**787**	600
Fair value gain on forward exchange contracts held for trading	**55**	23	**–**	–	**–**	–	**55**	23
Translation gain on foreign currency financial liabilities designated at fair value	**7**	16	**–**	–	**–**	–	**7**	16
Finance income	**832**	638	**4**	1	**13**	–	**849**	639

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

21.2 Finance costs

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

	LHWP		BWP		VRESAP		Total	
	2010 R million	2009 R million	**2010 R million**	2009 R million	**2010 R million**	2009 R million	**2010 R million**	2009 R million
Interest expense for finance lease agreements Interest expense for borrowings at amortised cost	**2 487**	2 354	**109**	131	**299**	–	**2 895**	2 485
– Locally issued bonds	**2 070**	1 982	**–**	–	**–**	–	**2 070**	1 982
– Other local debt	**417**	372	**109**	131	**299**	–	**825**	503
Interest expense for borrowings at fair value – Foreign debt	**43**	67	**–**	–	**–**	–	**43**	67
Total interest expense for financial liabilities	**2 530**	2 421	**109**	131	**299**	–	**2 938**	2 552
Loss on foreign currency financial liabilities designated at fair value	**–**	14	**–**	–	**–**	–	**–**	14
Fair value losses on forward exchange contracts held for trading	**88**	38	**–**	–	**–**	–	**88**	38
Finance costs	**2 618**	2 473	**109**	131	**299**	–	**3 026**	2 604

21. Finance income and costs (continued)

21.3 Financial result by category of financial instrument

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

	LHWP		BWP		VRESAP	
	2010 R million	2009 R million	**2010 R million**	2009 R million	**2010 R million**	2009 R million
Financial assets/liabilities at fair value through profit or loss	**69**	80	**–**	–	**–**	–
Financial assets at amortised costs	**(770)**	(599)	**(4)**	(1)	**(13)**	–
Other financial liabilities	**2 487**	2 354	**109**	131	**299**	–
Net result from financial assets and liabilities	**1 786**	1 835	**105**	130	**286**	–
Net amounts reported in:						
– Surplus or deficit	**1 786**	1 759	**105**	130	**286**	–
– Equity	**–**	–	**–**	–	**–**	–

22. Royalties paid

Royalties are paid to the Government of Lesotho in accordance with the Treaty for the benefit of receiving water from the LHWP. The 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 784 million m^3 (2009: 766 million m^3) of water delivered.

	2010 R million	2009 R million
Fixed royalties	**156**	158
Variable royalties	**186**	167
Total royalties	**342**	325

23. Other operating expenses

Other operating expenses include the following:

	2010 R million	2009 R million
Operating lease payments	5	6
Audit fees[1]	2	2
Other operating expenditure	35	23
Total other operating expenditure	42	31

1 *Audit fee R1 756 000 (2009: R1 413 200).*

Allocated project hours are billed at the actual staff rates.

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

23. Other operating expenses (continued)
23.1 Directors' remuneration
Non-executive directors

2010

Names	Retainer fees R'000	Ad hoc fees R'000	REMCO R'000	ALCO R'000
Board 1/04/2009 to 31/03/2010				
S Khoza	**370**	**29**	**15**	**–**
L Thotanyana	**296**	**36**	**11**	**63**
A Makwetla	**192**	**13**	**–**	**–**
S Kondlo	**192**	**37**	**11**	**–**
R Mbwana	**192**	**40**	**11**	**–**
E Malefane	**192**	**2**	**–**	**–**
P Makhesha	**184**	**–**	**–**	**–**
G White	**192**	**81**	**11**	**66**
J Geenen	**192**	**58**	**11**	**103**
M Mosidi	**192**	**29**	**–**	**–**
Total non-executive directors	**2 194**	**325**	**70**	**232**

2009

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

* *Ad hoc fees comprise all additional TCTA-related work done outside scheduled engagements, in line with the Directors' Remuneration Policy.*

Audit Committee R'000	Human Resources and Transformation Committee R'000	Board meetings R'000	Attendance fees BWP Technical and Technical committees R'000	VRESAP Technical Committee R'000	Total attendance R'000	Grand total R'000
–	–	370	–	–	385	784
90	–	296	–	–	460	792
–	63	8	–	–	71	276
–	–	21	144	–	176	405
–	–	8	144	–	163	395
53	–	21	111	–	185	379
–	53	–	–	–	53	237
–	90	21	–	–	188	461
53	–	21	–	–	188	438
–	2	21	105	–	129	349
196	208	787	504	–	1 997	4 516

		Attendance fees				
Audit Committee R'000	Human Resources and Transformation Committee R'000	Board meetings R'000	BWP Technical and Technical committees R'000	VRESAP Technical Committee R'000	Total attendance R'000	Grand total R'000
–	–	214	–	–	262	930
48	–	194	–	11	320	573
–	70	50	–	–	120	334
–	–	26	47	31	135	375
–	–	52	41	42	145	345
31	–	38	40	31	140	330
–	46	42	–	–	88	289
–	30	34	–	–	106	262
21	–	(14)	–	–	28	147
–	–	13	21	–	34	157
100	146	649	149	115	1 378	3 742

23. Other operating expenses (continued)
23.1 Directors' remuneration (continued)
Executive director

Exco member	2010 CTC R'000	Incentive 2010 R'000	Total 2010 R'000	2009 CTC R'000
Executive 1/11/2008 to 31/03/2010				
MJ Ndlovu *(Chief Executive Officer)*	**2 894**	**1 210**	**4 104**	1 456
Executive 1/04/2008 to 31/07/2008				
L Mthembu *(Chief Executive Officer)*	**–**	**–**	**–**	1 110
Total Executive Director	**2 894**	**1 210**	**4 104**	2 566

23.2 Executive management remuneration

Exco member	Designation	Date appointed or resigned	CTC 2010	Incentives for 2009 rolled over for payment in 2010	Incentives for 2010	Total 2010	CTC 2009	Total 2009
J Claassens	Executive: Project Management and Implementation	Contractual appointed April 2007	**1 920**	**171**	**577**	**2 668**	1 762	2 722
H Nazeer	CFO	1/09/2007	**2 022**	**73**	**607**	**2 702**	1 855	2 461
R Matabane	Executive: Human Resources Management and Organisational Development	1/1/06	**1 740**	**147**	**523**	**2 410**	1 596	2 312
E Motsatsing	Executive: Enterprise-wide Support Services	2/1/07 Resigned 31/03/2010	**1 386**	**126**	**407**	**1 919**	1 272	1 867
N Rapoo	Head: Assurance	Resigned 31/10/2008	**–**	**–**	**–**	**–**	1 431	1 431
J Nhlapo	COO	8/6/07	**2 357**	**103**	**699**	**3 159**	2 162	3 001
Z Mbele	Executive: Project Finance and Structuring	1/11/07	**1 800**	**75**	**553**	**2 428**	1 652	2 344
L Mnisi	Executive: Company Secretariat and Company Secretary	1/11/2008	**1 310**	**–**	**376**	**1 686**	761	937
Prof Busari[1]	Executive: Knowledge Management	1/11/2009	**675**	**–**	**198**	**873**	–	–
			13 210	**695**	**3 940**	**17 845**	12 491	17 074

1 *Prof Busari joined TCTA on 1 November 2009. The CTC disclosed is for five months.*

24. Net deficit for the year

As income is first used to cover operating expenditure, depreciation and royalties, the net deficit of R151 million (2009: R209 million adjusted) relates to the shortfall in covering interest costs. The project financing approach adopted means that this deficit was anticipated. In tariff setting, priority was given to setting a constant tariff in real terms, and the effect is that interest will not be covered by income for the first number of years of each project.

25. Commitments

	Capital expenditure works in South Africa Capital expenditure contracted by TCTA in respect of current projects	
	2010 **R million**	2009 R million
Expenditure will be financed from borrowings and is expected to be incurred as follows:		
BWP		
2009 – 2010	**15**	79
2010 – 2011	**15**	14
2011 – 2012	**1**	5
Total	**31**	98
VRESAP		
2009 – 2010	**129**	412
2010 – 2011	**130**	81
2011 – 2012	**31**	10
Total	**290**	503
Advisory services		
2009 – 2010	**44**	–
2010 – 2011	**1 261**	503
2011 – 2012	**2 417**	3 273
Total	**3 722**	3 776
MMTS2		
2009 – 2010	**27**	24
2010 – 2011	**452**	275
2011 – 2012	**527**	369
Total	**1 006**	668
ORWRDP		
2009 – 2010	**85**	–
2010 – 2011	**1 407**	171
2011 – 2012	**3 410**	936
Total	**4 902**	1 107
KWSAP		
2009 – 2010	**24**	19
2010 – 2011	**678**	242
2011 – 2012	**487**	592
Total	**1 189**	853
Summary		
2009 – 2010	**324**	534
2010 – 2011	**3 942**	1 286
2011 – 2012	**6 873**	5 185
Total	**11 140**	7 005

Notes to the annual financial statements continued

for the year ended 31 March 2010

26. Prior period error

BWP: Berg Water Project

DWA and the City of Cape Town concluded a Raw Water Supply Agreement on 23 April 2003 for the supply of raw water by DWA to the City from the Berg Water Project, to augment the water supplies of the Western Cape Water System. TCTA is billing DWA based on the volumes as agreed in the Raw Water Supply Agreement between DWA and the City of Cape Town as well as the Addendum to the Raw Water Supply Agreement. These numbers are included in TCTA's budget. Annually TCTA obtains the actual consumption figures. The income recognised during the year is then adjusted to reflect the actual volumes of water delivered.

- TCTA relies on the information supplied. The actual volume numbers received to calculate the adjustment in 2009, however, were based on the total volume produced by CCT – that is from CCT own sources and DWA sources resulting in TCTA using the incorrect volumes as base for the calculation of the over/under charged up to 31 March 2009.
- Upon receipt of the actual volumes after the 2009 year-end, on which the BWCC should be based, TCTA's budgeted volumes exceeded the actual volumes consumed by CCT during the 2009 financial year.

This resulted in:

- Overstatement of loans and other receivables.
- Understatement of non-contractual amounts (VAT) debtor.
- Understatement of trade and other payables.
- Overstatement of revenue.

The correction of the error resulted in adjustments as follows:

Accounts effected	Balance reported in prior period R million	Prior period error adjustment R million	Adjusted balance R million
Statement of financial position			
Loans and other receivables	110	(110)	–
Non-contractual amounts (VAT)	(13)	(19)	5
Trade and other payables	(118)	(41)	(159)
Statement of comprehensive income			
Revenue	(202)	(132)	(70)

27. 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:

27.1 Fair value and impairment of enduring benefit and works in RSA

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

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

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

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

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

Discount rates used in determining the fair value

LHWP

Revenue cash flows

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

Expenditure cash flows

Royalties and other operating expenditure are discounted based on the BondsPf, adjusted for TCTA's liquidity premium. The fairest representation is the mark-to-market for the WS04 bond as at 31 March of 60 bps (2009: 60 bps).

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

27.2 Provision for compensation

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

TCTA is reliant on the LHDA for the calculation of this provision.

For the 2010 provision, TCTA has obtained the detailed calculations for the 2009 provision. This was used as basis for the calculation of the 2010 provision after taking the following changes in inputs into consideration:

- the remaining number of years for compensation payment was reduced by one year; and
- the 2009/10 compensation rates were used.

27. Critical accounting estimates and judgements (continued)

27.3 Berg Water capital charge

The monthly invoice to CCT 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.

27.4 Transfer of La Motte Village extension

TCTA established and developed the La Motte Village extension to approved accommodation for contractors and employees during the construction phase of the BWP. In August 2008, TCTA came to an agreement with the Stellenbosch Municipality that the 80 houses would be handed over to the municipality. The land is currently registered in the name of the state. The DPW, on behalf of the state, has granted TCTA permission to occupy and build on the land. TCTA has requested DPW to give its final approval and instruct the state attorney to transfer the land to the municipality. The effective date of the handover, subject to the approval of DPW, is 7 January 2009. The municipality acknowledged the management and control of the village as from the effective date.

The agreement stipulates that the municipality will pay TCTA for certain costs incurred by TCTA, namely:

- the costs pertaining to the construction of the Wemmershoek/La Motte Link Service Sewer Line; and
- all costs paid by TCTA to the municipality for the establishment of the La Motte Village extensions.

The municipality shall pay TCTA a total sum of R5 526 236,60 in three instalments, commencing in the 2010 financial year. IAS 16.23 states that the "cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit". TCTA's loans and receivables are normally current – being paid within 12 months. The terms of the recovery from the municipality are therefore beyond TCTA's normal credit terms, and the deferred receivable is accounted for at amortised cost, using the effective interest rate method. First payment was received in April 2010.

Management derecognised the assets transferred as all risks and rewards have been transferred to the municipality. Moody's Investors Service assigned an A1.za rating to Stellenbosch Municipality in 2009. On available information it seems that there is insufficient data to build a credit yield curve for the ratings categories. The spreads are as at 30 April 2010 as supplied by RMB Corporate Bond Report (confirmed with the report sent by ABSA Capital on 25 March 2010). For the purpose of the review, we used the municipality bonds only as they relate closely to the CCT and Stellenbosch Municipality bonds. The last rating for Stellenbosch is A and the year-to-date number was 241 bps NACS above the government curve. TCTA obtained the 2009 zero curve report for 31 March 2010 from the Bond Exchange of the JSE Limited and used the Perfect Bonds Fit curve, adjusted by 241 bps for Stellenbosch Municipality's rating. This resulted in a present value for the receivable of R5 050 157 for 2010 (2009: R5 069 091).

28. Contingent liability

28.1 Mohale Dam remedial works

Following the panel of experts' recommendation in September 2007 that the cracks in the concrete face slab of Mohale Dam can be repaired when the water level allows it, work commenced in March 2008. At the end of November 2009 the vertical crack repair was completed from the top (elevation 2075 masl) to elevation 2058. The sealing of the joint between the top of the face slab and the heel of the parapet wall as well as the open joints in the parapet wall as per the recommendation of the panel of experts was also completed. The cost of the repairs to date approximates R2 million, excluding consultant's fees of approximately R1,8 million.

The vertical crack repair work down to elevation 2050 could not continue due to the rise in reservoir water level and will be completed when the reservoir water level allows it in future. The repair of the horizontal crack will only be done if the reservoir approaches minimum operating level at elevation 2005.

The safety of Mohale Dam remains fully satisfactory with the repairs completed to date and the structural integrity of the embankment is not being jeopardised by the remaining required repairs. Deformation and movements of the dam are well within precedent and all monitoring instruments show a general trend that embankment movements and deformations have stabilised. Leakage maintains a constant relationship to reservoir water levels and the peak has reduced to less than 300 ℓ/sec. The operational philosophy to minimise the possibility of reservoir spilling at elevation 2075 is being maintained.

The risk that the water deliveries may be decreased as a result of the cracks in the Mohale Dam face slab has substantially been mitigated by the effected repairs and therefore no impairment was done to the enduring benefit during this financial year.

28.2 Litigation and claims against TCTA

As at 31 March 2010, there is a referral to the CCMA for an alleged unfair dismissal. The attorney's opinion is that there is no probable loss foreseen for TCTA.

The litigation costs that TCTA had incurred as well as the litigation costs of the applicant is a contingent liability at year-end, as the amount cannot be determined at year-end.

29. Operating leases

2010

	<1 year R million	**1 – 5 years R million**	**>5 years R million**	**Total R million**
LHWP				
Buildings[1]	–	–	–	–
Equipment	–	–	–	–
Total	–	–	–	–

2009

	<1 year R million	1 – 5 years R million	>5 years R million	Total R million
BWP				
Buildings	–	–	–	–
Equipment	–	–	–	–
Total	–	–	–	–

1 *Building lease amounting to less than R500 000.*

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.

30. 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 surplus or deficit. In terms of Protocol VI to the Treaty, signed on 4 June 1999, these amounts are separately identified and reported on:

LHWP

	2010 R'000	2009 R'000
Revenue	**899**	854
Operating costs	**(899)**	(854)
	–	–

31. Employee benefits

31.1 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.

31.2 Termination benefits

Termination benefits do not provide the entity with future economic benefits and are recognised as an immediate expense. Included in the executive directors' emoluments, note 23.1, is termination benefits paid to the former Chief Executive Officer (CEO) upon termination of services during the current year.

32. Events after the reporting period

32.1 Labour dispute with former CEO

A compensation award was granted by the CCMA to the previous acting CEO amounting to R1 327 752. This is an 'adjusting after reporting date' event and the total provision included in the financial statements amounts to R1 527 351. The litigation cost is a contingent liability at year-end, the amount of which is yet to be determined.

32.2 Incentives

The incentives for employees for the 2009/10 financial year were approved by the Board of Directors on 22 June 2010.

32.3 Mokolo-Crocodile Water Augmentation Project

TCTA received the Directive from the Minister of Water and Environmental Affairs, Ms BP Sonjica, in terms of the National Water Act, 1998 (Act No 36 of 1998) to co-finance and implement Phase 1, Subphase 2A and Phase 3 of the MCWAP on 29 May 2010.

33. Compliance with the Public Finance Management Act (PFMA) and treasury regulations

Treasury regulations (TR)

- Contrary to TR 29.1.1, the corporate plan did not cover three years for the information required in terms of subsections (a) and (c) of the above mentioned TR. This will be rectified in the corporate plan for 2010/11.
- Contrary to TR 29.1.1(f), the materiality and significance framework was not submitted as part of the corporate plan. This was submitted subsequent to year-end.

Irregular, fruitless and wasteful expenditure

Sections 55 (1)(d)(i) of the PFMA requires that a public entity discloses any material losses through criminal conduct. No irregular, fruitless or wasteful expenditure was reported for the financial year in question in terms of the above mentioned section 55 (b)(ii) of the PFMA.

34. 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.

35. Capitalised and expensed costs of the projects

IAS 16: Property, Plant and Equipment, requires costs not directly attributable to the projects to be expensed and not capitalised to the cost of the asset. This has resulted in certain indirect costs (the definition within the standard has been applied) being charged against income and reflected in the deficit. The analysis below shows capitalised and expensed costs related to the projects:

Total cost of the project	**BWP 2010 R million**	**VRESAP 2010 R million**	**Advisory services 2010 R million**	**MMTS2 2010 R million**	**ORWRDP 2010 R million**	**KWSAP 2010 R million**	**Total 2010 R million**
Capitalised							
Engineering and construction	**1 493**	**2 419**	**21**	**22**	**7**	**21**	**3 983**
Water income	**(443)**	**(1)**	**–**	**–**	**–**	**–**	**(444)**
Depreciation	**(19)**	**(81)**	**–**	**–**	**–**	**–**	**(100)**
Berg Water capital charge adjustment	**(46)**	**–**	**–**	**–**	**–**	**–**	**(46)**
Finance costs	**199**	**499**	**2**	**3**	**1**	**2**	**706**
Directly attributable costs	**41**	**17**	**–**	**1**	**–**	**1**	**60**
	1 225	**2 853**	**23**	**26**	**8**	**25**	**4 159**
Expensed	**(48)**	**237**	**19**	**17**	**23**	**3**	**251**
	1 177	**3 090**	**42**	**43**	**31**	**28**	**4 410**

Total cost of the project	BWP 2009 R million	VRESAP 2009 R million	Advisory services 2009 R million	MMTS2 2009 R million	ORWRDP 2009 R million	KWSAP 2009 R million	Total 2009 R million
Capitalised							
Engineering and construction	1 466	2 234	–	2	–	–	3 702
Water income	(443)	(1)	–	–	–	–	(444)
Depreciation	(6)	–	–	–	–	–	(6)
Berg Water capital charge adjustment	(46)	–	–	–	–	–	(46)
Finance costs	199	499	–	–	–	–	698
Directly attributable costs	41	17	–	–	–	–	58
	1 211	2 749	–	2	–	–	3 962
Expensed	106	24	6	18	15	7	176
	1 317	2 773	6	20	15	7	4 138

Annexure A
Segmental statement of cash flows
for the year ended 31 March 2010

	Notes	LHWP 2010 R million	BWP 2010 R million	VRESAP 2010 R million	Advisory services 2010 R million	MMTS 2010 R million	ORWRDP 2010 R million
Cash flows from operating activities							
Cash receipts from customers		2 390	186	146	–	–	–
Cash paid to suppliers and employees		(521)	(127)	27	23	(38)	8
Cash generated from project activities	A	1 869	59	173	23	(38)	8
Interest paid	C	(2 142)	(110)	(108)	(2)	(2)	(1)
Net cash (outflow)/inflow from operating activities		(273)	(51)	65	21	(40)	7
Cash flows from investing activities							
Payments to acquire financial assets		(106)	–	(72)	–	(38)	–
Proceeds on the sale of financial assets		1	63	–	–	–	–
Interest received	B	180	6	12	–	–	–
Capitalised to works in RSA		–	(27)	(185)	(21)	(22)	(7)
Addition of other assets		(4)	–	–	–	–	–
Net cash (outflow)/inflow from investing activities		71	42	(245)	(21)	(60)	(7)
Cash flows from financing activities							
Proceeds from long-term borrowings		1 184	161	1 205	–	–	–
Repayments of long-term borrowings		(195)	(89)	(830)	–	–	–
Proceeds from short-term borrowings		876	63	–	–	100	–
Repayments of short-term borrowings		(1 657)	(142)	(195)	–	–	–
Net cash (outflow)/inflow from financing activities		208	(7)	180	–	100	–
Net (decrease)/increase in cash and cash equivalents		6	(16)	–	–	–	–
Cash and cash equivalents at beginning of period		(6)	16	–	–	–	–
Cash and cash equivalents at end of period	D	–	–	–	–	–	–

KWSAP 2010 R million	Total 2010 R million	LHWP 2009 R million	BWP 2009 R million	VRESAP 2009 R million	Advisory services 2009 R million	MMTS 2009 R million	ORWRDP 2009 R million	KWSAP 2009 R million	Total 2009 R million
–	2 722	2 011	87	–	–	–	–	–	2 098
24	(604)	(461)	132	(151)	–	2	–	–	(478)
24	2 118	1 550	219	(151)	–	2	–	–	1 620
(2)	(2 367)	(2 142)	(130)	(79)	–	–	–	–	(2 351)
22	(249)	(592)	89	(230)	–	2	–	–	(731)
–	(216)	(2 441)	(68)	(6)	–	–	–	–	(2 515)
–	64	700	–	–	–	–	–	–	700
–	198	210	(1)	1	–	–	–	–	210
(22)	(284)	–	(165)	(228)	–	(2)	–	–	(395)
–	(4)	(4)	–	–	–	–	–	–	(4)
(22)	(242)	(1 535)	(234)	(233)	–	(2)	–	–	(2 004)
–	2 550	1 174	94	402	–	–	–	–	1 670
–	(1 114)	(961)	(19)	–	–	–	–	–	(980)
–	1 039	2 236	218	213	–	–	–	–	2 667
–	(1 994)	(328)	(132)	(152)	–	–	–	–	(612)
–	481	2 121	161	463	–	–	–	–	2 745
–	(10)	(6)	16	–	–	–	–	–	10
–	10	–	–	–	–	–	–	–	–
–	–	(6)	16	–	–	–	–	–	10

Annexure A continued
Notes to the segmental statement of cash flows
for the year ended 31 March 2010

	LHWP 2010 R million	BWP 2010 R million	VRESAP 2010 R million	Advisory services 2010 R million	MMTS 2010 R million	ORWRDP 2010 R million
A. Cash generated from project activities						
Net (deficit)/surplus for the year	100	48	(237)	(19)	(17)	(23)
Adjustments for non-cash flow items and amounts separately disclosed:						
Depreciation and amortisation	36	13	81	–	–	–
Finance cost recognised in surplus/deficit	1 760	105	328	–	–	–
Net foreign exchange gains	(62)	–	–	–	–	–
Net foreign exchange losses	88	–	–	–	–	–
Higher than actual O&M costs	28	–	–	–	–	–
Rental income – RSA account	(2)	–	–	–	–	–
Development contribution	–	–	–	–	–	–
Changes in working capital:						
(Increase)/decrease in trade and other receivables	(30)	13	(1)	(3)	(3)	(41)
(Increase)/decrease in other assets	(101)	–	–	–	–	–
Decrease/(increase) in prepayments	41	1	4	(7)	2	(5)
Increase/(decrease) in payables and provisions (excluding interest payable)	23	(121)	(2)	52	(20)	77
Non-cash flow item in accounts receivable	(22)	–	–	–	–	–
Non-cash flow item in accounts payable	10	–	–	–	–	–
Cash generated from project activities	1 869	59	173	23	(38)	8
B. Interest received						
Amount due at beginning of year	232	2	–	–	–	–
Income during the year adjusted for non-cash items	405	4	13	–	–	–
Amount received	771	4	13	–	–	–
Profit on switch auction	(1)	–	–	–	–	–
Loan premium amortised	(152)	–	–	–	–	–
Transfer to funding portfolio	(209)	–	–	–	–	–
Interest on RSA account	(3)	–	–	–	–	–
Profit on sale of financial asset	(1)	–	–	–	–	–
Amount due at end of year	(457)	–	(1)	–	–	–
Interest received	180	6	12	–	–	–

KWSAP 2010 R million	Total 2010 R million	LHWP 2009 R million	BWP 2009 R million	VRESAP 2009 R million	Advisory services 2009 R million	MMTS 2009 R million	ORWRDP 2009 R million	KWSAP 2009 R million	Total 2009 R million
(3)	**(151)**	(33)	(106)	(24)	(6)	(18)	(15)	(7)	(209)
–	**130**	35	5	–	–	–	–	–	40
–	**2 193**	1 822	130	–	–	–	–	–	1 952
–	**(62)**	(39)	–	–	–	–	–	–	(39)
–	**88**	52	–	–	–	–	–	–	52
–	**28**	21	–	–	–	–	–	–	21
–	**(2)**	(1)	–	–	–	–	–	–	(1)
–	**–**	–	31	–	–	–	–	–	31
(5)	**(70)**	(310)	36	(46)	–	–	–	–	(320)
–	**(101)**	–	–	–	–	–	–	–	–
(1)	**35**	15	3	(34)	–	(2)	–	–	(18)
33	**42**	32	74	(47)	6	22	15	7	109
–	**(22)**	(36)	46	–	–	–	–	–	10
–	**10**	(8)	–	–	–	–	–	–	(8)
24	**2 118**	1 550	219	(151)	–	2	–	–	1 620
–	**234**	136	–	–	–	–	–	–	136
–	**422**	306	1	1	–	–	–	–	308
–	**788**	599	1	1	–	–	–	–	601
–	**(1)**	–	–	–	–	–	–	–	–
–	**(152)**	(123)	–	–	–	–	–	–	(123)
–	**(209)**	(165)	–	–	–	–	–	–	(165)
–	**(3)**	(5)	–	–	–	–	–	–	(5)
–	**(1)**	–	–	–	–	–	–	–	–
–	**(458)**	(232)	(2)	–	–	–	–	–	(234)
–	**198**	210	(1)	1	–	–	–	–	210

Notes to the segmental statement of cash flows continued

for the year ended 31 March 2010

	LHWP 2010 R million	BWP 2010 R million	VRESAP 2010 R million	Advisory services 2010 R million	MMTS 2010 R million	ORWRDP 2010 R million
C. Interest paid						
Amount not paid at beginning of year	(491)	(4)	(15)	–	–	–
Expensed during the year adjusted for non-cash items	(2 177)	(109)	(117)	(2)	(2)	(1)
Amount expensed	(2 531)	(109)	(341)	(2)	(2)	(1)
Less: Loan discount amortised	30	–	–	–	–	–
Foreign loan payments	(7)	–	–	–	–	–
Transfer to redemption portfolio	209	–	–	–	–	–
Loss on switch auction	–	–	–	–	–	–
Capital adjustment to inflation-linked liability	143	–	–	–	–	–
Concessionary portion – on EIB loan	3	–	–	–	–	–
Interest capitalised	–	–	224	–	–	–
Cash flow in cum/ex dividend reflected under cash flow from financing activities	(24)	–	–	–	–	–
Net unrealised/amortised foreign currency loss						
Amount not paid at end of year	526	3	24	–	–	–
Interest paid	(2 142)	(110)	(108)	(2)	(2)	(1)
D. Cash and cash equivalents at end of period						
Cash and cash equivalents consist of cash on hand and balances with banks.						

KWSAP 2010 R million	Total 2010 R million	LHWP 2009 R million	BWP 2009 R million	VRESAP 2009 R million	Advisory services 2009 R million	MMTS 2009 R million	ORWRDP 2009 R million	KWSAP 2009 R million	Total 2009 R million
–	(510)	(486)	(3)	(14)	–	–	–	–	(503)
(2)	(2 410)	(2 147)	(131)	(80)	–	–	–	–	(2 358)
(2)	(2 988)	(2 421)	(131)	(253)	–	–	–	–	(2 805)
–	30	17	–	–	–	–	–	–	17
–	(7)	(4)	–	–	–	–	–	–	(4)
–	209	165	–	–	–	–	–	–	165
–	–	39	–	–	–	–	–	–	39
–	143	102	–	–	–	–	–	–	102
–	3	4	–	–	–	–	–	–	4
–	224	–	–	173	–	–	–	–	173
–	(24)	(49)	–	–	–	–	–	–	(49)
–	553	491	4	15	–	–	–	–	510
(2)	(2 367)	(2 142)	(130)	(79)	–	–	–	–	(2 351)

Annexure B
Disclosure of expenditure relating to soccer world cup clothing and tickets

for the year ended 31 March 2010

Entities

World cup expenditure	Quantity	2009/10 R'000	2008/09 R'000
Tickets acquired	–	–	–

Distribution of tickets	Quantity	2009/10 R'000	2008/09 R'000
Clients/stakeholders	–	–	–
Accounting authority	–	–	–
Executive	–	–	–
Non-executive	–	–	–
Accounting officer	–	–	–
Senior management	–	–	–
Other employees	–	–	–
Family members of officials	–	–	–
Other government entities	–	–	–
Audit Committee members	–	–	–
Other	–	–	–
Total	–	–	–

Travel costs	2009/10	2008/09
Clients/stakeholders	–	–
Accounting authority	–	–
Executive	–	–
Non-executive	–	–
Accounting officer	–	–
Senior management	–	–
Other employees	–	–
Family members of officials	–	–
Other government entities	–	–
Audit Committee members	–	–
Other	–	–
Total	–	–

Purchase of other world cup apparel	Quantity	2009/10 R'000	2008/09 R'000
Bafana T-Shirts for employees and stakeholders (excluding VAT)	300	128	–
Diski Dance Training (excluding VAT)	–	15	–
Subtotal	300	143	–
Total world cup expenditure	300	143	–

Tickets acquired after year-end (31 March 2010)	Quantity	R'000
Distribution of tickets acquired after year-end		
Clients/stakeholders	–	–
Accounting authority	–	–
Executive	–	–
Non-executive	–	–
Accounting officer	–	–
Senior management	–	–
Other employees	–	–
Family members of officials	–	–
Other government entities	–	–
Audit Committee members	–	–
Other	–	–
Total	–	–

Glossary of terms and definitions

ALBI	All Bond Index
ASGISA	Shared Growth Initiative for South Africa
BBBEE	Broad-based black economic empowerment
BBCBE	Black Business Council for the Built Environment
BE	Black enterprise
BEE	Black economic empowerment
BESA	Bond Exchange of South Africa
BRC	Berg River Consultant
BRPJV	Berg River Project Joint Venture
BSC	Balanced Scorecard
BWCC	Berg Water Capital Charge
BWP	Berg Water Project
CBBO	Confederation of Black Business Organisation
CCT	City of Cape Town
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CFRD	Concrete-faced rockfill dam
COO	Chief Operating Officer
COSO	Committee of Sponsoring Organisations of the Treadway Commission
CPI	Consumer Price Index
CPIX	Consumer price index (excluding home loans)
CTC	Cost to Company
DEAT	Department of Environmental Affairs and Tourism
DMTN	Domestic Medium Term Note
DPE	Department of Public Enterprises
DWA	Department of Water Affairs
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
HIV	Human Immunodeficiency Virus
ICM	Integrated Catchment Management
IETC	Integrated Employment and Training Committee
IFRS	International Financial Reporting Standards
IIA	Institute of Internal Auditors
IWUA	Impala Water Users Association
JIPSA	Joint Initiative on Priority Skills Acquisition
JPY	Japanese yen
KWSAP	Komati Water Scheme Augmentation Project
LHDA	Lesotho Highlands Development Agency
LHWC	Lesotho Highlands Water Commission
LHWP	Lesotho Highlands Water Project
m^3	Cubic metres
MCWAP	Mokolo-Crocodile Water Augmentation Project
MMTS2	Mooi-Mgeni Transfer Scheme Phase 2
MoA	Memorandum of Agreement
MWB	Must Win Battles
NWRI	National Water Resource Infrastructure
NWRIA	National Water Resource Infrastructure Agency
OD	Organisational Development
O&M	Operations and Maintenance
ORWRDP	Olifants River Water Resource Development Project
PAIA	Public Access to Information Act
PDP	Personal Development Plan
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
PRC	Policy Review Committee
Q1	Quarter number 1
RoD	Record of Decision
RSA	Republic of South Africa
SAAWU	South African Association of Water Utilities
SAM	Strategic Alignment Management
SARB	South African Reserve Bank
SARS	South African Revenue Service
SASAWU	South African State and Allied Workers Union
SAWiC	South African Women in Construction
SED	Socio-economic development
SEMP	Standard Environmental Management Plan
SLA	Service Level Agreement
SMME	Small, medium, micro-enterprise
SoE	State-owned 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
WCD	World Commission on Dams
WCWS	Western Cape Water System
WEA	Water and Environmental Affairs (Department of)
WS03	Water stock number 3
WS04	Water stock number 4
WS05	Water stock number 5
WS05	Water stock number 6
KZN	KwaZulu-Natal

A new word for water

transform empower uplift

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