

Expanding our Horizons

annual report 2010/11





Spring Grove Dam: Blasting

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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 our best, and take pride in our achievements
- Deliver excellent work, efficiently and on time
- 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 in 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

We have always held to the hope, the belief, the conviction that there is a better life, a better world beyond the horizon

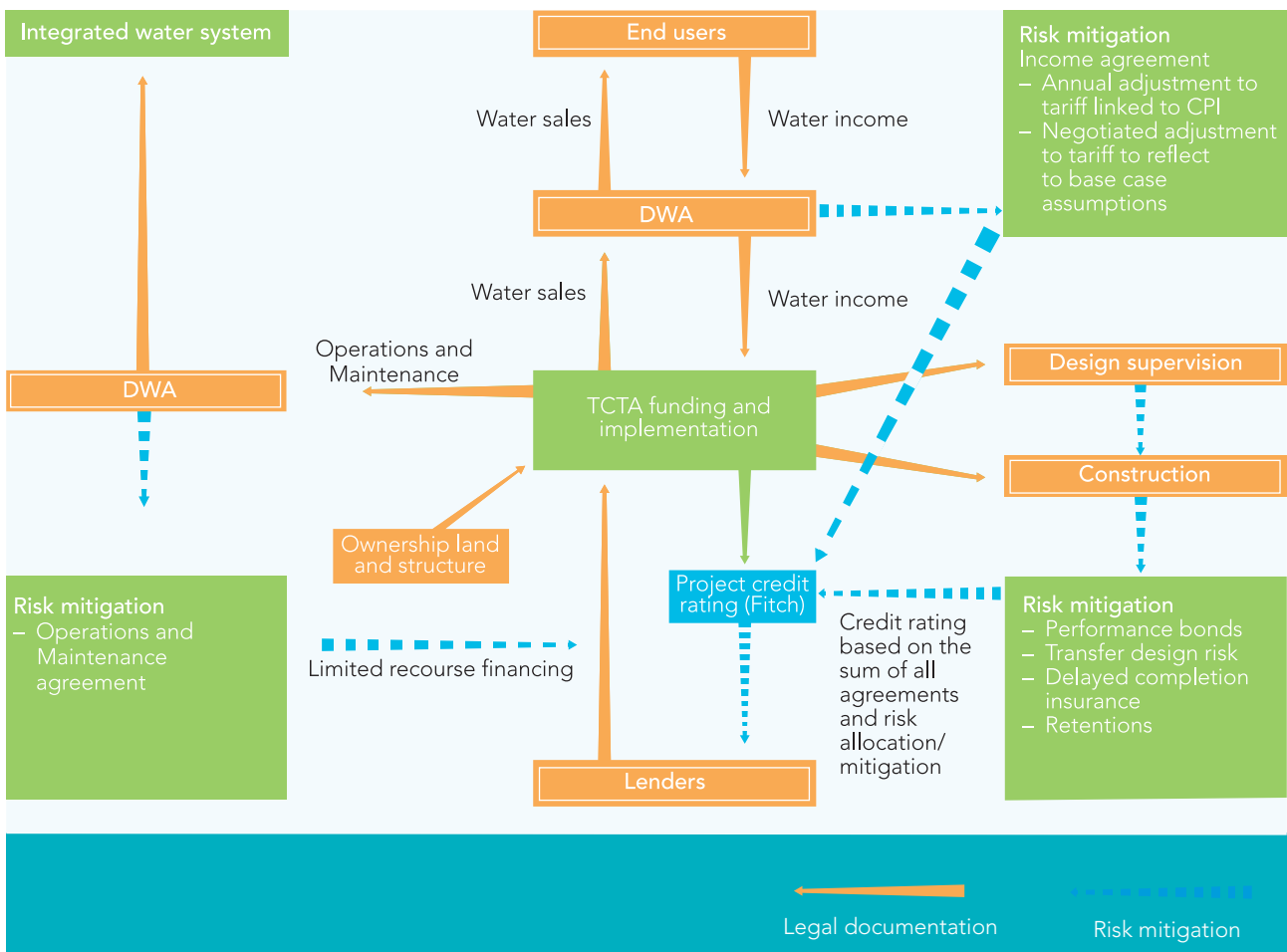
Our business

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).

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



Products and services

- Bulk raw water infrastructure
- Project initiation
- 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 Phase 1 (MCWAP1)
- Metsi Bophelo Borehole Project (MBBP)

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. In particular, during the course of the reporting period, TCTA also provided advisory support to DWA on the Acid Mine Drainage (AMD) Project.

Liability management for bulk raw water infrastructure development

	Implementation and funding mandates							Advisory
	LHWP	BWP	VRESAP	MMTS2	ORWRDP2	KWSAP	MCWAP1	DWA
Revenue recourse	Explicit government guarantees	• Income stream of BWP • Implied guarantee	• Income stream of VRESAP • Implied guarantee	• Income stream of MMTS2 • Implied guarantee	• Income stream of ORWRDP2 • Implied guarantee	• Income stream of KWSAP • Implied guarantee	• Income stream of MCWAP1 • Implied guarantee	Performing on 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	• Implement • Fund • Risk management	Advisory on AMD
Peak of debt	R19 billion	R1,3 billion	R3,4 billion	R1,6 billion	±R5 billion	R2 billion	R1,8 billion	Expected: – LHWP2
Construction info: Commenced Completed	1986 2001	2003 2008	2005 2010	January 2011 September 2012	Still to commence	January 2011 September 2012	Still to commence	
Repayment of debt	2025	2028	2029	20 years after construction	20 years after construction	20 years after construction	20 years after construction	

TCTA and the National Development Agenda

Our goal is clear. We want to have a country where millions more South Africans have decent employment opportunities, which has a modern infrastructure and vibrant economy and where the quality of life is high

President Jacob Zuma, SONA 2011

South Africa is emerging from a global recession into new periods of economic performance, recording a GDP growth of 2,7% in 2010, with even higher growth forecasts for 2011. Thus, there are intensified efforts to identify opportunities for expanded areas of growth and economic participation, to progressively set the country on a new trajectory of growth and development. Building economic and social infrastructure is at the heart of the National Developmental Agenda, and plans include those for enhancing the capacity of existing water resource infrastructure to meet competing needs across all sectors.

Indeed, water is arguably the most pivotal natural resource for meeting the socio-economic needs of South Africa as a developing state. It is understandable, therefore, that there is increasing expectation to provide water to support all the development objectives of the state, including poverty alleviation and rural development.

In light of the challenge to drive down unemployment levels, especially among the youth as amplified in the New Growth Path, which underpins the country's economic development, the rollout of mega-projects is particularly relevant. These include such schemes as large water infrastructure which are required to be innovatively configured to create more jobs and have a real positive impact on the lives of the poor. There are also expectations of forging stronger public-private partnerships to train young professionals and expand the pool of skills for moving the water sector to more equitable levels of service delivery and sustainable resource management.

During the past year, TCTA positioned itself to play a more decisive role in the evolution of the country's social and economic development, through careful planning and execution of each step within the cycle of its multiple projects. Each project is structured to provide livelihood and job opportunities, as well as mentoring and skills transfer to project communities, contributing to sustainable socio-economic growth and poverty alleviation. In executing its mandate from

project to project, TCTA continues to actualise its strong commitment to local empowerment, hence the appointment of local labour and skills for each project, facilitating knowledge application and acquisition, labour utilisation and wealth creation. In particular, while TCTA encourages people to be entrepreneurial, it is increasingly instilling the urge to transform entrepreneurial thinking into practical application, thereby converting entrepreneurship into solid projects.

Aside from implementing large bulk water projects, TCTA has become actively visible in fast-tracking the delivery of rural water supplies to build stronger communities, and in fostering partnerships to drive sector policy reform for sustainable water management. Organisational repositioning has underscored the leveraging of its knowledge assets to support other institutions, including the Department of Water Affairs, in pursuit of greater efficiencies in the water value chain.

Moving forward, TCTA will concretise its responsibility as a critical roleplayer in the provision of water for sustainable growth and development. Over the years, its sound performance has rested on an ability to consistently deliver on the requirements of individual projects in the most cost-effective manner, within agreed timeframes and budgets. Consequently, TCTA has developed multi-dimensional expertise and an acknowledged track record in the efficient financing and project management of water infrastructure delivery. These competencies render it well-placed to assume increased responsibilities and functions within an enhanced business framework.

And, indeed, **expanding the horizons** of our project landmarks and infrastructure footprint, beyond our traditional domain in support of the National Development Agenda has been the hallmark of our highlights this past year.

Project landmarks



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

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

We need to understand that we cannot let this resource go to waste or even be defiled

Minister Edna Molewa

2004

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

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

2007

Commenced with impoundment of Berg Water Dam

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

2008

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

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

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

2009

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

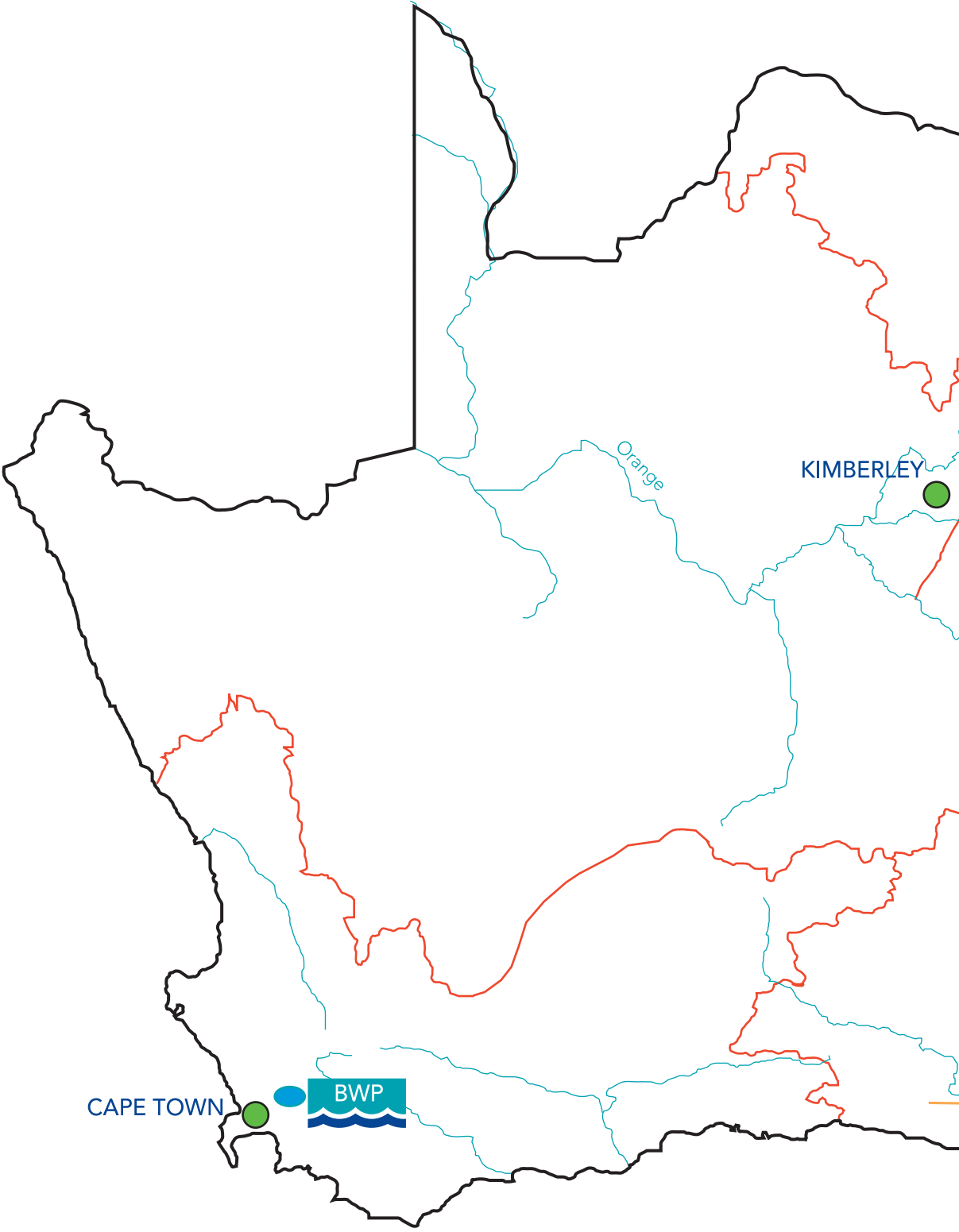
Commenced with delivery of water and tariff implementation on the Vaal River Eastern Subsystem Augmentation Project (VRESAP)

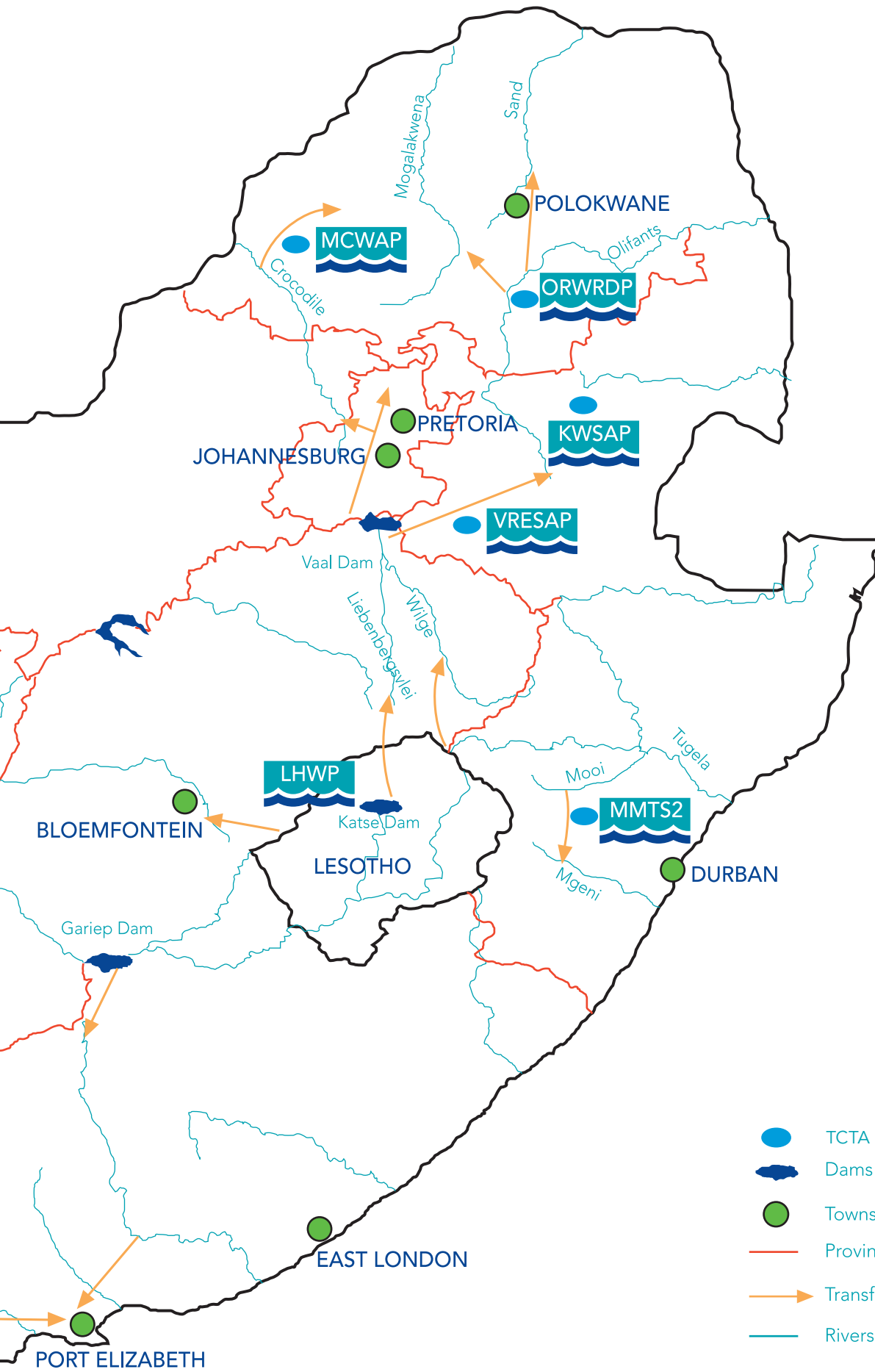
2010







Provided advisory support to DWA on the Acid Mine Drainage Project

Commenced with implementation of Metsi Bophelo Borehole Project in five provinces: Eastern Cape, Free State, Mpumalanga, Limpopo and North West

Infrastructure footprint





-  TCTA projects
-  Dams
-  Towns
-  Provincial border line
-  Transfer between rivers
-  Rivers

Highlights

Projects

Mooi-Mgeni Transfer Scheme Phase 2

The water delivery date was at risk of being delayed by one year due to challenges experienced in finalising the institutional arrangements. TCTA mitigated this risk through formulation of a new mechanism to resolve the deadlock and this resulted in a successful conclusion.

Berg Water Project

During the reporting period, there has been renewed impetus from TCTA in the implementation of the Sustainable Utilisation Plan (SUP) for the BWP. The objective of the SUP is to provide a development framework to guide the long-term management and land use of the Berg River Dam water body and surrounding state land. Consultations with local stakeholders and authorities were undertaken to forge a common vision and purpose for the SUP.

Vaal River Eastern Subsystem Augmentation Project

TCTA demonstrated its ability in managing complicated contractual matters and put into place innovative measures to ensure water supply for strategic use, even though the full-scale infrastructure was not yet entirely completed.

Olifants River Water Resources Development Project Phase 2

TCTA applied novel measures to ensure that the project proceeded as planned. These included supporting the Department of Water Affairs with rephrasing the project and exploring alternative funding mechanisms. Buy-in was obtained both from the Department of Water Affairs and National Treasury to implement a portion of Phase 2.

Komati Water Scheme Augmentation Project

All possible risks that might impact the water delivery schedule were addressed. A change in pipeline route triggered a legal requirement to conduct an amendment

application process. Supporting specialist studies were carried out on the new route alignment. An amended environmental authorisation was received from the Department of Environmental Affairs and construction environmental management plans were also approved.

Mokolo-Crocodile Water Augmentation Project

TCTA introduced mechanisms to ensure that this key strategic project remained on schedule to deliver water when required by Eskom's Medupi Power Station. On behalf of the Department of Water Affairs, TCTA submitted proposals on the scope of the project, thereby ensuring that the technical description of the project was agreed to by all project stakeholders.

Lesotho Highlands Water Project

TCTA continued to manage project-related debt, a core treasury function until 2022. Towards the end of 2008, the Minister approved the go-ahead of Phase 2 of the LHWP. Although TCTA will not participate in the physical implementation of Phase 2, TCTA will be mandated to fund the water transfer component.

Acid Mine Drainage Works Phase 1

In mid-March 2011, TCTA commenced with preparatory work on the Acid Mine Drainage Works pending the issuance of a directive. The Ministerial directive was issued on 6 April 2011, marking the commencement of the implementation of a major national project by TCTA.

Metsi Bophelo Borehole Project

Towards the end of 2010, TCTA was requested by the Department of Water Affairs to provide project management support for a groundwater supply intervention programme earmarked for five provinces: the Eastern Cape, Free State, Limpopo, Mpumalanga and North West. The project intends to provide sustainable and safe drinking water to communities that do not have the privilege of accessing such an essential resource. TCTA commenced with preparatory work pending the issuance of the ministerial directive. The ministerial directive was issued on 2 March 2011.

Transformation and development

Project Naledi

Three TCTA bursars graduated from their respective institutions of higher learning and were absorbed into the staff complement. It is expected that four additional students will complete their studies in the next financial year.

Broad-based black economic empowerment (BBBEE)

TCTA's BBBEE status was verified by EmpowerDex as a Level 3 Contributor. The organisation received maximum points for Management Control and Socio-economic Development.

Pietersdal Office Block

In August 2010, TCTA officially handed over the Pietersdal Office Block to the Free State Department of Public Works and Rural Development.

Charl Cilliers Victim Empowerment Centre (VEC)

A joint initiative between TCTA and SASOL, this centre was officially launched in April 2010 and handed over to the South African Police Service in Charl Cilliers as a fully equipped Victim Empowerment Centre.

Mass media campaign

A mass media campaign was run over a period of three months – December 2010, and February and March 2011. The general public was exposed to the TCTA brand and is now aware of its direct association with government's Transformation Agenda. The strongest impact of the campaign was achieved through the translation of the TCTA message into nine official languages, thus appealing to the emotions of citizens in their mother tongue.

Managing knowledge

Extensive and robust knowledge initiatives were implemented, including: entrenching a learning culture within the organisation; undertaking advisory services in critical areas of need in the water value chain; reinforcing TCTA's role in the policy and advocacy domain; and positioning the organisation as a thought leader in the sustainable management of water.



Chairman's report



Dr Snowy Khoza
Chairman

The organisation is proud of its heightened contributions of innovative solutions to complex challenges in the water sector, enabling the achievement of developmental goals across the country and beyond

The year under review witnessed increasing alignment by the Board, of the TCTA Business Strategy with the vision of a transformed South Africa. The organisation is proud of its heightened contributions of innovative solutions to complex challenges in the water sector, enabling the achievement of developmental goals across the country and beyond.

The current project mandates from the Minister of Water and Environmental Affairs, Hon Mrs Edna Molewa (MP), require that TCTA fund and implement bulk water resource infrastructure projects by raising finance from the capital market. This approach complements government's budgetary spending on social and economic infrastructure, simultaneously creating jobs, alleviating poverty and improving people's overall quality of life.

In the past year, TCTA continued to ensure that infrastructure development creates a supply capacity which serves as a springboard for economic development, and which contributes to the expansion of water and sanitation services to rural and urban communities. This was achieved through strategic and well thought-out public-private and public-public partnerships.

A few years ago, TCTA had only two projects. We now manage eight. 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; the Mokolo-Crocodile Water Augmentation Project; and the Acid Mine Drainage Project.

Although TCTA has no direct competitors in the water infrastructure industry and, as a state-owned entity, is not profit-driven, we nevertheless pride ourselves on innovatively addressing the challenges that we are presented with. We have delivered on our mandates a quality product, on time, and with the same vigorous spirit that is shown in the competitive environment of the private sector.

The organisation has gained market credibility for accessing off-budget funding for its projects at excellent rates, a position that was maintained in the reporting year. TCTA's capacity to raise funding and service debt, and to implement projects and manage

the concomitant risks, has been honed to a level of specialisation that makes us unique in South Africa and, indeed, Africa. In the past year, income streams from our projects have ensured that the social, economic and environmental imperatives of sound corporate citizenship were met.

As a project-based organisation, TCTA has created new job opportunities in the construction and related industries, with expanding impact in its host communities. I am happy to report that TCTA's efficient project operation has brought public recognition, particularly its cost-effective pricing of water to the benefit of users and its consistent application of integrated project management approaches. Rigorous ring-fencing of each project remains a best-practice principle, and project partners have played a significant role in the implementation of projects through their active participation in Project Coordination committees. Across projects, TCTA continued to deploy its resources in hybrid matrix arrangements, which means that project management teams are integrated both horizontally and vertically, ensuring knowledge-sharing and learning across the organisation.

In fact, during the past year, the robust implementation of a Knowledge Management agenda constituted a considerable achievement, and has laid the foundation for TCTA becoming a reputable learning organisation. Our human capital is at the centre of our knowledge initiatives, and most of our employees are included in the ambit of scarce skills such as engineering, finance, treasury and project management. In the past year, therefore, we continued to develop and retain critical skills in order to contribute effectively to the nation's developmental agenda.

Our role becomes more critical now, given the evolving changes in the water sector, especially the key national initiatives relating to institutional realignment and water pricing, as well as the augmentation of liability management skills. As in the past year, TCTA will continue to share its knowledge resources in support of sector reform and, especially, for the advancement of sustainable water management.

It is in acknowledgment of that rich knowledge and project track history that the Minister recently mandated TCTA to implement the Acid Mine Drainage emergency works. We are encouraged by the public support of our pivotal

role in such a project of strategic national importance, especially as it stems from all segments of our society. We are geared to display the same entrepreneurial spirit that has underscored our successful implementation of large bulk raw water infrastructure projects over the years.

During the past year, complying to its responsibility for corporate governance, the TCTA Board has demonstrated sound and responsible leadership, characterised by effective guidance in strategy and operations. The Board continued to ensure compliance with statutory and stakeholder requirements, providing leadership for the achievement of the organisation's strategic goals. The Board remains sensitive to the economic, social and environmental impact of projects in the communities in which TCTA operates, and guides the mainstreaming of sustainability mechanisms across all projects.

In conclusion, and on behalf of the Board, I would like to take this opportunity to express our gratitude to the Minister of Water and Environmental Affairs, Hon Mrs Edna Molewa (MP), and the Parliamentary Portfolio Committee on Water Affairs under the leadership of Advocate Johnny de Lange, for the guidance and strategic support provided to TCTA throughout the reporting period.

To my fellow Board members, together, we have navigated the past year with remarkable professionalism, vigour and the highest standard of corporate governance. I wish the Board a solid year ahead geared towards taking TCTA to greater heights.

Under the leadership of the CEO, Mr James Ndlovu, the Executive Management and the TCTA family, exceptional strides have been taken in translating our corporate strategy into implementable projects, leading to major advances achieved in providing water to South Africa's businesses and communities.

As an organisation, we stand ready to fast-track sustainable water supply to all, in continuing support of our nation's agenda for development.



Dr Snowy Khoza
Chairman



James Ndlovu

CEO

A considerable amount of thought and planning centred around how to move from our traditional role of a reactive organisation, dependent on only the government to provide mandates for water infrastructure projects, to a proactive organisation taking the initiative in identifying new horizons

CEO's report

It is not unusual, in this day and age, for a CEO to report that the past financial year has been challenging. Yes, indeed, but it has also been fun! It all depends on attitude, and it is thanks to the management and staff who have instilled in TCTA the essential elements that create a climate of anticipation, participation and a common goal to create a future that benefits South Africa, her people and those who work for the organisation.

Perhaps our greatest achievement this past year has been the implementation of many of the strategies and structures initiated last year. A considerable amount of thought and planning centred around how to move from our traditional role of a reactive organisation, dependent on only the government to provide mandates for water infrastructure projects, to a proactive organisation taking the initiative in identifying new horizons where our expertise can be used to the greatest effect and, thus, generating projects where we identify a need.

Economic performance

I am proud to report that for the 27th consecutive year, we received a clean audit report. We were able to secure short- and long-term funding for our projects at rates below the benchmark figures agreed with the Board. This is a clear indication that TCTA is regarded as a stable organisation, capable of delivering projects in a disciplined and focused manner. Income from water sales proved adequate to service debt incurred from all projects. TCTA achieved a net surplus of R24 million in the reporting period from a net deficit of R168 million in the previous year. As a going concern, we are confident of our sound financial performance into the future.

Projects

Our strategic intent has always been to assist the Shareholder to realise national development goals and, over the years, we have refined our business model to allow us to clearly demonstrate our ability to contribute to water infrastructure development in a positive way. We have proved ourselves reliable, resourceful, trustworthy and fully capable of undertaking projects where the criteria have expanded far beyond the original terms of the mandates. In particular, in the past year, the accomplishment of the following project implementation milestones is significant:

After climbing a great hill, one only finds
that there are many more hills to climb

Nelson Mandela

- Vaal River Subsystem Augmentation Project: water delivery was achieved ahead of the completion of the permanent works in September 2011, ensuring critical supplies to meet the needs of Sasol and Eskom.
- Mooi-Mgeni Transfer Scheme Phase 2: the construction of Spring Grove Dam commenced in February 2011 and impounding is expected to begin in November 2012.
- Olifants River Water Resources Development Project: the tender for the first phase of the pipeline from De Hoop Dam has been put out. This pipeline will provide water to the Nebo Plateau and link into the existing supply scheme to the mines. Alternative options are being considered for a temporary abstraction facility so that the Nebo Plateau water requirements can still be met in 2012.
- Komati Water Scheme Augmentation Project: the construction of the pipeline to Duvha and Matla power stations commenced in January 2011, and water deliveries are expected to commence in October 2012.
- Mokolo-Crocodile Water Augmentation Project Phase 1: the tender for the construction of the pipeline from Mokolo Dam to Medupi Power Station is in progress. Construction is expected to commence in September 2011, with water delivery in June 2014.

Towards the end of the reporting period, our project landscape advanced beyond our traditional domain into new horizons, starting with a mandate to provide project management support for borehole water supply in five provinces, a community development initiative we have warmly embraced. Next, TCTA received a ministerial directive to implement the strategic Acid Mine Drainage emergency works. Considering that this latter project has drawn a great deal of public interest, nationally and internationally, we are proceeding with due professionalism and sense of national duty, and putting mechanisms in place for the continuing stakeholder engagement that is critical to success.

Human resources

The human resource policies that we initiated last year have borne fruit this year. Though adjusting to new policies is not without its problems, our staff members have shown great flexibility, and both individually and through the union, have been free to voice their opinions regarding the changes that have been put into place.

During the past year, we assembled a team to assess our human resource practices and to update them insofar as creating a supportive performance culture that takes into account the total picture from a new perspective. This has required creative thinking, and the space, time and opportunity within the workplace to implement best-practice interventions. This may be seen as a bold step, but one that has been carefully considered and which is designed to encourage individuals to, for example, consider how to be creative problem solvers at the TCTA. We have also embraced a long-term approach to working with our employees, fostering inclusivity and continuous development.

Social performance

The collective efforts of the TCTA family have enabled us, as an institution at a national level, to add value to our development of dams, pipelines and related water infrastructure, especially by contributing to social transformation in our host communities. Our steps have entailed moving beyond the familiar horizons of clear-cut infrastructure delivery, and extending the value chain to include assisting municipalities to address the dynamics of water tariffs and collection of payments vital to the servicing of the infrastructure debt. Here also, lies the need for a change in mindset, to mitigate the risk that we take in investing huge financial and human resources into our projects.

In the past year, we have actualised our belief that the project funds at our disposal should be used as leverage for visible social transformation, providing capacity-building opportunities for surrounding communities, from assisting a woman who uses water from the dam to grow cabbages for the local market to enhancing access to housing and education.

Project targets have been set for small enterprise development, preferential procurement from black-owned enterprises, local employment and skills development, and TCTA closely monitors their progress on a monthly basis. In particular, each major TCTA contractor is now required to absorb two small operators and assist them in skills development and capacity growth. With each project, therefore, we aim to leave a vibrant legacy and an enduring means of economic support as part of our socio-economic contribution.

CEO's report continued

Public awareness

For the first time, we embarked on a campaign of corporate brand advertising to raise the profile of TCTA. The intention behind this was to create awareness among the state and the people of South Africa, that TCTA is a vehicle which delivers water without drawing on the fiscus; that it is to a large part funded off-budget, and that though fairly small, it has the budget and job-creation capabilities of most of the bigger state-owned institutions. TCTA is portrayed as being agile and participative, and as actively contributing to economic growth. In the present economy, where great emphasis is placed on global and fiscal policies, an organisation is judged on how it performs. Thus strategic transformation and progressive strategies are essential to ensure that TCTA continues to be regarded not only as the premier supplier of water infrastructure, but as a major roleplayer in social transformation and job creation.

The future

TCTA is a robust organisation, aware of who we are, and fully integrated into the social and industrial spheres in which we operate. Going forward, we will continue to cultivate the culture of commitment and creativity, and to contribute to the government's overall strategy of providing water infrastructure, while simultaneously leveraging our knowledge for facilitating greater efficiencies in the water delivery value chain. Additionally, our contribution to social and economic stability and transformation in the areas where our projects are situated will expand, as will our land-use developments and overall environmental management. We will proactively examine water requirements and find innovative ways of assisting the nation to meet them, demonstrating our adoption of a multi-pronged approach to water resources augmentation. Our involvement in acid mine water drainage is an indication of the catalytic role we seek to play in the future.

Future plans can only become a reality by inspiring and equipping the people of TCTA with hope, vision, an entrepreneurial mindset and the knowledge and expertise to solve problems with originality, and explore new opportunities. Despite being a state-owned entity, we at TCTA are profit-driven in a special sense: our profit is not fiscal, it is social.

A word of thanks

Last year we bid farewell to our Board of Directors whose term of office came to an end in September, while ushering in new Board members. Dr Snowy Khoza, who was re-elected as Chairperson, has been a tower of strength and has given wise counsel, as have all the Board members. The transition took place seamlessly, and I thank the Board for its dedication, and for posing challenging and tough questions that have helped TCTA to mature at a rapid rate.

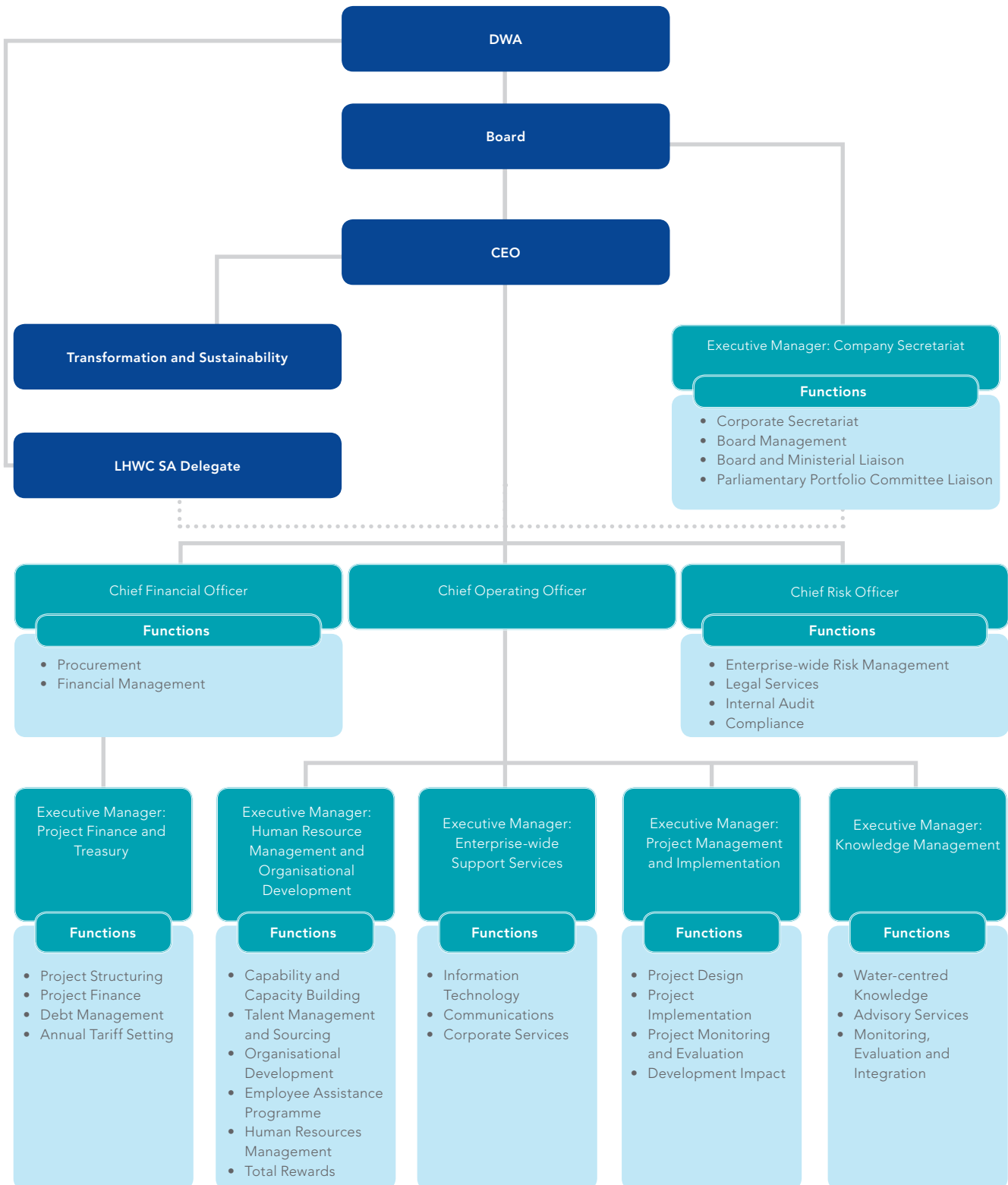
To my colleagues in the Executive Committee, and to management and our staff as a whole, I cannot adequately express my gratitude and that of the entire organisation. You have risen to new and sometimes unexpected challenges, and shown your willingness to build a partnership with TCTA that has led to a balanced, stable organisation, imbued with optimism and energy.



James Ndlovu
Chief Executive Officer



Organisational structure



Quality is never an accident, it is always the result of high intention, sincere effort, intelligent direction and skillful execution, it represents the wise choice of many alternatives



Staff and stakeholders: Sod-turning ceremony for MMTS2

Board of Directors

Dr Snowy Khoza (53)

Chairman

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

TCTA Board committees: REMCO

Current position: CEO – Bigen Africa Services (Pty) Ltd

Other directorships: National Housing Financing Corporation
Ka-Manowi Manor CC



Mr Simphiwe Kondlo (44)

Deputy Chairman

Qualifications: MSc Eng Management (University of Pretoria – 2003) • BSc Agric Eng (University of KZN 1993) • Dip Project Management (Exec Education – 1989) • Dip Civil Eng (Durban University of Technology – 1993) • Cert Commercial Property Practitioner (University of Pretoria – 2006) • Cert Project Monitoring for Effectiveness (IRC Netherlands – 1997)

TCTA Board committees: VRESAP Technical (Chairman) • REMCO (Chairman) • Board Steering Committee (Chairman) • Technical Committee

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

Other directorships: Amathole Economic Development Agency



Mr James Ndlovu (41)

Chief Executive Officer

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

TCTA Board committees: None

Current position: CEO – TCTA

Other directorships: None



Mr Onesmus Ayaya (49)

Department of Water Affairs – Stakeholder Representative

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)

TCTA Board committees: None

Current position: Deputy Director-General – Department of Water Affairs

Other directorships: The Chartered Institute of Management Accountants (Professional membership)



Mr Thuto Shomang (40)

National Treasury Stakeholder Representative

Qualifications: BCom (Honours) (University of Johannesburg) • BCom (UNISA) • Secondary Teachers Diploma – Sebokeng College of Education

TCTA Board committees: ALCO • Audit and Risk

Current position: Chief Director – Liability Management, National Treasury

Other directorships: None



Ms Doris Dondur (44)

Qualifications: CA(SA) – 1991 • MBA (University of Stellenbosch – 1998) • Hons In Business Administration (University of Stellenbosch – 1996) • Cert Theory of Acc (UNISA – 1990) • BCompt Hons (UNISA – 1989) • B Accounting (University of Stellenbosch – 1988) • Cert Labour Relations (UNISA – 2005) • International Executive Development Programme (WITS and London Business School – 2008) • Executive Development Programme (University of Nevada, Reno – 2009)

TCTA Board committees: ALCO • Audit and Risk • HR and Transformation

Current position: Managing Member of Doris Dondur Consulting CC

Other directorships: City Power (Pty) Ltd • South African National Blood Services • Suidwes Holdings Ltd • The Metropolitan Trading Company (Pty) Ltd



Board of Directors continued

Mr Musa Furumele (46)

Qualifications: Pr Eng – 1993 • Pr CPM – 2004 • M Eng (Civil) (Penn State – 1994)
• MSc (Eng) (Wits University – 1991) • GDE (Water Eng) (Wits University – 1989)
• BSc (Eng) Civil (Wits University – 1987)

TCTA Board committees: Technical (Chairman) • VRESAP Technical • REMCO

Current position: Director – Gandlati Strategic Equity (Pty) Ltd

Other directorships: Mineralco (Pty) Ltd • City Bush Land CC



Mr Jan-Willem Geenen (38)

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

TCTA Board committees: ALCO (Chairman) • Audit and Risk • REMCO

Current position: Head – Treasury, Tax and Risk, Lonmin Plc

Other directorships: 119 Savuti Sands CC • 82 Singati Sands CC
• 117 Chobe Sands CC



Ms Makano Mosidi (47)

Qualifications: Dip Education (UNIN – 1987) • BCom (UNIN – 1987)

TCTA Board committees: ICT & KM • Technical Committee • VRESAP

Current position: Public Sector Executive – Dimension Data (Pty) Ltd

Other directorships: Afrisam (Pty) Ltd • Kholofelo ya Josefa Community Centre • KMM QS (Pty) Ltd • Bitanium (Pty) Ltd
• Relational Database Consulting (Pty) Ltd



Ms Simangele Sekgobela (50)

Qualifications: MSc Public Policy (University UK – 1999) • BCom Hons (UNISA – 1996) • BCom (Wits University – 1990)

TCTA Board committees: ICT & KM (Chairman) • HR and Transformation
• Technical • REMCO

Current position: HoD – Gauteng Department of Agriculture

Other directorships: Mintek Board • Seven Falls • Mugamusi CC



Mr Sipho Sono (44)

Qualifications: BA (Wits University – Advanced Dip Banking (University of Johannesburg – 2007) • CA (SA) – 1995 • Certificate Theory of Accounting (UNISA – 1994) • Hons Bachelor of Accounting Science (UNISA – 1993) • BCom Accounting (Walter Sisulu University)

TCTA Board committees: ALCO • Audit and Risk • HR and Transformation • Technical

Current position: Managing Director – OPIS Advisory

Other directorships: Ntlaka Investments (Pty) Ltd



Mr Lebohang Thotanyana (37)

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

TCTA Board committees: Audit and Risk (Chairman) • ALCO • REMCO

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

Other directorships: Mafube Investment Holdings and Subsidiaries (Chairman) • Petroleum Fund • Lesotho State Oil Company (Chairman)



Mr Gregory White (51)

Qualifications: BA Econ (University of Cape Town – 1980) • BAdmin Hons Development Studies (UNISA – 2008)

TCTA Board committees: HR and Transformation (Chairman) • ICT & KM • REMCO

Current position: Freelance Consultant

Other directorships: None



Ms Lahlane Mnisi (39)

Company Secretary

Qualifications: BProc (UNIN – 1995) • LLB (UNIN – 1998) • Admitted Attorney (PTA High Court – 2001)

TCTA Board committees: None

Current position: Company Secretary and Executive – Governance

Other directorships: None



Executive management

Mr James Ndlovu (41)

Chief Executive Officer

Qualifications:

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



Jeanette Nhlapo (40)

Chief Operating Officer

Qualifications:

MBA (Edinburgh Business School – 2009)
Senior Executive Development Programme (Columbia University – 2006)
BA (Soc Sc) (UNISA – 1996)



Carina Bleeker (40)

Executive Manager: Enterprise-wide Support Services

Qualifications:

Snr Management Development Programme (USB – 2009)
EDP (UNISA, SBL – 2005)
MBibl (University of Johannesburg – 1996)
BBibl (Hon) (University of Johannesburg – 1994)
BBibl (Ed) (University of Johannesburg – 1993)



Prof Ola Busari (49)

Executive Manager: Knowledge Management

Qualifications:

Advanced (Environ) Isotopes Program (University of Chicago – 2001)
PhD Water Resource Management (University of Ibadan – 1990)
MSc Engineering Hydro-Geology (University of Ibadan – 1986)
BSc (Hons) Civil Engineering (University of Lagos – 1984)



Johann Claassens (50)

Executive Manager: Project Management and Implementation

Qualifications:

Executive Development Programme (University of Stellenbosch – 2009)
CA(SA) – 1988
BCompt Hons (Unisa – 1986)
BCompt (UOFS – 1984)



Rathata Matabane (45)

Executive Manager: Human Resources Management and Organisational Development

Qualifications:

Executive Development Programme (University of Stellenbosch – 2009)
Management Development Programme (GIBS – 2006)
Post-Graduate Diploma in Labour Law (GIMT – 2003)
Graduate Diploma in Company Direction (IOD – 2002)
Management Advancement Programme (Wits University – 1998)
BA (UNISA – 1993)



Zodwa Mbele (39)

Executive Manager: Project Finance and Treasury

Qualifications:

Executive Development Programme (University of Stellenbosch – 2009)
Management Advanced Programme (Wits University – 2004)
CA(SA) – 2001
BCompt Hons (UNISA – 1998)
B Paed (University of KZN – 1992)



Lahlane Mnisi (39)

Executive Manager: Corporate Governance

Qualifications:

Admitted Attorney (PTA High Court – 2001)
LLB (UNIN – 1998)
BProc (UNIN – 1995)



Executive management continued

Halima Nazeer (42)

Chief Financial Officer

Qualifications:

Executive Development Programme (University of Stellenbosch – 2009)

CA(SA) – 1993

BCompt Hons (UNISA – 1992)

BCom (Wits University – 1989)



Leonard Radzuma (36)

Chief Risk Officer

Qualifications:

MBL (UNISA SBL – 2006)

BCom Accounting (University of Venda – 1996)





Directors: Musa Furumele, Jan-Willem Geenen, Doris Dondur, James Ndlovu, Dr Snowy Khoza, Simphiwe Kondlo, Gregory White, Thuto Shomang, Lebohang Thotanyana and Siphiso Sono
Not in the photo: Simangele Sekgobela, Makano Mosidi and Onesmus Ayaya



Exco: Leonard Radzuma, Rathata Matabane, Jeanette Nhlapo, Carina Bleeker, James Ndlovu, Halima Nazeer, Zodwa Mbele, Lahlane Mnisi, Johann Claassens, and Prof Ola Busari

Operations overview and sustainability



Strategy and performance overview

TCTA recently developed a strategic perspective of its future, expressed as *The Brave New World*, describing the organisation's strategic intent and ambitions. This repositioning initiative has emphasised the reconfiguration of our business model to allow for the pursuit of expanded project opportunities and enhanced thought leadership for policy reform and advocacy, as well as for supporting water utilities and other state institutions in developing infrastructure in critical areas of need.

The new corporate strategy provided the frame of reference against which TCTA developed the resources and value propositions for its future clients and stakeholders. This frame enables the organisation to increasingly leverage its technical skills and experience in planning and implementing complex infrastructure projects and managing liability over several years, positioning itself as a preferred provider of innovative solutions to water sector development challenges.

To implement and monitor strategy on an annual basis, TCTA has adopted the Balanced Scorecard (BSC) methodology. 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 2010/11 financial year was submitted to the shareholder in February 2010 as part of the Corporate Plan.

TCTA's corporate goals are aligned with the strategic agenda of government, in the context of its mandate and expected deliverables. The strategic goals for the reporting year were as follows:

- Deliver on all the directives provided by the Minister relating to the planning, implementation and financing of bulk raw water infrastructure, in accordance with specifications and within agreed timelines and budget.
- Ensure that all project activities facilitate social transformation and build sustainable communities by providing jobs and empowering women, and youth and the disabled.
- Operate the business and its projects and processes in a cost-effective manner, bearing in mind the imperatives of public finance management.
- Build the knowledge and capability of the organisation enabling it to support other institutions in pursuit of greater efficiencies in overall water management and water services delivery.
- Ensure the continuous availability of high-calibre human capital for delivering on the organisational mission into the future.

The accompanying table presents the actual performance during the 2010/11 financial year. The table highlights major achievements, both in terms of the key expected outputs in the BSC and also regarding a number of additional strategic assignments initiated by the Board during the year to guide the organisation on a more sustainable path. In particular, we have successfully raised cost-effective funding for our projects; negotiated win-win innovative institutional arrangements; and expanded our knowledge contributions to the sector as a whole, making our products and services available for advancing water security and drawing increased public recognition.

The succeeding sections provide details of the various dimensions of organisational performance.

We should be filled with awe and joy at what lies over the horizon. And we should be filled with absolute determination to make the most of it



Signing ceremony: Funding protocol between TCTA and MMTS2 funders

Operations overview and sustainability continued

High-level corporate performance for 2010/11

Goals	Strategies	Performance
1 Stakeholder relationships (10%)		
1.1 DWA recognises TCTA as partner of choice for off-budget implementation of bulk raw water infrastructure	Support and input into DWA and other government initiatives, so that TCTA is seen as an essential and valued partner in the water value chain	<ul style="list-style-type: none"> Support has been given to DWA in three key areas in support of policy development in the sector
1.2 Raise awareness among current and potential future off-takers and the general public, of the role TCTA plays in the delivery of water	Develop and implement communication and marketing	Delivered in all seven key areas <ul style="list-style-type: none"> Attendance at 18 strategic workshops and conferences 18 presentations
2 Financial sustainability (45%)		
2.1 Involvement in the structuring and development of directives to avoid implementation delays	Develop agreement with DWA on TCTA involvement in planning process	Proposal was submitted to Minister
2.2 Deliver on TCTA directives in an efficient manner in accordance with shareholder and partner expectations	2.2.1 Raise finance for the construction of infrastructure in the most effective manner	
	(a) MMTS2	Funding raised and agreements being finalised
	(b) ORWRDP2	On-budget funding sourced from National Treasury to implement a portion of Phase 2
	(c) KWSAP	Funding raised and agreements being finalised
	(d) MCWAP1	Funding in process of being sourced
	(e) LHWP2	Assisting in development of strategies
	2.2.2 Construct infrastructure on time, within budget, to the appropriate standards and in a sustainable socio-environmental manner	
	(a) BWP	Project delivering water since December 2007 and earning revenue. Resolution of final claims still outstanding
	(b) VRESAP	Project delivering since June 2009 and earning revenue while defects repaired and permanent abstraction works completed
	(c) MMTS2	Contractor on site
	(d) ORWRDP	Prequalification tender for construction contract in preparation
	(e) KWSAP	Construction commenced
	(f) MCWAP	Tender for construction contract closed
(g) LHWP	No interruptions experienced	
(h) Metsi Bophelo Borehole Project	New project, professional service provider appointed	
(i) Acid Mine Drainage	New project, awaiting directive but tender for professional service provider in preparation and meetings with external stakeholders undertaken	

Goals	Strategies	Performance
	2.2.3 Manage the revenue collection and 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	
	2.2.3.1 Liability management	<ul style="list-style-type: none"> Achieved more than 100% cover in the short-term liability (total short-term liability at R1,8 billion against R2,3 billion investments matching all maturities) Achieved a money market actual weighted rate of: <ul style="list-style-type: none"> – 6,01% vs benchmark rate of 6,31% for BWP; – 5,97% vs benchmark rate of 5,70% for VRESAP; and – 5,78% vs benchmark rate of 6,24% for LHWP.
	2.2.3.2 Revenue received timeously from DWA or end-user where cession agreement in place	<ul style="list-style-type: none"> Income received and reconciliations complete
	2.2.2.3 Tariffs set to repay debt timeously balanced with tariff affordability	<ul style="list-style-type: none"> All tariffs set according to schedule
2.3 Implement and support the government's developmental agenda through the construction of infrastructure	2.3.1 The development of sustainable enterprises and the training of individuals in accordance with the individual project strategies and corporate social initiative	<ul style="list-style-type: none"> Strategies successfully incorporated into two construction contracts
	2.3.2 Maintain a Level 3 Contributor	Level 3 Contributor maintained
3 Internal business processes 35%		
3.1 Placing TCTA on sustainable path	3.1.1 Review the TCTA Business Model	Benchmarking exercise complete
	3.1.2 Identify opportunities to extend TCTA's capability and offering	Six proposals submitted Three advisory appointments received
3.2 To develop and implement systems and processes enabling TCTA to effectively and efficiently deliver on its mandate and to maintain the highest standards of corporate governance	3.2.1 Develop, implement and maintain appropriate systems and business processes	<ul style="list-style-type: none"> Implementation of one system complete Continued implementation of three systems and processes One system on hold due to termination of consultant's contract No significant findings with regard to audit and compliance
	3.2.2 Adherence to and compliance with all statutory requirements	<ul style="list-style-type: none"> All statutory requirements adhered to
3.3 To develop an organisational culture within TCTA that contributes to an efficient and effective organisation	3.3.1 Ensure continued stability within the organisation	<ul style="list-style-type: none"> Average staff satisfaction on 10 key indicators of 71% Team effectiveness of 3,65 across the organisation Proactive management of disputes One desertion disciplinary enquiry within the ESS division One grievance reaching second stage
3.4 Retention of skilled personnel through a competitive and standardised remuneration framework	3.4.1 Implement revised remuneration and compensation strategy for organisation	<ul style="list-style-type: none"> All the positions and roles were fully benchmarked 3,34% staff turnover

Operations overview and sustainability continued

Goals	Strategies	Performance
3.5 To enable the Board to operate in an independent and strategic manner	3.5.1 Support the functioning of the Board in an efficient and effective manner	<ul style="list-style-type: none"> • New Board appointed within the required timeframe to ensure seamless functioning of the governance of the institution • Meetings held as scheduled with the correct information to enable the Board to exercise effective governance
4 Learning and growth 10%		
4.1 To build TCTA's Knowledge Management capability as a leading policy player in the water sector	4.1.1 To develop and implement a Knowledge Management and Innovation Strategy	<ul style="list-style-type: none"> • Cooperation agreements signed • Intellectual Property Policy developed
	4.1.2 To input into the development of policy in the water sector and advocate for change to ensure the sustainability of the water sector	<ul style="list-style-type: none"> • Seven papers and one case study prepared
	4.1.3 Participation in learned society events and activities that contribute towards continual professional registration	Employees of TCTA serve on six committees
4.2 To build and maintain human capital that is fully empowered to deliver on the vision and mission of the organisation	4.2.1 Implementation of TCTA Personal Development plans	<ul style="list-style-type: none"> • 2,92% of payroll on skills development • 88,86% black employees • 62,4% black and white women • 74,66% training institutions with accreditation • All professional registrations maintained • 100% rollout of Personal Development Plans, based on a structure of a minimum of one training per staff member at each of the following levels: <ul style="list-style-type: none"> – Organisational; – Functional; and – Individual • 34% of the staff exceeded the prescribed minimum



Operations overview and sustainability continued



Economic performance

TCTA delivered 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 308 million, compared to R2 009 million in the previous year. A net surplus for the reporting year of R24 million, compared to a net deficit of R168 million in 2009/10 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 R360 million to R3 098 million, compared to R2 378 million the previous year. The net higher revenue was due to a planned increase in water volumes.

Bulk raw water tariffs

Implementation agreements (income agreements) between TCTA and DWA are entered into at the inception of each project. These agreements set out terms and conditions as to how bulk raw water tariffs will be set and maintained through the debt repayment period, among other things. The tariffs are set in such a way that the debt

is repaid 20 years post-construction and are adjusted annually with CPI to keep the tariff constant in real terms.

The income agreements allow for automatic and negotiated adjustments of the tariffs on an annual basis depending where CPI falls. The floor and cap levels for the raw water tariff have been largely set at 4,5% and 7,5% respectively.

The income agreements allow for automatic and negotiated tariff adjustments depending on where the chosen year-on-year CPI level falls. For LHWP, the year-on-year CPI floor and cap levels are set at 4,50% and 7,50% respectively. Should CPI fall between the levels of 4,50% and 7,50%, the tariff is adjusted automatically. However, where CPI falls below 4,50% or above 7,50%, TCTA enters into extensive consultation with the major stakeholders to determine an appropriate tariff level for the financial year, taking into account TCTA's obligations to its funders as well as the affordability of the tariff to the end-users. Other variables considered during tariff adjustments include changes in:

- raw water demand projections;
- the yield of the system;
- the timing and cost of future augmentation schemes;
- operations and maintenance charges; and
- input assumptions that shorten or prolong the final debt repayment date.

The Vaal River raw water tariff increase for the financial year 2011/2012 was set at 8,65% as agreed by all major stakeholders. The BWP raw water tariff was increased by the May 2010 year-to-year CPI of 4,60%, while the VRESAP tariff, which is still at early stages of payment, was increased by 15% and 35% for Sasol and Eskom respectively.

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

TCTA's economic performance is measured by its ability to meet and deliver on the requirements of individual projects in the most cost-effective manner, within agreed-upon timeframes and budgets

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, 730 million m³ of water was transferred to South Africa, compared to 784 million m³ the previous year. This meets the agreed volume for the

year as set out in the Treaty. To date, the total volume of water delivered by the scheme is 8 744 million m³.

Total royalties paid to date to the Government of Lesotho amount to R3 430 million, compared to R2 992 million in the previous year.

Financial market activities

The South African Reserve Bank cut the REPO rate to its lowest levels since the mid-1970s during the financial year. This had a positive impact on the cost of funding for TCTA, giving the opportunity to fix long-term loans at reasonable rates and also improving on the yields for capital market issuances.

During the year under review, TCTA switched the WS04 bond into WSP bonds. 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 2011

Bond	Issue date	Maturity date	Coupon %	Authorised R million	Nominal issued R million	Available R million
WS04	20 Mar 2001	30 May 2016	12,50	10 000	7 079	2 921
WS05	20 Nov 2001	1 Aug 2018	5,00	7 000	3 525	3 475*
WS01	21 May 2003	28 May 2015	9,00	1 000	355	645
WSP2	21 May 2003	28 May 2017	9,00	1 000	1 887	(887)**
WSP3	21 May 2003	28 May 2019	9,00	1 000	285	715
WSP4	21 May 2003	28 May 2020	9,00	1 000	253	747
WSP5	21 May 2003	28 May 2021	9,00	4 000	3 088	912
Total				25 000	16 472	8 528

* The WS05 is shown at the nominal issued; the inflated value as at 31 March 2011 is R6 014 million.

** The limit for WSP2 is offset by the available limit on the WS04 bond as approved by the ALCO as at 25 November 2010.

Short- to medium-term funding in the domestic market is accessed through a commercial paper programme and other local loans. As at 31 March 2011, TCTA had issued a total of R1 799 million against an authorised explicit guaranteed amount of R4 000 million for the LHWP and a total of R56 million and R58 million from implicit guaranteed amounts of R450 million and R300 million for BWP and VRESAP respectively. Foreign currency funding continued to show a steady decline and currently constitutes less than 3% of the entire funding.

Operations overview and sustainability continued

Environmental performance

TCTA's environmental performance relating to its interventions on environmental management, social sustainability and land acquisition, is guided by its policies and project strategies which seek to:

- promote a culture and awareness of sustainability at corporate and project implementation levels;
- integrate sustainability into business planning;
- ensure internalisation of social and environmental costs so that the range of negative impacts of project implementation are not borne by local communities, landowners and land users; and
- enhance the positive socio-economic impact of project implementation.

The TCTA approach to ensuring consistent and sound environmental performance is the rational planning systems approach which emphasises objectives-based planning, implementation, monitoring and review. The system includes feedback processes from evaluation and monitoring and uses the International Environmental Management System standard as its framework.

Environmental performance planning involves identifying and defining the various aspects – environmental, social and land acquisition – and related potential impacts that can result from project implementation, and ensuring that appropriate management and mitigation measures are in place. The TCTA approach is based on the principle of 'objectives-based' planning which involves identifying the range of legal requirements needed during the implementation of projects, and:

- for each requirement (environmental, social and land acquisition), an objective is specified; and
- for each objective, an indicator that provides an indication of whether the objective is being met or not is defined. To provide a metric for the indicator, targets are set which serve to reflect the performance expectations of each objective.

The combination of objectives, indicators and targets provides an explicit set of measures which can be used at any stage to assess the effectiveness of environmental performance. For each objective, it is necessary to determine what needs to be done in terms of management and mitigation, to meet the targets. For the various management and mitigation plans, it is necessary to define who is responsible for implementation and when and where they must be implemented. At TCTA, environmental and social requirements are documented in Environmental Management Plans, while the approach to land matters is documented in project-specific Land

Acquisition Strategies. These strategies are equivalent to management plans.

Lesotho Highlands Water Project

In terms of the Lesotho Highlands Water Project, an important obligation in 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 DWA, 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.

Berg Water Project

The physical functioning of the completed Berg Water Project is occurring in line with the operating rules for abstraction and releases as required by the environmental Record of Decision and within the framework of the National Water Act.

The BWP has become the first large water resource infrastructure in South Africa that substantially complies with the guidelines of the World Commission on Dams. It is the first dam in South Africa designed specifically to allow delivery of reserve flows for maintenance of the downstream river, and the first designed to allow flood releases for that purpose. It is also the first bulk water resource development in South Africa that is directly linked to water demand management.

Over the last year, there has been renewed impetus from TCTA in the implementation of the Sustainable Utilisation Plan (SUP) for the BWP. The objective of the SUP is to provide a development framework to guide the long-term management and land use of the Berg River Dam water body and surrounding state land. Consultations with local stakeholders and authorities have been undertaken to forge a common vision and purpose for the SUP.

Vaal River Eastern Subsystem Augmentation Project

Rehabilitation measures along the pipe servitude have been largely successful and have complied with the requirements of the Environmental Management Plan and

performance objectives in the contract specifications. These include rehabilitation of grass cover and croplands. More than 50% of the borrow pits were inspected by the authorities and met the closure criteria. The Environmental Control Officer continued to submit audit reports, while the Environmental Management Committee met periodically to discuss the project's environmental performance.

Mooi-Mgeni Transfer Scheme Phase 2

Some of the key requirements for the commencement of construction were achieved. The Environmental Monitoring Committee was established with monthly meetings held prior to the start of construction. An Environmental Control Officer was appointed and mobilised. The Environmental Management Plan for the construction of the dam wall was completed and submitted to the authorities for approval. Baseline studies on dust, water quality, noise and traffic was completed. Environmental performance criteria were integrated into the infrastructure design and contract specifications in the tender documentation. Significant environmental challenges were encountered during the start of construction, which necessitated TCTA initiating a detailed study to inform a traffic management and mitigation plan.

Work on Phases 1 and 2 of the Heritage process is at an advanced stage. The social consultation process concerning the relocation of graves and affected families commenced in October 2010 and is ongoing.

Olifants River Water Resources Development Project Phase 2

Due to the critical nature of water delivery to communities around Jane Furse through the first 10 km of Phase 2C (2C-1), it was decided to expedite the drafting of the Environmental Management Plan (EMP) for that phase. The EMP for Phase 2C was completed and submitted to the authorities for approval. Baseline studies were initiated to determine ambient conditions and background variability for aspects such as vegetation, dust and water quality. Detailed mapping, identification and analysis of assets and infrastructure in the pipeline servitude area were conducted. Environmental performance criteria were integrated into the infrastructure design and contract specifications into the tender documentation.

Komati Water Scheme Augmentation Project

A change in pipeline route triggered the legal requirement of conducting an amendment application process. Supporting specialist studies were performed on the new route alignment. An amended environmental authorisation was received and the Construction EMP was approved. Baseline studies on vegetation, wetland habitats, dust, water quality, noise and traffic were completed. Environmental performance criteria were integrated into the infrastructure design and contract specifications of the tender documentation. An Environmental Control Officer was appointed and mobilised prior to construction. This preconstruction work enabled site establishment and construction activities to commence without any significant environmental challenges.

Mokolo-Crocodile Water Augmentation Project

The Environmental Authorisation for Phase 1 of the MCWAP was granted. Also, work commenced on the detailed Construction Environmental Management Plan for that phase. Baseline studies determined ambient conditions and background variability for aspects such as vegetation, dust and water quality. Traffic volumes and road conditions were investigated. Detailed mapping, identification and analysis of assets and infrastructure in the pipeline servitude area were conducted. Environmental performance criteria were integrated into the infrastructure design and contract specifications for the tender documentation.

Operations overview and sustainability continued

Human capital performance

Managing people at TCTA is about enabling our greatest resource, namely human capital, to reach organisational goals through sound, efficient and effective human resources practices. We are competing in a world where change is undeniable and has become part of our everyday lives. This makes it extremely important to employ people with the right skills and the right attitude and give them appropriate opportunities for development in order for them to perform at the required levels and standards. This promotes TCTA's collective growth and increases our competitive strength. When working with our employees, we believe in a systematic, long-term approach that encourages participation.

Improved recruitment

TCTA constantly searched for ways to execute its recruitment processes more effectively and efficiently. The introduction of service level agreements in the last financial year gradually made a difference to recruitment lag times. The consultation with line management at the beginning of the recruitment process ensured accurate targeted recruitment. To assist the organisation to fulfil its resourcing requirements, a strategic resource analysis was conducted. The analysis provided the basis of the information utilised to conclude the organisation's resource plan. It also provided the organisation with the data needed to ensure that all employees are gainfully employed and contribute to the organisational objectives.

To guarantee that TCTA employs people with the relevant competencies, we embarked on a job-profiling exercise for each approved position within the organisation. This exercise enabled the organisation to select the appropriate psychometric assessment tools to objectively measure and assess an applicant's suitability for the specific position. This competency-based approach to recruitment and selection assisted the organisation to attract a total of 29 new employees, with 15 appointed on permanent contracts and 14 on fixed-term contracts.

Employee induction

To ensure that TCTA gets its return on investment from new recruits, we introduced a well-structured on-boarding programme. The aim of this programme is to ensure that new recruits are engaged in organisational processes from the date the contracts of employment are signed. The success of the programme means that new employees are introduced to our culture and climate at a very early stage in their tenure.

This four-day programme includes a 'buddy' whose duty is to ensure that the new employee is properly orientated to his/her new surroundings; an introduction to the organisational culture; a session where the human resources benefits and the remuneration philosophy are

explained; an introduction to the organisation's policies and procedures and additional human resources-related procedures and systems. We also introduce the new incumbent to the Executive Committee, and an element of the programme is a site visit to one of our flagship projects.

Employee engagement

TCTA conducted an employee engagement survey, which indicated an improvement in the organisational climate and culture. The response to the survey was good, though the results revealed a worrisome trend. Although employees signified that they would not leave the organisation in the near future, the majority of respondents admitted that they were not fully engaged and that they deliver the minimum required of them. The survey results were communicated to all employees.

To enhance TCTA's effectiveness, the revised Growing-Our-Teams (GOT) programme was introduced. The team effectiveness questionnaire was adapted and tested the following dimensions: direction, leadership, relationships, capabilities and processes. A diagnostic score of 3.2 is indicative of an organisation that is effective. A pre- and post-intervention diagnostic was performed on each division with increased participation levels. Even though the pre- and post-diagnostic score remained constant (3.6), there was a marked improvement from a divisional perspective. The increase in organisation-wide performance suggests that the initiative is having a positive impact on the overall organisational performance.

TCTA aims to promote fair and equitable employment relations. As a vehicle to realise this objective, the optimal and effective functioning of the bargaining forum is critical. This forum was used strategically to consult and negotiate around matters of mutual interest. Organised labour, in the form of SASAWU, was consulted on implementation of Project Imvuselelo (Totals Reward Framework) and the restructuring of the Enterprise-wide Support Services division, to mention a few. Labour also played a critical and integral role in the recruitment process to ensure that the process was fair and transparent, and executed in line with the organisation's policy and procedure.

To further our objective to bargain in good faith, management and SASAWU attended a number of workshops to review and refine the recognition agreement which will be finalised during the new financial year. It was the core of this relationship that led to successful and peaceful annual salary negotiations and the smooth implementation of the resulting collective agreement. In our efforts to solidify our relationship with organised labour, TCTA sponsored and attended COSATU's 25th birthday celebration held at Gallagher Estate during November 2010.

New employees are introduced to the organisational culture and climate at a very early stage within their tenure

Project Bosele (culture and climate initiative)

This initiative has been highly beneficial to the organisation. Having adopted the values, the next step was to embed these newly adopted values into the organisation. Phase III of the project, implemented during the past year, served exactly this purpose. Through a process of organisational nominations and electoral processes, value ambassadors were elected for each value. Employees participated in this process and, through targeted events and activities, employee engagement has increased.

Two polls were conducted eight months apart to ascertain whether the project had an impact on the behavioural patterns of employees and whether they were starting to assimilate the organisational values into their daily lives. Feedback suggests that significant strides have been made since the inception of the project.

A value nomination programme was introduced during May 2010. The programme served as a catalyst to further embed the values into the organisational culture. Value ambassadors were nominated for each of the five values with the exception of the value 'unity' which served as a community outreach programme, with Lerato House for Young Girls the recipient charity. According to our value ambassadors, they view themselves as a critical component of the project as they will now contribute towards the modelling of behaviours within the organisation.

Valuing diversity

In emphasising an integrated approach during the year, diversity management initiatives were introduced as part of the GOT programme. We also ensured that all issues bearing culture sensitivities were addressed in a respectful and dignified manner through the promotion of organisational values. We started a process of recognising different cultures and religions through an internal awareness campaign. A diversity and change management strategy was developed and widely engaged.

In terms of employment equity, we achieved a numerical representation of 86,5% black, 60% female and 1,9% disabled employees against a target of 78% black, 48%

female and 2% disabled employees. These achievements formed part of our timely submission to the Department of Labour, in the form of our Employment Equity Report, in adherence to a regulatory requirement.

As part of our transformation agenda, we identified five black-owned service providers for preferential business opportunities. A joint-venture opportunity was created between a white and black-owned recruitment agency with the intention that the former transferred skills on how to source skills from sectors relevant to TCTA business. We entered into agreements with 13 black-owned recruitment agencies, with 12 of the 13 being black women-owned.

Developing capabilities

It was vital for TCTA to adopt a wider view of skills development, moving beyond just traditional training methods. Most opportunities to learn from one another occurred in daily work life, in situations such as work rotation, trainee work, project participation and study visits.

As a formal way of instilling a discipline of continuous learning, TCTA employees completed and actualised personal development plans for both short- and long-term training needs. A learnership for environmental students was designed and is currently being accredited through the sector training authority MERSETA. We also continued the practice of internal secondments to current employees affording them opportunities to explore personal interest and growth. Six bursars were given the opportunity to participate in vocational work, with three subsequently appointed as interns. Five learners were also appointed in the engineering department, and a mentorship programme for the learners and bursars was introduced and implemented.

Promoting quality of life at work

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.

Operations overview and sustainability continued

In order to ensure that our employees are both mentally and physically fit to perform their duties to the best of their abilities, we introduced a wellness day and sponsored a TCTA football team participating in corporate football league games. We hosted a World Aids Day on 1 December 2010 and organised a healthy cooking demonstration during February 2011. TCTA participated in the Discovery Health/Sunday Times Healthy Company Index survey, with our index indicating a workforce that is moderately healthy. We will be introducing measures to rectify the areas raised as concerns in the course of the new financial year.

Spring Grove Dam: Blasting



Project Naledi was in its fourth and final year of contributing to the creation of core skills and job opportunities for deserving but unemployed youth

Transformation and sustainable development

Transformation and sustainable development are essential to the manner in which TCTA implements and manages 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, TCTA has committed itself 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 facets.

TCTA's strategy for transformation and socio-economic development seeks to achieve the following objectives:

- Promotion and development of small, micro and medium enterprises.
- Promotion and development of agribusiness and other agricultural activities (aquaculture, vermicomposting, hydroponics, etc) through focused technical and managerial support.
- Implementation of Sustainable Utilisation Plans around constructed dams.
- Skills development and capacity building to create employment opportunities by enhancing socio-economic empowerment and entrepreneurial abilities.
- Partnering with public health institutions to share knowledge addressing chronic diseases such as HIV and tuberculosis, leading to healthy host communities.

In implementing the strategy over the past year, TCTA has been proactive in its support of the government's interventions addressing issues of unemployment, poverty, skills development and the prevalence of chronic illnesses such as HIV/Aids.

Socio-economic Development Fund

TCTA has established a Socio-economic Development (SED) Fund which drives the implementation of sustainable development initiatives in host communities. The SED Fund is an integral part of TCTA's contribution to the wider transformation agenda.

Positioning the fund as a transformation medium allows TCTA to carry out its socio-economic development initiatives 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 communities and provinces of South Africa where TCTA projects are located.

Project Naledi

As part of the transformation initiatives, Project Naledi was in its fourth and final year of contributing to the creation of core skills and job opportunities for deserving but unemployed youth. This project consists of two components, as follows:

Internship scheme

This initiative recruited six unemployed graduates from historically disadvantaged backgrounds for a two-year internship, exposing them to specific functions within TCTA by providing a platform to gain valuable workplace experience. The contracts of the interns expired in April and May 2010, and it was noteworthy that all but one of the six interns were absorbed into the staff complement of TCTA.

In the past year, a new set of five interns were enlisted in the Project Management and Implementation Division, specialising in engineering, environment and land acquisition, and an additional one in the Office of the COO.

Operations overview and sustainability continued

Bursary scheme

The second component is the bursary scheme which 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 initiative has been running for the past four years and has witnessed the graduation of three students from the University of the Witwatersrand, University of Johannesburg and Vaal University of Technology respectively. The successful graduates were absorbed into the staff complement of TCTA. It is expected that four students will complete their studies in the 2011/12 financial year.

Sustainable Utilisation Plan

The implementation of the Berg Water Project Sustainable Utilisation Plan (SUP) in Franschhoek, Western Cape, progressed according to plan, although much work has yet to be done especially the coordination and involvement of various stakeholders. 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's objective is to maximise post-construction local economic development opportunities for the people of Franschhoek and its surroundings.

Broad-based Black Economic Empowerment (BBBEE)

TCTA adheres to the six applicable elements that underpin BBBEE. The ultimate aim is to address these six elements, not only to ensure that TCTA achieves a reasonable contribution level, but to play an active role in society to create opportunities that redress the socio-economic imbalances of our country.

As of the end of the past year, TCTA's BBBEE status was verified by EmpowerDex as a Level 3 Contributor, recording a total of 84,17 out of a possible 100 points. TCTA received maximum points for Management Control and Socio-economic Development.

Element	Points available	Points scored
Management control	15 (1)	16,00
Employment equity	15 (3)	11,88
Skills development	20	16,13
Preferential procurement	20	15,20
Enterprise development	15	9,96
Socio-economic development	15	15,00
Total	100 (4)	84,17

All numbers in brackets reflect bonus points.

Empowerment Awards

During the reporting year, TCTA was recognised for driving empowerment as a key thrust of its transformation initiatives. This progress was showcased when TCTA became a finalist in the 10th Annual Metropolitan Oliver Empowerment Awards which took place at the Sandton Convention Centre, Gauteng, on 24 March 2011. TCTA was a runner-up in two categories where among others, were finalists such as ABSA Group Limited, KPMG, Nelson Mandela Metropolitan University, Netcare and Maponya Inc.

Capacity building: South African Institute of Civil Engineering

TCTA sponsored a national project run by the South African Institute of Civil Engineering (SAICE) to attract school learners into the water sector and the civil engineering field. The institute promotes the water sector by involving school learners in meaningful projects so that they consider this field as a possible career option.

Pietersdal Office Block

In August 2010, the then Minister of Water and Environmental Affairs, Ms Buyelwa Sonjica, officially handed over the Pietersdal Office Block to the Department of Public Works and Rural Development of the Free State Provincial Government.

Community empowerment

In the past year, significant progress was made in relation to the following issues of community empowerment anchored by the organisation:

- A joint initiative between TCTA and SASOL, the Charl Cilliers Victim Empowerment Centre, was officially launched in April 2010 and handed over to the South African Police Service in Charl Cilliers as a fully equipped centre.
- TCTA, in partnership with BHP Billiton in December 2010, donated 50 pairs of pre-owned gumboots to destitute families in the village of Mohale in Lesotho.

All the recipients were directly affected by the construction of LHWP.

- TCTA made donations of stationery and food parcels, respectively, to Moriting wa Thuto Secondary in Khubetswana, Clarens; and Siyanakekela Community Dropping Centre in Charl Cilliers.
- TCTA provided ablution facilities for Sakhisizwe Crèche, Mamello in Vaal Marina, to enable the crèche to meet the conditions set for registration by the Department of Social Development.



Community service in Olievenhoutbosch, Centurion

Operations overview and sustainability continued

Knowledge Management

Introduction

Following the successful establishment of the Knowledge Management portfolio towards the end of the previous financial year, TCTA has set up a small professional team to spearhead bringing the knowledge management strategy into operation. Indeed, during the reporting period, the team has coordinated extensive and robust knowledge initiatives, including: fostering a learning culture within the organisation; implementing advisory services such as a new value-add initiative in support of the water value chain; reinforcing TCTA's role in the policy and advocacy domain; and positioning the organisation as a thought leader in the water sector, both locally and internationally.

Strategic agenda

The organisation's knowledge interventions have been guided by its knowledge management strategy approved by the Board at the beginning of the financial year. In the light of that strategy, the organisation has committed more effort to how it creates, exploits and retains intellectual assets; how it builds internal relationships and external networks, and designs and sustains processes in support of knowledge flows; and how it tracks the translation of intangible assets into strategic intents and return on investments. Strategy implementation has been built on four knowledge pillars – water sector thought leadership, business value-add, synergistic partnerships and learning organisation – and these provide a pragmatic platform for reporting on performance progress during the year.

Partnerships

As part of the organisational strategic goal to raise awareness among current and potential stakeholders, TCTA negotiated and crafted partnership agreements with two key institutions, namely: Inwent Capacity Building of Germany (now GIZ) and the Water Research Commission of South Africa. These partnerships identify work areas where synergies can best be employed to further the objectives of the organisation, with target areas being in knowledge creation through collaborative research in the water sector and joint publications of best practices in water management. To cement and formalise these relationships, TCTA developed and signed formal Agreements of Co-operation. These partnerships set the foundation for TCTA to begin exploring and rolling out collaborative projects in the coming years.

Advisory services

In preparation for the extension of advisory services externally, TCTA developed an advisory services implementation framework which ensured alignment of the advisory services portfolio with the overall TCTA

business strategy. The framework further outlines the operational principles for implementing advisory services and maps out an appropriate business model and implementation phases over the next five years. In putting into effect the advice services framework in support of the water sector, TCTA provided technical advice in several areas, including: water resources augmentation options for the Mbombela Local Municipality; borehole water supply in five provinces, leading to a new DWA Directive; Turn-around Strategy for the Water Trading Entity at DWA; and specialist assistance to a number of other strategic DWA initiatives. These latter initiatives have ensured that TCTA is seen as an essential and valued partner in the water value chain, and have positioned the organisation as a thought leader in the water sector.

Further, the organisation has relied on its internal knowledge resources to chart a new corporate strategy and reconfigure its current business model. This twin participatory process has facilitated a deeper understanding of the organisation's strategic direction and operational model, ensuring TCTA is positioned to deliver future services with confidence.

Research and publications

During the reporting period, TCTA specialists contributed to the water management body of knowledge through sector-related research, analysis and paper publications. Staff members prepared, submitted and published three articles in peer-reviewed international journals and proceedings, raising the profile of TCTA as a knowledge institution. In the same vein and consistent with the core strategic pillar of sector leadership, the organisation also delivered several presentations at both local and international conferences. The presentation and publication of well-thought-out papers in various forums has profiled TCTA's quality of work, with significant implications for internal knowledge capacity building.

Building a learning organisation

In an effort to prepare for and foster a culture of sound monitoring and evaluation within the organisation, TCTA established robust monitoring and evaluation tools and processes over the reporting period. The tools include: a case study framework; a Logical Framework Approach document for planning projects and initiatives; and a framework that maps out key performance indicators. The case study framework facilitates the capturing of project experiences in the form of case studies which provide an overview of the methodologies, challenges, accomplishments and lessons learnt. The Logical Framework and the Performance Indicators Framework are at the heart of TCTA's project and organisational performance management. These frameworks present an

TCTA has committed more effort to how it creates, exploits and retains intellectual assets; how it builds internal relationships and external networks, and designs and sustains processes in support of knowledge flows; and how it tracks the translation of intangible assets into strategic intents and return on investments

integrated package of tools for planning, monitoring and reporting on progress towards accomplishing strategic and operational goals, as well as defining the critical indicators for tracking organisational performance.

The organisation has also taken the critical step demonstrating an initial application of the approved case study framework for the assessment of Water Conservation and Demand Management (WCDM), which highlights the benefits municipalities can derive from WCDM. Specifically, the outcomes were shown through a case study of the Rustenburg Local Municipality, which has helped to articulate the challenges and lessons learnt from the WCDM practices at the municipality.

To provide general direction for the formulation and review of policy across all business operations, TCTA has developed new Guidelines for Policy Development. In addition to creating a clear step-wise organisational approach to the development and management of policies, the formulation of consistent policies is already assisting in focusing decisions and practices.

In the course of the year, TCTA also developed an Intellectual Property (IP) policy and an Innovation Framework. Based on recognition of the need to protect the exploitation of potentially valuable intellectual assets generated by employees and contractors, the IP policy provides an enabling framework for identifying, managing, protecting and disseminating intellectual property on behalf of the organisation and its key stakeholders. The Innovation Framework defines steps and initiatives that TCTA will take in fostering an innovative culture among its employees. In principle, the framework seeks to stimulate innovation within TCTA.

As a critical thrust of its knowledge agenda, TCTA initiated innovative knowledge sessions providing a platform for sharing and integrating tacit individual knowledge and explicit documented knowledge within the organisation. Such formal knowledge-sharing sessions were hosted on a regular basis on varying disciplines and thematic subjects, setting a positive tone for open, proactive and structured

engagements. There is evidence that, gradually, the organisation is becoming passionate about learning from its own experiences and those of others in a way that would ultimately create value for the business.

Managing knowledge into the future

The suite of knowledge initiatives and outputs during the year provide a pragmatic framework for knowledge management going forward, underscoring improvements in the cultural and operational aspects of learning and knowledge management within TCTA, as well as catalysing knowledge for innovation and development effectiveness in the shareholder and stakeholder domain. The developed monitoring and evaluation tools will also enable the organisation to fast-track learning from its pedigree, documenting lessons learnt and thereby mainstreaming, enriching and maintaining corporate memory.

Corporate governance



Introduction

TCTA is a state-owned entity founded on the Notice of Establishment of 24 March 2000 as promulgated in terms of the National Water Act of 1998. TCTA is required to comply with the Public Finance Management Act (PFMA), No 1 of 1999 (as amended).

Accountability and performance reporting

The TCTA Board is the Accounting Authority and reports to the Minister of Water and Environmental Affairs who is the Executive Authority, and has ultimate responsibility for TCTA. TCTA is mandated by the Minister to provide project financing, implementation and liability management.

The Board outlines and agrees with the Minister on the strategic deliverables and performance outputs in the Shareholder Compact and Corporate Plan on an annual basis, and reports performance on a quarterly basis. Organisational business and financial performance for the year is reported in an annual report and annual financial statements, and presented to the Shareholder and the Parliamentary Portfolio Committee annually.

Board appointment and induction

The Minister appointed the new Board in August 2010 for a four-year period ending August 2014. The Board was appointed through a formal and transparent process.

The role and composition of the Board

The management of the entity is vested in a unified Board of Directors (the Board) that encourages interaction among directors and consolidates the decision-making process on strategy, planning, performance reporting, allocation of resources, business ethics and communication with stakeholders.

The Board comprises 13 members, including the Chief Executive Officer who serves on the Board as an *ex officio* member. For ease of alignment and general interface with the organisation, the Board invites Executive Management to its regular quarterly meetings.

The Board meets at least four times a year in line with the approved Corporate Calendar, and at such other times as deemed necessary by the Chairman. The Corporate Calendar is informed by the Board Annual Programme which is aligned with the Organisational Strategy, Corporate Plan and the Shareholder Compact.

Independence of the Board

The Minister appoints the majority of independent non-executive directors of the Board for a period of four years in terms of King III. For purposes of stakeholder representation, the Minister appoints an additional two non-executive directors representing the Department of Water Affairs and National Treasury.

The positions of Chairman of the Board and Chief Executive Officer are unrelated, and the Chairman is an impartial non-executive Board member. The Chief Executive Officer is an *ex officio* member on the Board and Board committees.

Where the Chairman of the Board may be potentially conflicted, the Deputy Chairman serves as the Chairman, and where any director or Chairman is or may be conflicted, they declare and are recused from the meeting and decision proceedings.

All Board committees are chaired by non-executive directors. The Board, its committees and individual directors may engage an independent counsel and specialist advisers regarding the affairs of TCTA upon the request and discretion of the Board, and at TCTA costs.

TCTA is committed to sound corporate governance principles, considers the best practice recommendations in the King III report, and is applying the principles of King III to achieve good governance practices

Delegation of authority

The Board has the authority to lead and oversee the business activities of TCTA on behalf of the Shareholder. It is responsible for overall guidance on strategy, corporate plan and related affairs of the organisation. The roles and responsibilities of the Board are defined in the Notice of Establishment, Board Charter and Shareholder Compact.

In order to provide the oversight for such a unique, complex and diverse organisation such as TCTA, the Board brings strong business judgement, valuable experience and insight in various fields, including transformation, funding, project structuring, assets and liability management, knowledge management, information and communications technology governance, human resource management, technical project management and implementation, to the stewardship of the organisation.

The Board developed a governance structure of Board committees and has delegated some of its authority, by means of a comprehensive Delegation Matrix, to Board committees and the Chief Executive Officer. The delegation of authority assists the decision-making and delivery of strategic objectives without exonerating the Board from its accountability and responsibilities for TCTA.

Board committees

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

- Remuneration and Nominations Committee (REMCO)
- Audit and Risk Committee (A&R)
- Assets and Liabilities Committee (ALCO)
- Human Resources and Transformation Committee (HR&TR)
- Information and Communications Technology and Knowledge Management (ICT&KM)
- VRESAP Technical Committee (VRESAP)
- Technical Committee (TC)

The Board is aware that it is ultimately accountable for the affairs and performance of TCTA, and exercises the duty

of utmost care to ensure reasonable protection of the assets and records of TCTA. 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 the written Terms of Reference approved by the Board. Committee members are appointed by the Board and, in order to support transparency and full disclosure, the committees are chaired by non-executive Board members who report 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 engagement with the relevant executive managers.

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. This is done in order to ensure that TCTA maintains effective, efficient and transparent systems of financial and risk management and internal control. Under these circumstances, the Board takes into consideration committee guidance and recommendations.

Remuneration

The directors are remunerated in line with the non-executive directors' remuneration policy and procedure as approved by the Minister of Water Affairs. This policy ensures that the remuneration of directors is appropriate to the level, skill and expertise required from the directors, and in accordance with current market practices and the guidelines of state-owned entities. Details of directors' remuneration are listed in the notes to the annual financial statements contained in this report.

Corporate governance continued

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

Corporate governance

TCTA is committed to sound corporate governance principles, considers the best practice recommendations in the King III report, and applies the principles of King III as applicable to a state-owned enterprise, to achieve good governance practices.

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.

In execution of its duties, the TCTA Board is guided by the Shareholder Compact, Corporate Plan, Board Charter and Delegations of Authority.

Company Secretary

All Board members have access to the advice and services of the Company Secretary, who is responsible for ensuring compliance with corporate governance procedures, fiduciary duties and other governance responsibilities within the applicable statutory and regulatory framework and the manner in which such responsibilities

should be properly discharged in the interests of the organisation.

The Company Secretary assists in managing the appointment of directors as well as the induction, training and performance evaluation of individual members and the collective Board and committees. The Company Secretary is also accountable for ensuring that the Board Charter and Committee Terms of Reference are kept up to date.

Executive management

The Executive Management is appointed to execute the day-to-day operations of the organisation, in line with the powers delegated by the Board to the Chief Executive Officer.

The Executive Committee assists the Chief Executive Officer in executing these duties. The Executive Committee meets formally bi-weekly, and additional meetings (formal or informal) are scheduled on an *ad hoc* basis. Decisions are taken in accordance with the Delegation of Authority.

Ethics management

The TCTA Board, management and employees are committed to transparent, sound and ethical business practices as expressed in its Code of Conduct through regular declarations of interests.

Community service: Badirammogo Old Age Home, Olivenhoutsbosch



Board meetings

Board meetings are held at least once a quarter. In addition to these meetings, whenever circumstances dictate, special meetings are convened. During the year under review, four scheduled Board meetings and four special meetings were convened. EXCO members attended the Board meetings on an *ex officio* basis. Details of attendance by each Board member are set out in the table below:

Board members	Meeting with the Minister 28/04/10	20/05/10	22/06/10	Board handover 03/09/10	08/12/10	Strategy session 03/02/11	10/02/11	Special meeting 08/03/11
S Khoza (Chairman)	√	√	√	√	√	Attendance not required	√	√
L Thotanyana (Deputy Chairman up to 31/08/10)	√	√	√	√	☺	A	☺	√
S Kondlo (Deputy Chairman from 01/09/10)	√	√	√	☺	√	√	√	√
T Shomang	N/A	√	A	√	√	√	√	√
J Geenen	√	√	√	√	A	A	√	√
G White	√	√	√	√	√	√	√	√
M Furumele	N/A	N/A	N/A	√	√	A	√	√
M Mosidi	√	√	√	√	√	A	√	☺
D Dondur	N/A	N/A	N/A	√	√	√	√	√
S Sono	N/A	N/A	N/A	√	A	√	√	√
S Sekgobela	N/A	N/A	A	√	√	A	A	√
O Ayaya	√	√	√	√	A*	A*	A*	A*
R Mbwana	√	☺	A	NM	NM	NM	NM	NM
A Makwetla	√	√	√	NM	NM	NM	NM	NM
E Malefane	√	√	√	NM	NM	NM	NM	NM
P Makhesha	A	√	√	NM	NM	NM	NM	NM
J Ndlovu (CEO)	√	√	√	√	√	√	A	Attendance not required

* Member is a DWA stakeholder representative on the Board, and was not available

√ Present

A Apology

NM No longer a member

N/A Not yet appointed

☺ Teleconference

Corporate governance continued

Remuneration Committee

The committee reviews and approves the organisational structure; the appointment of the CEO and executive managers; remuneration and performance management strategies; and policies and systems relating to the Board, the CEO and executive managers. In addition, the committee reviews the annual performance of the organisation, the Board, the CEO and executive managers.

During the year under review, two scheduled meetings and one special meeting were convened. Details of attendance by each committee member are set out below:

Board member	22/06/2010	08/12/2010	(Special meeting) 22/03/2011
S Khoza (<i>Chairman</i>)	√	√	√
L Thotanyana (<i>Deputy Chairman up to 31/08/10</i>)	√	☺	√
S Kondlo (<i>Deputy Chairman from 01/09/10</i>)	√	√	√
J Geenen	√	√	A
G White	√	√	☺
M Furumele	N/A	√	√
M Mosidi	√	NM	NM
S Sekgobela	N/A	√	A
R Mbwana	√	NM	NM
A Makwetla	√	NM	NM
J Ndlovu (<i>CEO</i>)	√	√	Attendance not required

√ Present
 A Apology
 NM No longer a member
 N/A Not yet appointed
 ☺ Teleconference

VRESAP Committee

The Committee reviews and approves the implementation of the mandates on the VRESAP project from the Shareholder; monitors adherence to the Project Charter and Project Implementation Plan; monitors implementation plans and strategies; manages, approves and monitors compliance with applicable strategies, policies and processes for awarding of tenders on contracts; monitors adherence to capital expenditure policies; and manage resources, performance and budget related to VRESAP.

The Executive Manager: Project Management and Implementation; Chief Operating Officer; Chief Financial Officer; Stakeholder Representatives from DWA; and the Project Partners from Sasol and Eskom attend the meetings on an invitation basis.

During the year under review, four scheduled meetings were convened. No additional meetings were organised. Details of attendance by each committee member are set out below:

Committee member	24/05/2010	17/06/2010	14/10/2010	02/02/2011
R Mbwana (<i>Chairman up to 31/08/10</i>)	√	√	NM	NM
S Kondlo (<i>Chairman from 01/09/10</i>)	A	√	√	√
E Malefane	√	A	NM	NM
J Ndlovu (<i>CEO</i>)	A	A	√	√
M Mosidi	N/A	N/A	☎	√
M Furumele	N/A	N/A	√	√

√ Present
A Apology
NM No longer a member
N/A Not yet appointed
☎ Teleconference

Technical Committee

The committee reviews and approves the implementation of the mandates from the Shareholder relating to the various TCTA projects; monitors adherence to each Project Charter and Project Implementation Plan; monitors implementation plans and strategies; manages, approves and monitors compliance with applicable strategies, policies and processes for awarding of tenders on contracts; monitors adherence to capital expenditure policies; and manages resources, performance and budget specific to each project.

The Executive Manager: Project Management and Implementation; Chief Operating Officer; Chief Financial Officer; and Stakeholder Representatives from DWA attend the meetings on an invitation basis.

During the year under review, four scheduled meetings were convened. No additional meetings were organised. Details of attendance by each committee member are set out below:

Committee member	17/06/2010	21/10/2010	24/11/2010	02/02/2011
S Kondlo (<i>Chairman up 31/08/10</i>)	√	√	☎	√
M Furumele (<i>Chairman from 01/09/10</i>)	N/A	√	√	√
R Mbwana	√	NM	NM	NM
E Malefane	√	NM	NM	NM
M Mosidi	√	√	√	√
J Ndlovu (<i>CEO</i>)	A	√	√	√
S Sekgobela	N/A	√	√	√

√ Present
A Apology
NM No longer a member
N/A Not yet appointed
☎ Teleconference

Human Resources and Transformation Committee

The committee reviews and approves the Remuneration and Performance Management Strategies, policies and systems relating to staff, organisational structure and the HR budget. In addition, the committee reviews performance of the organisation and monitors compliance with applicable human resource and transformation laws, policies, strategies and frameworks.

Corporate governance continued

The Executive Manager: Human Resources Management and Organisational Development; Chief Operating Officer; and Chief Financial Officer attend the meetings on an invitation basis.

During the year under review, three scheduled meetings and one special meeting were convened. Details of attendance by each committee member are set out below:

Committee member	10/6/2010	14/10/2010	31/01/2011	(Special meeting) 10/02/2011
G White (<i>Chairman</i>)	√	√	√	√
S Sekgobela	N/A	√	√	A
D Dondur	N/A	N/A	√	√
S Sono	N/A	A	√	√
A Makwetla	√	NM	NM	NM
P Makhesha	√	NM	NM	NM
J Ndlovu (<i>CEO</i>)	√	√	√	A

√ Present
A Apology
NM No longer a member
N/A Not yet appointed

Information and Communications Technology and Knowledge Management Committee (ICT&KM)

The committee manages, approves and monitors compliance with ICT laws, strategies, plans and systems. The committee ensures alignment of information technology and business information needs; manages resources; information technology risks, performance and budget. The committee also provides oversight for the Knowledge Management programme, including the resources for implementing the knowledge strategy and programme budget, risk and performance.

The Executive Manager: Knowledge Management; Executive Manager: Enterprise Support Services; Chief Operating Officer; and Chief Financial Officer attend the meetings on an invitation basis.

During the year under review, five scheduled meetings were convened. Details of attendance by each committee member are set out below:

Committee member	16/04/2010	11/06/2010	08/10/2010	09/12/2010	04/01/2011
M Mosidi (<i>Chairman up to 31/08/10</i>)	√	√	√	√	√
S Sekgobela (<i>Chairman from 01/09/10</i>)	N/A	N/A	√	√	√
G White	NM	NM	√	√	√
J Geenen	N/A	√	NM	NM	NM
S Kondlo	N/A	√	NM	NM	NM
J Ndlovu (<i>CEO</i>)	A	√	A	√	√

√ Present
A Apology
NM No longer a member
N/A Not yet appointed

Assets and Liability Committee

The committee manages funding and risk strategies to meet business requirements; manages, approves and monitors compliance with applicable laws, financial policies, procurement policies, systems and strategies; measures and reports financial performance of TCTA; and manages resources and budget.

The Executive Project: Finance and Treasury; Chief Operating Officer; and Chief Financial Officer attend the meetings on an invitation basis.

During the year under review, four meetings were convened. Details of attendance by each committee member are set out below:

Committee member	17/06/2010	04/10/2010	25/11/2010	27/01/2011
J Geenen (<i>Chairman</i>)	√	√	√	√
L Thotanyana	√	N/A	√	√
S Sono	N/A	A	√	√
D Dondur	N/A	√	√	√
T Shomang	√	√	A	√
J Ndlovu (<i>CEO</i>)	A	A	√	√
G White	√	NM	NM	NM

√ Present
 A Apology
 NM No longer a member
 N/A Not yet appointed

Audit and Risk Committee

The committee evaluates the financial statements which will be provided to Parliament and other stakeholders; the internal controls established by Management and the Board; the audit processes; risk management framework; and assesses the organisational financial performance against its Corporate Plan.

The committee monitors, evaluates and advises the Board on the adequacy of risk management processes, compliance processes and strategies within the organisation. It further recommends the approval of the strategic risk and risk policies to the Board. The Chief Risk Officer, Chief Operating Officer and Chief Financial Officer attend the meetings on an invitation basis.

When required, external auditors, internal auditors, risk managers and compliance officers attend the Audit and Risk Committee meetings, make presentations and have direct access to the Chairman of the Audit and Risk Committee.

The Audit and Risk Committee meets at least four times a year. Specialist and co-opted committee members may be appointed to provide expert advice as and when required.

Corporate governance continued

During the year under review, five scheduled meetings were convened. Details of attendance by each committee member are set out below:

Committee member	17/06/2010	04/10/2010	25/11/2010	27/01/2011	29/03/2011
L Thotanyana (<i>Chairman</i>)	√	√	√	√	√
J Geenen	√	√	√	√	√
S Sono	N/A	A	√	√	√
D Dondur	N/A	√	√	√	√
T Shomang	√	√	A	√	A
J Ndlovu (<i>CEO</i>)	A	A	√	√	√
E Malefane	√	NM	NM	NM	NM

√ Present
 A Apology
 NM No longer a member
 N/A Not yet appointed
 ☎ Teleconference



Sod-turning ceremony: Mooi-Mgeni Transfer Scheme (Spring Grove Dam)



Sod-turning ceremony: Mooi-Mgeni Transfer Scheme (Spring Grove Dam)

Risk management



Over the past year, TCTA has monitored the trends in its risk profile and mapped out a streamlined risk management matrix, serving effectively as an early warning system triggering timely action. The management of both financial and non-financial risks is overseen by a consolidated risk division spanning the functions of Internal Audit, Compliance, Risk and Legal Services. This consolidation enabled the team to provide combined assurance to Management and the Board, ensuring the adequacy and effectiveness of the control environment. In bolstering its risk management, TCTA appointed a Chief Risk Officer in July 2010.

Risk management function

The Board is responsible for the governance of risk in TCTA, but delegates the responsibility to develop and implement the risk management plan to Management. The Chief Risk Officer leads and coordinates risk management and monitors and reviews the risk exposures regularly. The Board exercises its oversight responsibility through its Audit and Risk Committee.

TCTA maintained a risk management philosophy and framework, approved at Board level. The risk framework is based on best practice, including the guidelines of National Treasury and the requirements of the King III Code of Governance. The approved framework required that risk be identified, assessed and mitigated, a process that encouraged the application of prudent risk mitigation measures to reduce business risks to tolerance levels acceptable to TCTA and its Board.

Over the past year, the major strategic and operational risks enumerated in the following sections were managed on an ongoing basis.

Major risk categories and mitigation measures

Strategic risks

TCTA views strategic risks as those with potential to deter the organisation from achieving its strategic goals and emanate from business policy decisions, changes in the economic environment, legal and regulatory changes and stakeholder relationships. Strategic risks are managed by identifying the factors that impact the organisation's ability to achieve its business objectives. The risks are mitigated by TCTA's strong governance and reporting structures, which ensure delivery against the corporate business plan.

Project implementation risks

A significant proportion of TCTA's business is related to project implementation and management, areas with inherent risks. These risks may cause delays in completion of mandated projects, and might have an adverse impact on the ability to deliver water on time to users, resulting in the delay of revenue streams. Some of the key project risks are as follows:

- Engineering risk: This risk emanates largely from deficiencies or flaws in project design which may adversely affect project costs, quality and time.
- Environmental risk: This risk relates to the threat of adverse effects on living organisms and the broad environment, arising out of construction activities.
- Health and safety risk: This risk relates to hazards which have the potential to cause harm, injury or death to people.
- Project management risk: This risk emanates from project management processes, contractor performance, contractual arrangements, skills availability and procurement of service providers and contractors.

Some of the strategies include appropriate and sound project institutional arrangements to secure good credit ratings and build strong relationships with local and international financiers

Risks related to project implementation are managed through sound contractual agreements with contractors and consultants, providing remedies for delays and incentives for early completion, while ensuring compliance with the legislative requirements applicable to the construction of large-scale infrastructure.

Treasury-related risks

TCTA monitors treasury risks on a daily, weekly and monthly basis, in order to ensure that the controls in place are working effectively to reduce financial losses to the organisation. The following section gives an overview of the mitigation measures implemented to minimise financial risks:

- Liquidity risk: 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, as well as conducting repos and reverse repo transactions in water stock.
- Interest rate risk: This relates to the risk of adverse changes in interest rates which may result in increased cost from financial liabilities and/or a reduction in net income from financial assets. TCTA manages this risk by complying with a predetermined optimal capital structure of fixed-to-floating rate debt and through effective investment management strategies.
- Foreign currency risk: This relates to the risk of financial loss arising from adverse movements in the exchange rate of the rand against foreign currencies to which TCTA is exposed. This risk is mitigated through the use of appropriate hedging strategies.
- Counterparty 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.

Project finance risk

This risk is associated with the impact on a project's cash flow from higher funding costs or lack of availability of funds to finance the project. Some of the strategies put in place to mitigate the risk include sound institutional arrangements to secure good project credit ratings and strong relationships with local and international financiers.

Operational risk

This is the risk of potential loss caused by fraud, error or systems failure that may arise due to a breakdown in internal controls. Such risks are managed by policies and procedures and a comprehensive system of internal controls, such as segregation of duties and proper delegation of authority.

The primary objectives of TCTA's internal controls framework are to ensure:

- the reliability and integrity of information;
- compliance with policies, plans, procedures, laws, regulations and contracts;
- the safeguarding of assets;
- the economical and efficient use of resources; and
- the accomplishment of established objectives and goals for operations and programmes.

Information technology risk

This relates to the risk of failure to protect information and information systems from unauthorised access, use, disclosure, disruption, modification or destruction. TCTA reinforced IT policies and frameworks during the year to enhance business continuity and minimise business damage by preventing or limiting the impact of security breaches.

Risk finance (insurance)

TCTA carried out an analysis of certain risks that cannot be managed within the organisation, and need to be

Risk management continued

transferred to third parties. Appropriate insurance covers were subsequently placed to mitigate such risks at both a corporate and project level. The project insurance comprises contractor all-risks, public liability and professional indemnity.

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 government 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.

During the past year, Internal Audit coordinated, combined and integrated the assurance provided by various parties, including line management, internal and external assurance providers, pursuant to the combined assurance model introduced by King III. Also, the external auditors drew on work performed by the Internal Audit department. Most significant was the audit of performance information for the past year, with Internal Audit thoroughly reviewing organisational and individual performance against the contracted deliverables.

Internal Audit completed all internal audit reviews scheduled for the past year, as detailed in its audit plan. The audit plan was based on an assessment of risk areas identified by Internal Audit and Management, as well as focus areas highlighted by the Audit and Risk Committee.

The plan was updated as appropriate to ensure responsiveness to changes in the business.

Compliance

TCTA's Compliance department is an independent function which is mandated to identify, assess, advise on, monitor and report on the regulatory compliance risk in the organisation. The Compliance function operates within the General Acceptable Compliance Framework of the Compliance Institute of South Africa. The diagram below reflects the TCTA compliance framework:

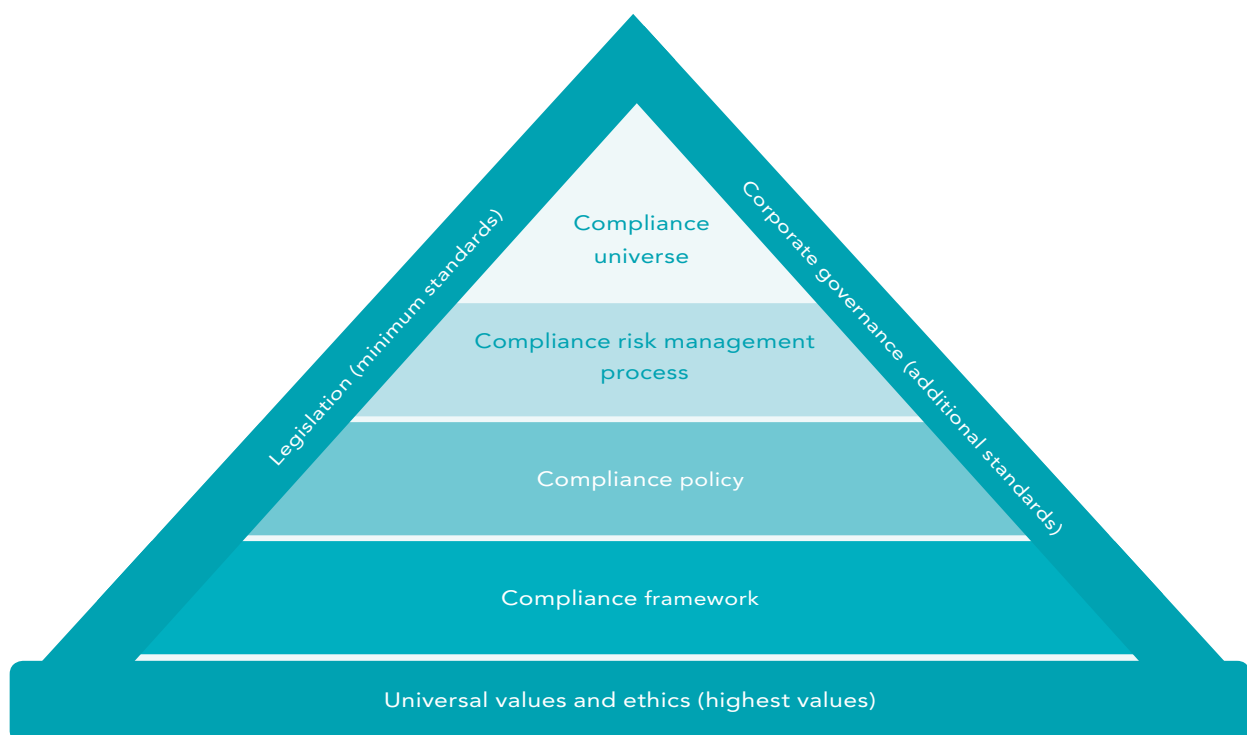
The Compliance Universe, which lists the key legislation applicable to TCTA, was approved by the Audit and Risk Committee. In the past year, TCTA complied with all applicable legislation and other compliance requirements, including King III and Loan Covenants.

Legal services

The Legal Services 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; and
- relevant legislative/regulatory provisions applicable to TCTA as a public sector entity are adhered to as far as possible.

In the period under review, the function provided contract drafting and other legal advisory support across TCTA projects and business operations.





The KWSAP Team:
Sibusiso Mnguni (Project Engineer) and
Sophia Tlale (Environmental Manager)

Our projects



TCTA has built up an impressive track record in funding and implementing bulk water infrastructure and has consistently delivered the projects within budget.

In the financial year under review, TCTA managed seven major projects which include the Lesotho Highlands Water Project (LHWP), the Berg Water Project (BWP), the Vaal River Eastern Subsystem Augmentation Project (VRESAP), the Mooi-Mgeni Transfer Scheme Phase 2 (MMS2), the Olifants River Water Resource Development Project Phase 2 (ORWRDP2), the Komati Water Scheme Augmentation Project (KWSAP) and Mokolo-Crocodile Water Augmentation Project Phase 1 (MCWAP1). In addition, TCTA commenced with the implementation of the Metsi Bophelo Borehole Project in partnership with the Department of Water Affairs, seeking to improve rural access to drinking water in five provinces.

Sound progress was made in implementing these projects. The focus has been on the completion the tender design and documentation phase of the MMS2, ORWRDP2, KWSAP and MCWAP1 and to commence with the construction phase on MMS2 and KWSAP. The tender design and documentation phase activities consisted of the procurement of the contractors and service providers required to support project implementation.

The tender processes for MMS2 and KWSAP were successfully completed and the construction contracts were awarded to the preferred tenderers. TCTA attained very competitive prices, taking full advantage of the prevailing slump in the construction industry thereby procuring tender prices below the engineer's estimates. Competitive construction tenders were also invited for MCWAP1 following an open prequalification process. TCTA applied measures to ensure that MCWAP1 remains on schedule to deliver water when required by Eskom's Medupi Power Station which is currently under construction. TCTA explored options for funding and

implementing ORWRDP2, especially in the Phase 2C pipeline which is on the critical path to deliver water for social use. Through the innovations that were put in place, TCTA managed to secure sufficient funding from National Treasury through DWA to implement the scope for Phase 2C and part of 2D.

In particular, our projects achieved notable innovation with regard to transformation initiatives to build capacity within historically disadvantaged segments of the construction sector. TCTA has been not been challenged on any of the contract awards, therefore demonstrating institutional compliance with the legislative framework, transparency and fairness in the procurement processes.

Our infrastructure development programme
enables us to expand access to basic
services and to improve the quality of life

President Jacob Zuma



Our projects continued



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 the 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 Malibatso River, downstream of its confluence with the Bokong River.

Some 2,32 million m³ of concrete was 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 780 000 million litres of water and generates 72 megawatt (MW) 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 m³ 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 completed by the end of 2009.

Royalties paid to Lesotho for water transferred amounts to R438 million for the period covered in this report, bringing the total royalties paid to date to R3 430 million.

Funding

The total project cost was R16 400 million. Water delivery from Phase 1A began in January 1996, and the project relies on the revenues generated by water sales from the Vaal River System. It is a sustainable, bankable, bulk raw water infrastructure project with an explicit government guarantee.

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 708 million, compared to R2 420 million in the previous year.

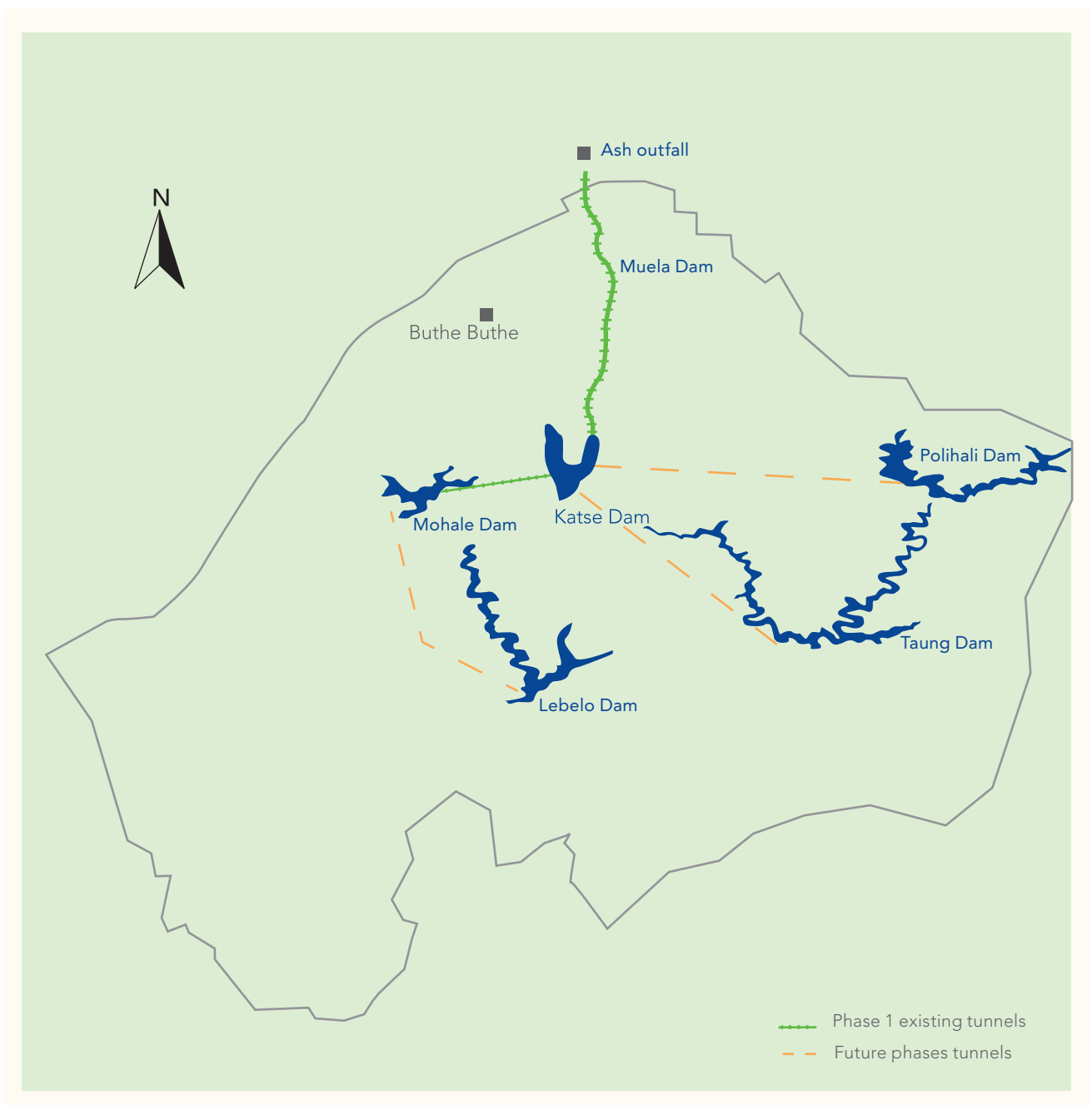
Income is sufficient to repay all water transfer debt over approximately 20 years after completion of each subphase of the project, which is in line with the Water Pricing Strategy of the Department of Water Affairs.

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, R260 million was borrowed to meet funding and redemption requirements.

We are well advanced with the negotiations for a joint agreement with the Government of Lesotho for the implementation of the second phase of the Lesotho Highlands Water Project, which will augment the Vaal River System that supplies water to Gauteng and the surrounding areas. This is scheduled for completion in 2020

Minister Edna Molewa



Our projects continued

The net project debt stood at R17 825 million as at 31 March 2011 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 a minimum of 50% fixed.

Socio-economic objectives

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. Annual compensation to the amount of R20 million is paid to the affected households and communities.

Social issues were assessed at the Annual Stakeholder Conference in October 2010 attended by representatives of local, regional and national stakeholders. The Katse, Mohale and Muela project areas were awarded a combined score of 84%.

Environmental

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, while in South Africa, TCTA is responsible. The Lesotho Highlands Commission monitors both bodies.

No significant incidents marred the project's overall environmental performance. The Lesotho Highlands Development Authority reviews the relevant policies on an ongoing basis and makes changes to operational procedures, where necessary, to achieve the requisite results. An international Panel of Environmental Experts reviews the performance of the LHDA twice a year and, overall, is satisfied with the results.

Operation and maintenance

The operation and maintenance of the scheme is being done in accordance with the annual maintenance plan. No significant incidents marred the project's overall performance. The annual budget for operation and maintenance is R81 million.

Future phases

The South African Government has approved the second phase of the project at an estimated cost, at 2010 price levels, of R9 300 million for the water transfer segment of Phase 2. Subject to the signing of an agreement with the Lesotho Government, the Phase 2 project entails the construction of the Polihali Dam; a transfer tunnel from Polihali Dam to the Katse Dam; advance infrastructure; and environmental and social development programmes in Lesotho.

Phase 2 will also include a pump storage scheme to generate 1 200 MW, associated transmission lines and appurtenant works, by utilising the existing Katse Reservoir as the lower reservoir and a new upper reservoir in the Kobong Valley, or any other similar scheme close to Katse Dam. The pump storage scheme will start generating electricity in January 2018. The estimated cost of the pump storage scheme at 2010 price levels is R7 600 million and will be borne by Lesotho. Lesotho is now seeking a Power Purchase Agreement from Eskom and other large users in the region for the excess power that could be generated.

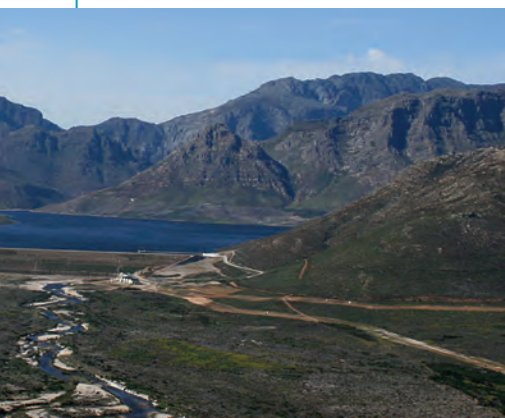
Construction of this dam and related infrastructure will guarantee the desired level of water availability in Gauteng and the Vaal River water supply region in the most cost-effective manner. In parallel with water-conservation measures in the Vaal River, it will influence the improvement of water quality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



Our projects continued



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 the then President Kgalema Motlanthe.

The project, mandated in May 2002, became operational in December 2007, supplementing Cape Town's water supply by 81 million m³ per year, an 18% increase, bringing the total available water to 523 million m³ per year.

Project profile

The BWP was successfully completed within time and budget and is currently operational, delivering water as planned to the City of Cape Town.

In the reporting period, TCTA was involved in the final project closeout activities which included the settlement of all outstanding claims which will be concluded in the 2011/12 financial year. The closeout report will be finalised by December 2011.

Funding

The project was funded on an off-budget basis through loans from local and foreign funders as listed. The repayment of these long-term loans is made from the revenue streams generated by the sale of bulk raw 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

Sources of project funding activities for the year to 31 March 2011

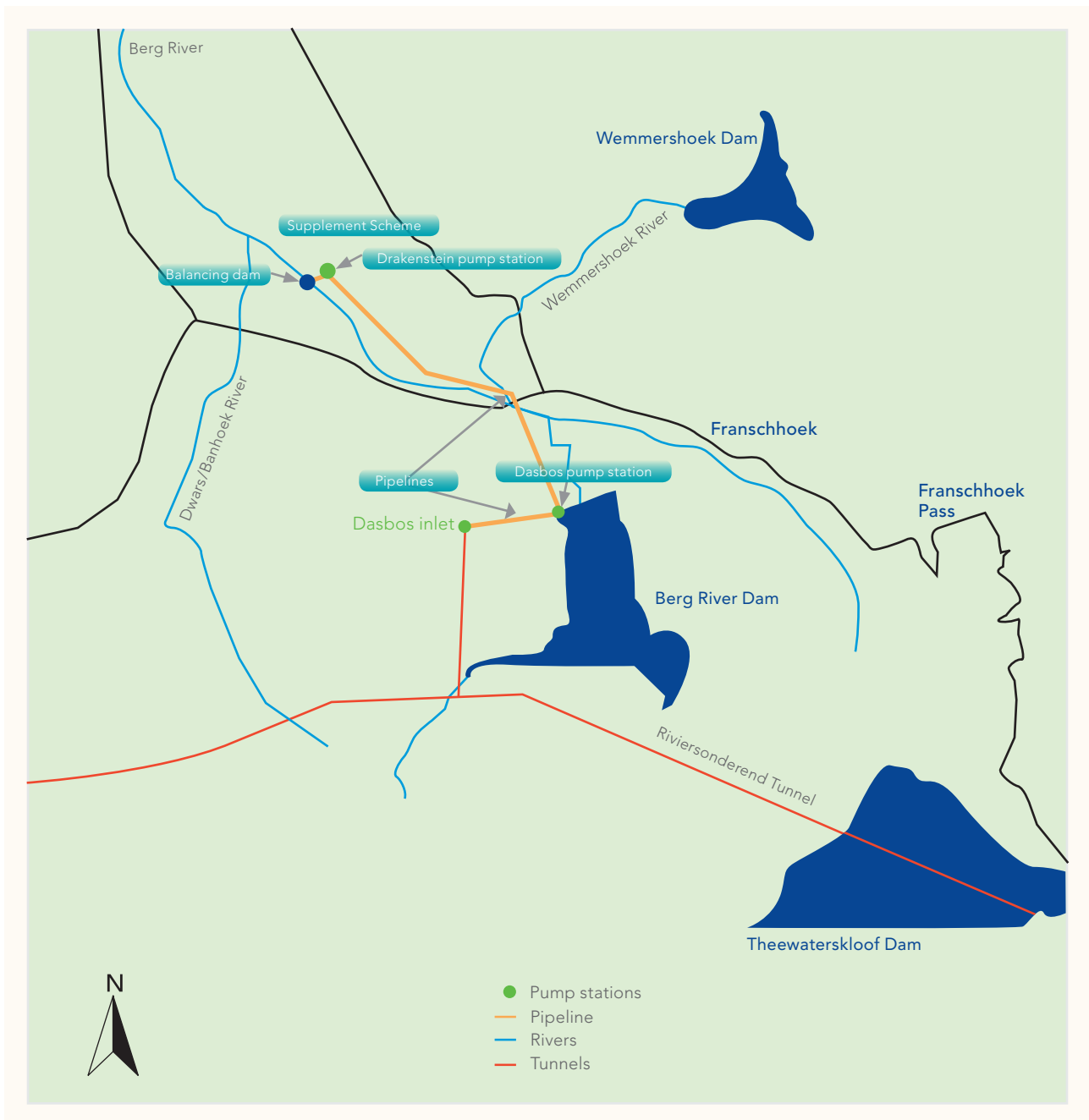
Funding source	R million	% of total funding
Money market	(138)	(162)
Long-term loans	223	262
Total	85	100

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.

The challenge of development, targeted at the eradication of poverty and providing the conditions for all human beings to lead lives which enhance human dignity, remains one of the leading items on the global agenda

Thabo Mbeki



Our projects continued

Debt servicing

The net project debt outstanding as at 31 March 2011 stood at R1 268 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.

Socio-economic objectives

During the construction period, TCTA implemented the Franschhoek First Policy to maximise the socio-economic project benefits of employment, training and procurement opportunities for the local community. At the conclusion of the project, all targets were exceeded. An exit strategy was implemented to pre-empt possible latent negative social impacts and to leverage the positive project benefits beyond the construction phase into the operational phase. The range of initiatives and projects that were implemented as part of the exit strategy included:

- Appreciative inquiry
- Holistic health and well-being
- Training
- Handover of the employment skills database to the municipality
- Handover of construction housing
- Sustainable Utilisation Plan

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 facilitates purchasing of the houses by the local community and access to benefits from the Housing Benefits Fund.

Environmental

The BWP is the first dam in the world that has complied fully with the World Commission on Dams Guidelines and with the requirements of the ecological reserve, and is heralded as an international best-practice 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 the BWP is the fact that it is the first large dam in the world where provision has been made for flood releases purely as an environmental requirement.





Our projects continued



Vaal River Eastern Subsystem Augmentation Project

Project profile

Augmentation of the existing Vaal River Eastern Subsystem (VRESS), which supplies water to the coal fields of eastern Mpumalanga, was necessary due to the expansion of Eskom and Sasol activities in that region. Eskom's thermal power stations and Sasol's petrochemical installations are the strategic users of the water from the VRESS.

The Vaal River Eastern Subsystem Augmentation Project, which is nearing completion, was commissioned specifically to transfer 160 million m³ of water between the Vaal Dam and Knoppiesfontein every year. Knoppiesfontein is where VRESAP delivers its water into the VRESS.

The project consists of an abstraction works located at the Vaal Dam, including a low-lift pump station, a dual-purpose de-silting works-cum-balancing dams, a high-lift pump station, 121 km of 1,9 m diameter pipeline, a 10 000 m³ surge tank and the upgrading of the existing diversion structure at Knoppiesfontein.

VRESAP was declared operational in June 2009, using the temporary abstraction facility, thus allowing the commencement of the income stream on the project.

Funding

The project costs at completion are expected to be within the revised approved budget of R2 700 million, based on the following key budgetary assumptions:

- Inclusion of the R42 million received from the C-MC performance bond. The amount has been used to defray project costs and there has been no provision made for any successful claim against TCTA following the outcome of the pending arbitration process.
- Receipt of R87 million from pending Professional Indemnity claims.
- Anticipated revenues of R5 million and R17 million from the salvage of the temporary pump station and C-MC equipment to defray project costs respectively.

The project was funded on an off-government budget basis without an explicit government guarantee. Project costs will be recovered by 31 May 2029 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 2011

Funding source	R million	% of total funding
Money market	28	12
Long-term loans	200	88
Total	228	100

Debt servicing

The net project debt outstanding as at 31 March 2011 stood at R3 351 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 R69 million, compared to R185 million in the previous year. The project also maintained its excellent long-term credit rating of AA+(zaf) by Fitch Ratings.

Engineering

In the early phases of implementing the project, the excavations of the permanent abstraction works revealed geological conditions which were different from those which were predicted. This necessitated amendments to the design of the abstraction works, the cofferdam and the construction contract. A different completion date was subsequently set for the Permanent Abstraction Works, which was later than the completion date for the Balance of the Works.

To minimise the delays in the delivery of water to Eskom and Sasol, TCTA awarded additional tenders to construct a temporary abstraction facility. The temporary abstraction works comprised a floating pump set where efficiency depended on the level of water in the Vaal Dam. Through

All that is necessary to break the spell of inertia and frustration is to act as if it were impossible to fail



Our projects continued

this intervention, water from the project was delivered on 1 June 2009, thus declaring the project operational and allowing commencement of an income stream from the sale of water.

In May 2010, the contract with the main contractor, C-MC, a joint venture between Chinese Overseas Engineering Corporation and Mathe Construction was terminated due to poor performance. This led to further delays in the completion of the Permanent Abstraction Works. Following the termination of the C-MC contract, a new contract with DWA Construction was put in place. TCTA further entered into new contracts with Sulzer, Actom and Hiprom who had been subcontractors to C-MC to complete the outstanding mechanical, electrical, control and instrumentation, and civil work. An open tender process was followed to procure a construction contractor for the removal of the cofferdam and underwater excavation of the approach channel, and the contract was awarded to Group Five – Subtech JV. An integrated programme on the outstanding works indicates that the project will be completed by mid-2011.

The other activity that was undertaken in the 2010/11 financial year was resolving the problem relating to the incompatibility of the variable-speed drives with the Eskom power supply. The remedy included the installation of four isolating transformers within the high-lift pump station. The installation and commission was successfully completed in December 2010 and the pump station is fully operational in accordance with the original specifications.

It was established that the low-lift pump station variable-speed drives would also require isolating transformers. The transformers were delivered to site in December 2010 and have been installed.

On the main pipeline from the Vaal Dam to Mpumalanga, there have been problems associated with meeting the cathodic protection specifications, mainly on the portion

of the pipeline with Sintakote coating. Investigations to address the problems have commenced and a specialist was appointed. The costs for the repairs on the pipeline will be borne by the contractor.

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 and UHF data radio technology is used to convey the signals to regulate the variable-pump drives to ensure that the water supply, based on demand, is managed efficiently.

Rehabilitation of the pipeline servitude and borrow areas are about 95% complete, with the majority of the land portions already returned to the owners.

Socio-economic objectives

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

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

Achievements to date on socio-economic targets are as follows:

Category	Preferential procurement targets				
	2010/11				
	EME (15,20%)	QSE (9,78%)	BWO (3,41%)	BO (16,51%)	BBBEE-compliant
Total	R5 761 649	R3 708 072	R1 292 857	R6 260 262	R20 887 300

EME – Exempted Micro Enterprise

QSE – Qualified Small Enterprise

BWO – Black Women Owned

BO – Black Owned

BBBEE-compliant – Suppliers who have produced BBBEE certificate

Land acquisition and compensation

The land required for the construction of the project was successfully acquired. The 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 by the Surveyor-General. The process will be completed in the 2011/12 financial year.

Environmental

The environmental performance on the project over the past financial year met compliance targets in most areas. The compliance against the Environmental Management Plan as audited by an Independent Environmental Control Officer was 97%, compared to 95% in the previous year.

The affected communities, including farmers' associations, local and national stakeholders, are represented on the VRESAP Environmental Monitoring Committee which meets quarterly to review environmental performance on site.

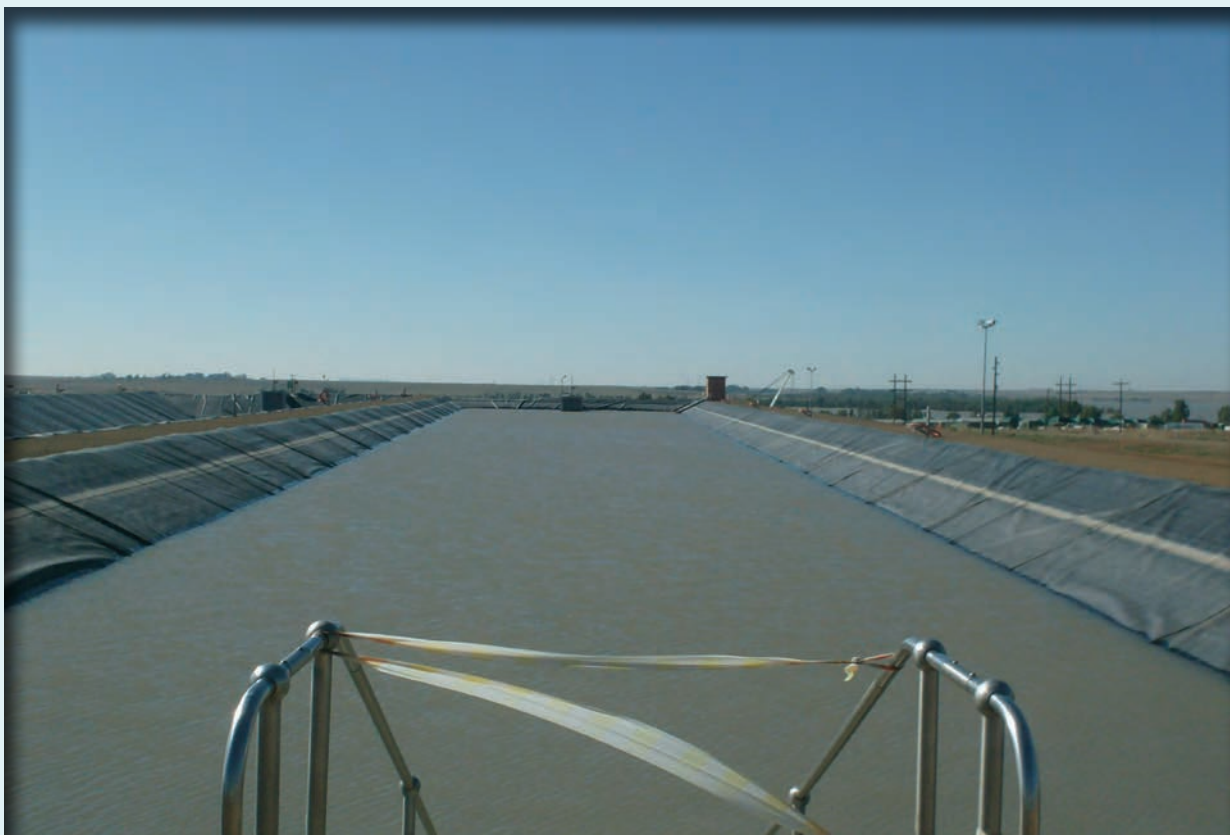
In the past financial year, there were 14 borrow pit areas that were handed over to the landowners after successful rehabilitation, with in-principle approval by the Department of Mineral Resources.

Key challenges

The major challenge encountered was the delay by the contractor in completing the outstanding work on the permanent abstraction works, which related 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 cofferdam.

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 timeframe.

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



Our projects continued



Mooi-Mgeni Transfer Scheme Phase 2

The economic growth in the Mgeni System supply area has resulted in rapid water demand that currently exceeds the acceptable 98% level of assurance of supply. The system urgently needs to be augmented. Following investigation of various augmentation schemes, the Mooi-Mgeni Transfer Scheme Phase 2 in the KwaZulu-Natal midlands was identified as the preferred option. The scheme will augment the yield of the Mgeni System by 60 million m³ per annum bringing it to a total of 394 million m³ per annum.

Project profile

MMTS2 entails constructing a new Spring Grove Dam on the Mooi River, Water Transfer System from the dam to the Mpopana River and a fish barrier upstream of the dam.

The main beneficiaries of this project include eThekweni Metropolitan, uMgungundlovu District, and Msunduzi local municipalities. Ugu, Sisonke and Ilembe municipalities fall under Umgeni Water area of supply, hence benefit indirectly from the project.

Funding

As with other projects, MMTS2 has been funded on an off-budget basis and the project costs will be recovered from the revenue generated by the sale of bulk raw water from the water users. The European Investment Bank (EIB), Agence Française de Développement (AFD) and the German Development Bank (KfW) are providing funding for this project. Project agreement negotiations between all major stakeholders were concluded in time to enable loan agreements with the funders to be effective.

Sources of project funding activities for the year ended 31 March 2011

Funding source	R million	% of total funding
Money market	–	–
Bridging loans	209	100
Total	209	100

The net project debt as at 31 March 2011 was R143 million.

Engineering and construction

In the 2010/11 financial year, the project progressed from tender design and documentation to the detail design and construction phase.

BKS (Pty) Limited was appointed as the Professional Services Provider for the design and construction supervision in the previous financial year. The dam's tender design began in February 2009. Following a competitive tender process, Group 5 PanDev Joint Venture (G5PJV) was identified as the preferred tenderer for the construction of the dam. The contract was awarded for R520 million and construction commenced on 21 February 2011. At the end of the reporting period, the contractor had commenced with the preparatory work which includes the delivery of the plant, preparation of work methods and site establishment.

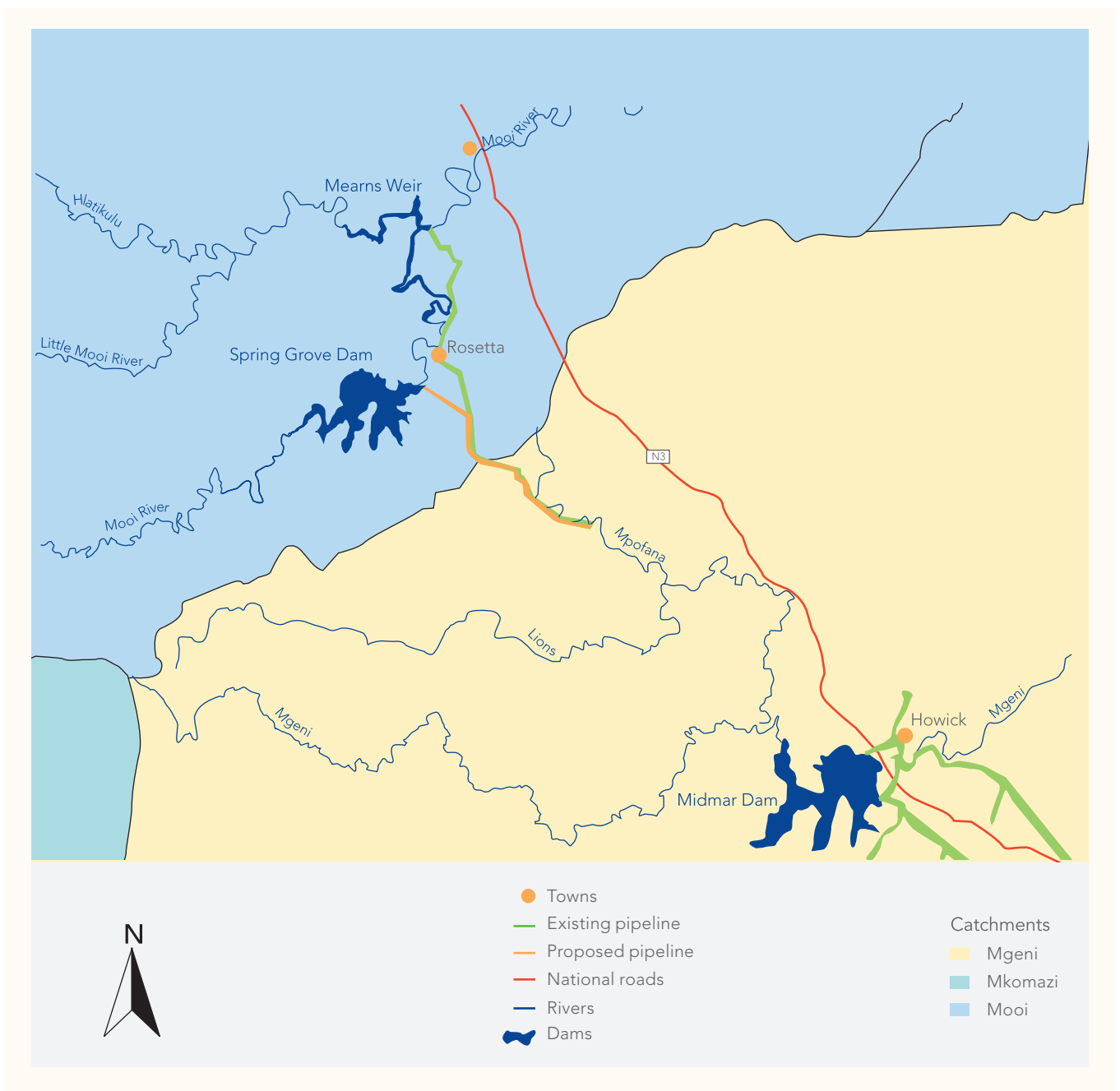
TCTA has engaged the service of a panel of engineering and environmental experts to facilitate quality assurance during the implementation phase.

Environmental

The Environmental Authorisation (Record of Decision) for the project was issued on 15 June 2009. Two appeals were lodged against the Record of Decision. The appeal against the pipeline was upheld by the Minister of Justice and Constitutional Development on 28 September 2010. This meant that authorisation was confirmed to proceed with the construction of the Spring Grove Dam and its associated works. However, a new environmental process with public participation for the water transfer scheme from the dam is required and will be undertaken during the next financial year.

The expropriation of the priority properties, that is, those properties that were directly affected by the dam construction activities and the large commercial farms in the basin, was completed on time to make way for the construction of the dam. The valuation and expropriation of the remaining properties in the dam basin, which will be affected by the impoundment of the dam, will be completed during the 2011/12 financial year.

When commissioned, this infrastructure will add some 60 million m³ of water into the system. This will assist in delivering water to an additional five million people in this area



Our projects continued

The Environmental Monitoring Committee was established and three meetings were held prior to the start of construction. An Environmental Control Officer was appointed and mobilised in January 2011. The Environmental Management Plan for the construction of the dam wall was completed and submitted to the authorities for approval. Baseline studies on dust, water quality, noise and traffic were completed. Environmental performance criteria were integrated into the infrastructure design and contract specifications for the tender documentation. Significant environmental challenges were encountered during the start of construction, which necessitated the requirement for TCTA to initiate a detailed study on a traffic management and mitigation plan.

Work on Phases 1 and 2 of the Heritage process is at an advanced stage. The social consultation process with the relocation of graves and affected families commenced in October 2010 and is ongoing.

Socio-economic objectives

Capacity building

In the reporting period, there were two TCTA staff members seconded to the engineering consultant BKS, for a skills transfer programme. In addition, TCTA seconded one engineer-in-training and one environmental trainee to BKS for a technology/skills transfer programme. This includes mentoring, such that the trainees can attain professional accreditation by the end of the project.

Enterprise development, preferential procurement, employment and skills development and training

The construction contract includes socio-economic targets that will promote the following legislative objectives:

- (i) Enterprise development – which is aimed at developing a minimum of two enterprise development beneficiaries. During the reporting period, a total of R88 million, which translates into 17% of the contract amount, was allocated to two main nominated enterprise development beneficiaries, namely Fynn Construction and James Construction.
- (ii) Preferential procurement – which promotes procurement of services and goods from black-owned enterprises, women-owned enterprises and local enterprises. Similarly, a total of R197 million, which translates into 38% of the procurement value of the contract, was allocated to enterprises that met the requirements. Over and above the contracted targets, the main contractor identified other enterprises that would benefit from the preferential procurement.

(iii) Employment targets – envisage 100% recruitment of unskilled personnel and 80% of black semi-skilled personnel from the local communities. Employment opportunities to be created on this project are estimated to peak at 230.

(iv) Skills development and training will include training of local unskilled and semi-skilled labour. A total of R1 230 million has been set aside for this purpose.

Progress

TCTA closely monitors socio-economic targets on a monthly basis and will conduct half-yearly audits. At the end of the reporting period, progress on the socio-economic targets was low due to the project being at its early construction stages.

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 engagement with stakeholders and this approach is expected to yield the desired results.



Our projects continued



Olifants River Water Resources Development Project Phase 2

The Olifants River Water Resources Development Project Phase 2 is intended to supply bulk water to meet the requirements of new mining developments in 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, Roosenekal, Jane Furse, Polokwane, Lebogakgomo 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 and a bulk distribution system funded and implemented by TCTA.

ORWRDP's five major components include:

- 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 Lebalale 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 m³ per year, on the understanding that any yield reduction will be mitigated.

Funding

Mining concerns and municipalities are the two main user groups for this project. 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 the TCTA's mandated subphases is estimated at R9 billion. The capital costs of the commercial portion will be recovered from the revenue generated from the sale of water to mining users. Sourcing of long-term funding will commence as soon as certainty on yield and demand projections have been firmed up.

Engineering

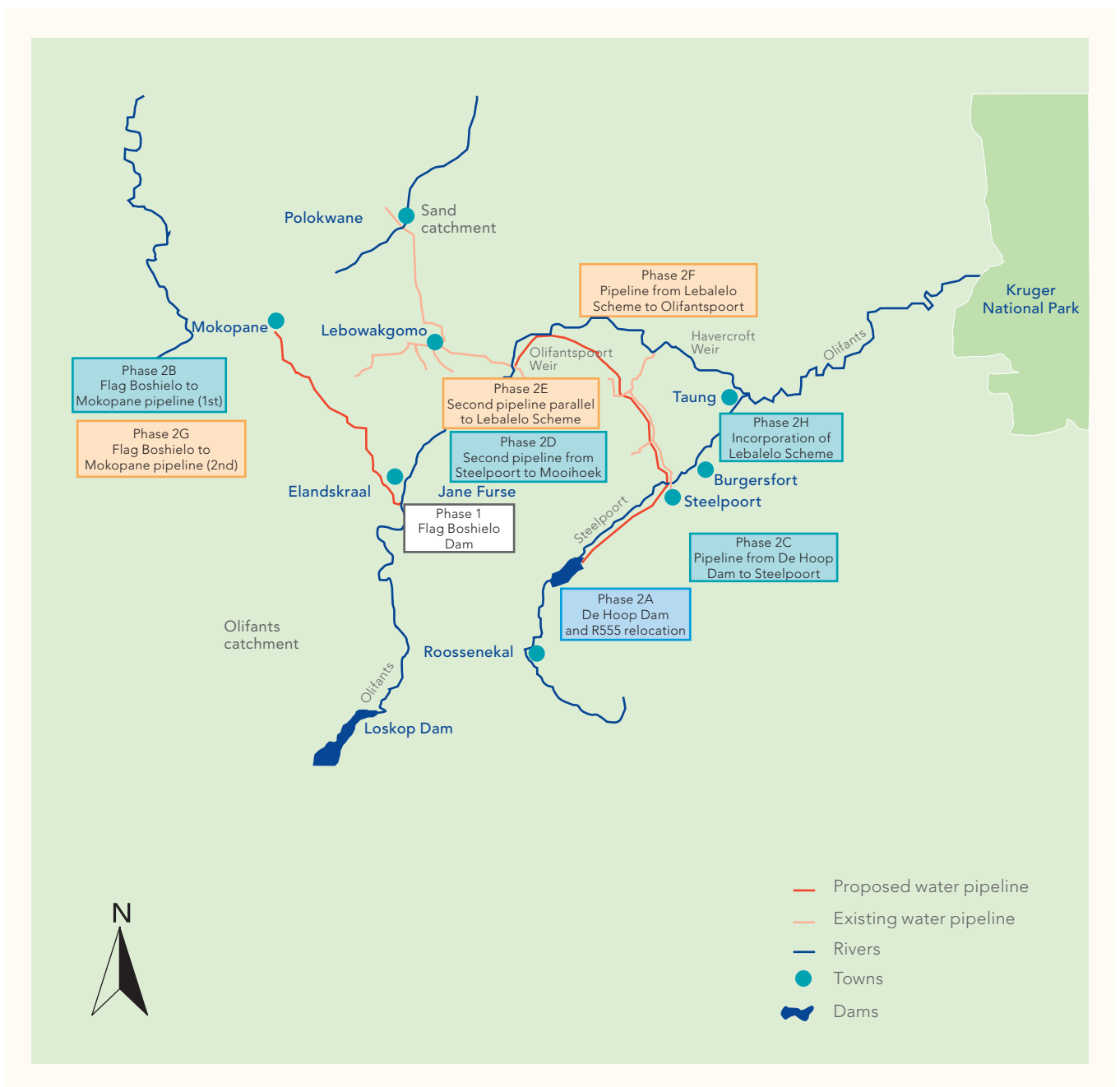
In the 2010/11 financial year, tender design work and site investigations were undertaken. Construction is expected to start in the 2011/12 financial year and the first water delivery is expected by 2013. An attempt to expedite water supply to Jane Furse by contracting with DWA Construction West was not successful, but the readiness of the receiving infrastructure has since shifted, thus it will be possible to still meet the timelines through standard TCTA commercial contracting.

The system yield was found to be lower than originally envisaged, but the sizing of the infrastructure has been retained as the yield reduction would be mitigated, including through possible future augmentation.

Environmental

During the period under review, environmental activities pertaining to the planning and tender design phase were undertaken, including baseline studies. The Environmental Management Plan for Phase 2C was approved. There were no negative environmental impacts observed during site investigations. TCTA also established contact with landowners, and continued engagement with stakeholders. A Basic Assessment Report process commenced after route realignment for Phase 2F.

We should always remember the centrality of water in our economy and the economy of rural areas in particular



Our projects continued

Socio-economic objectives

Capacity building

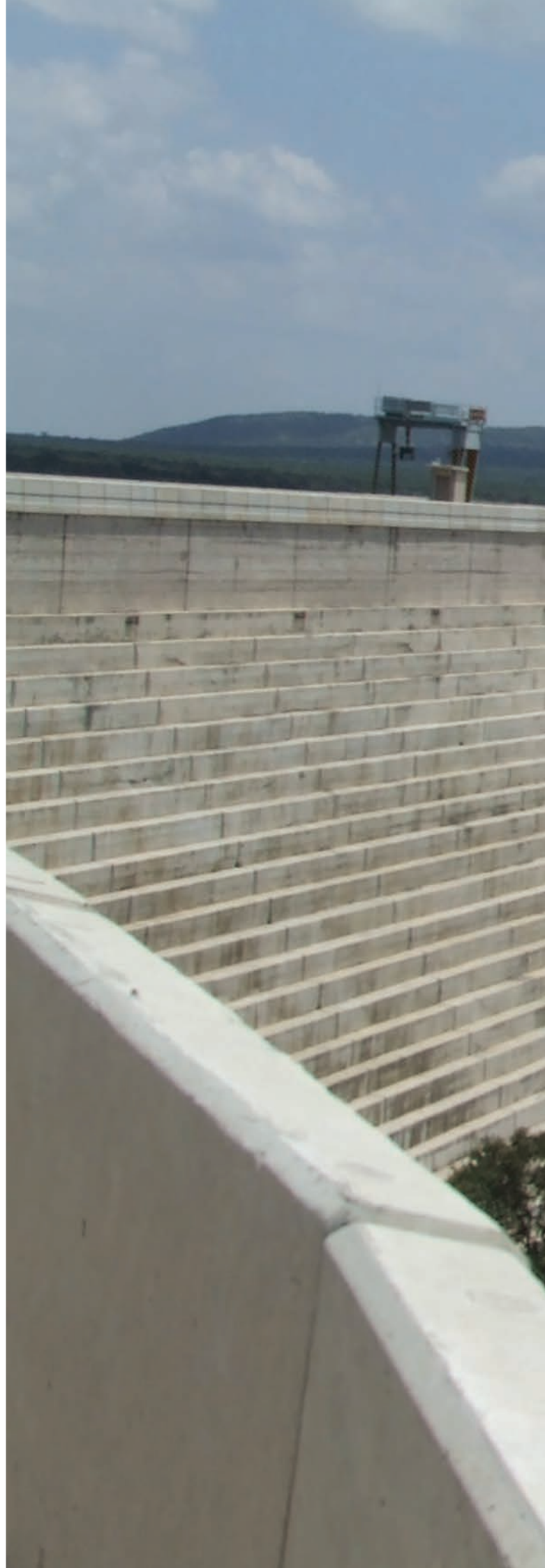
In the reporting period, TCTA seconded one engineer-in-training to the consultant Aurecon Ndodana Joint Venture (ANJV) for a formal training programme which includes mentoring, such that the trainee can attain professional registration at the end of the project. An environmental trainee will be seconded to ANJV once construction has commenced.

Enterprise development and preferential procurement

The project is currently at prequalification stage for the first construction contract. The prequalification eligibility criteria stipulate identification of a minimum of three Main Nominated Enterprise Development Beneficiaries and it also includes skills development by the contractor. The targets for preferential procurement, skills development and employment will be addressed at tender stage.

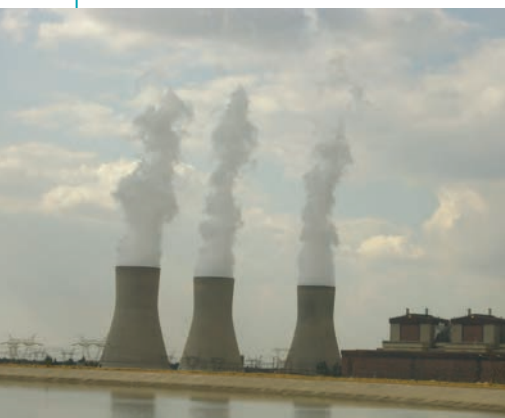
Key challenge

This project has experienced delays due to funding and institutional arrangement challenges, with the yield reduction introducing further complications. Inadequate regional and municipal infrastructure presents another challenge.





Our projects continued



Komati Water Scheme Augmentation Project

The Komati Water Scheme Augmentation Project is essentially an extension of the VRESS system. The project entails water supply to Eskom's Duvha and the new Kusile power stations in Mpumalanga. It will augment the Komati Water Scheme from the Vaal Eastern Subsystem for the sole benefit of Eskom. The additional yield is expected to be 57 million m³ per annum.

Project profile

The KWSAP comprises the construction of:

- an additional pump station at the Rietfontein Weir with a total flow rate capacity of 2,16 m³/s;
- a 1 100 mm nominal-diameter steel pipeline from Rietfontein Weir to the Duvha Power Station over a distance of 58,4 km; and
- an 800 mm nominal-diameter steel pipeline from Rietfontein Weir to the Matla Power Station reservoir over a distance of 12,9 km with a flow rate capacity of 0,474 m³/s.

Funding

TCTA is in the process of securing funding for this project. A Request for Quotation was issued in September 2010 for an amount of R2,1 billion, with almost all the local funders putting in bids. The final award is expected to be made in the next financial year. As is the case with all projects that TCTA implements, the cost of KWSAP will be recovered from the revenue stream generated by the raw water sales to Eskom, the end-user, over a period of 20 years post-construction.

Sources of project funding activities for the year ended 31 March 2011

Funding source	R million	% of total funding
Money market	–	–
Bridging loans	236	100
Total	236	100

The net project debt as at 31 March 2011 was R236 million.

Engineering and construction

In the 2010/11 financial year, the project progressed from tender design and documentation to the detail design and construction phase.

BKS (Pty) Limited was appointed as the Professional Services Provider for the design and construction supervision in the previous financial year. The prequalification of construction contracts was completed in March 2010. The prequalified entities were invited to tender for the construction contracts. The construction contract was awarded to SSCC Pipeline Joint Venture, consisting of Steffanutti Stocks, Cerimele Construction Company (Pty) Limited and Cycad Pipelines at a value of R604 million in December 2010, with a construction commencement date of 10 January 2011.

By the end of the reporting period, the site establishment was about 50% complete, the excavation of the new pump station had commenced and the contractor had begun with the fencing of the pipe servitude and the search and rescue of listed plants.

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

Environmental

A change in pipeline route triggered the legal requirement to conduct an amendment application process. Supporting specialist studies were conducted on the new route alignment. An amended environmental authorisation was received on 25 May 2010 and the Construction Environmental Management Plan was approved. Baseline studies on vegetation, wetland habitats, dust, water quality, noise and traffic were completed. Environmental performance criteria were integrated into the infrastructure design and contract specifications for the tender documentation. An Environmental Control Officer was appointed and mobilised prior to construction. This preconstruction work enabled site establishment and construction activities to commence without any significant environmental challenges.

Without water, we will struggle to meet the energy generation capacity we need for economic growth

Minister Edna Molewa

Socio-economic objectives

Capacity building

TCTA seconded one engineer-in-training and one environmental trainee to BKS for a technology/skills transfer programme which includes mentoring, such that the trainees can attain professional accreditation at the end of the contract.

Enterprise development, preferential procurement, employment and skills development and training

The construction contract includes socio-economic targets that promote the following legislative objectives:

- (i) Enterprise development – which is aimed at developing a minimum of two enterprise development beneficiaries. During the reporting period, a total of R59 million, which translates into 18% of the contract amount, was allocated to two main nominated enterprise development beneficiaries, namely Khulani Trading Enterprise and Yikusasa Building Contractors.
- (ii) Preferential procurement – which promotes procurement of services and goods from black-owned enterprises, women-owned enterprises and local enterprises. During the reporting period, a total of R64 million, which translates into 15% of the contract amount, was allocated to enterprises that met the

requirements. Over and above the contracted targets, the main contractor identified other enterprises which would benefit from the preferential procurement.

- (iii) Employment targets – we envisage 100% recruitment of unskilled personnel and 80% of black semi-skilled personnel from the local communities. Employment opportunities created on this project are estimated to peak at 350.
- (iv) Skills development and training – this will include training of local unskilled and semi-skilled labour. A total of more than 0,1% the of the contract amount has been set aside for this purpose.

Progress

TCTA closely monitors socio-economic targets on a monthly basis and will carry out half-yearly audits. At the end of the reporting period, progress on the socio-economic targets was low due to the project being in the early construction stages.

Key challenges

Over the reporting period, there were slight delays experienced in the implementation programme, mainly due to the delay that arose from the issuance of an amended Record of Decision covering all aspects of the projects.



Our projects continued



Mokolo-Crocodile Water Augmentation Project

At the inception of the Mokolo-Crocodile River Water Augmentation Project, water requirements in the Waterberg coal fields in Limpopo were expected to increase tenfold over the next 20 years, due to the development of further coal power stations and a Sasol coal-to-liquid petrochemical plant to meet South Africa's future energy needs. The Department of Energy's Integrated Resource Plan (2010) has postponed the development of any further coal power station for approximately 15 years, while the Sasol Mafutha plant is unlikely to proceed, and the water demands as originally anticipated will therefore not materialise.

The project was originally envisaged to be implemented in two phases, with the first being a transfer scheme from the Mokolo Dam to supply Eskom's Medupi Power Station. Phase 1 of the project is currently progressing towards the construction phase. The second and larger phase was intended to supply water from the Crocodile River (West) to the Lephalale area to satisfy the increased future water demand. However, this phase will not proceed as anticipated and TCTA implementation activities are currently limited to Phase 1 (MCWAP1).

The project is commercially viable with all costs to be recovered from water users, with the exception of a small domestic supply portion that is being co-funded by the Department of Water Affairs.

Project profile

MCWAP1 comprises a pump station and a 43-km pipeline. The approximately one metre diameter pipes will deliver 30 million m³ bulk water per year from the Mokolo Dam.

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

Exxaro and Eskom jointly own the existing water system, which will be acquired by TCTA and incorporated into the new government waterworks. On commissioning

of the new infrastructure, the existing infrastructure will be assessed and refurbished to government waterwork standards.

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. The process of sourcing funding for the project commenced in March 2011 and will be finalised in the next financial year. Revenues from the sale of bulk raw water delivered to the off-takers will be used to repay the project debt.

Sources of project funding activities for the year ended 31 March 2011

Funding source	R million	% of total funding
Money market	–	–
Bridging loans	5	100
Total	5	100

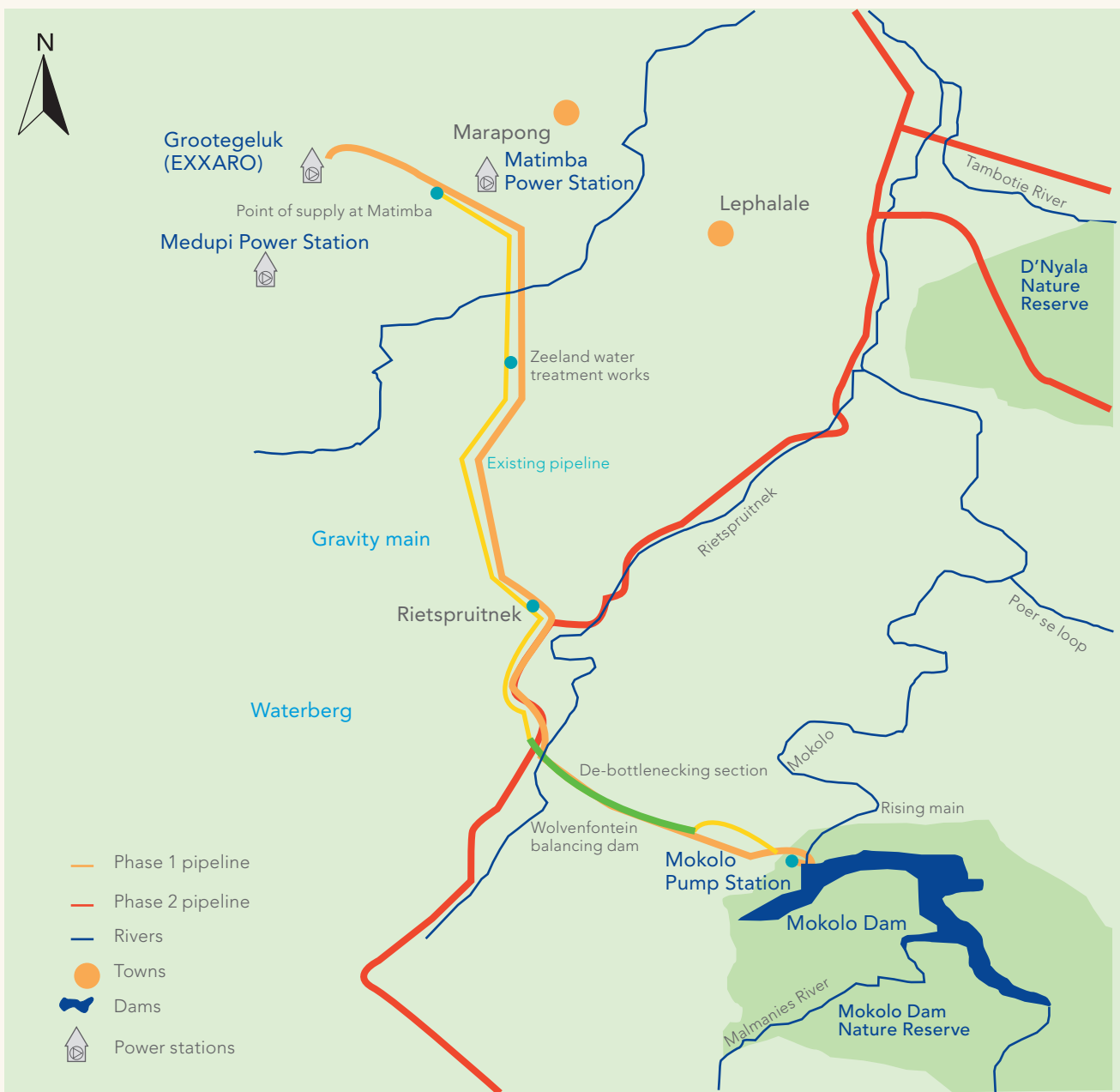
The net project debt as at 31 March 2011 was R5 million.

Engineering

The consultancy services contract was awarded in the previous financial year to Mokolo Crocodile Consultants (MCC), a joint venture between Aurecon, Goba, PD Naidoo and Associates, Vela VKE Consulting Engineers and Worley Parsons, who commenced services in September 2009. Geotechnical investigations and the tender design were completed and competitive construction tenders were invited following an open prequalification process. The tenders were due at the start of the following financial year.

Construction of Phase 1 is expected to start on schedule in September 2011, which will enable increased delivery of water by September 2013 to meet the demands of Medupi Power Station, currently under construction.

TCTA has procured funding in order to implement the Mokolo-Crocodile River Water Augmentation Project, with a total cost of about R2 billion, in order to deliver water to Eskom's new Medupi Power Station and other industries in the area, as well as domestic water to the Lephalale Local Municipality



Our projects continued

Environmental

The Environmental Authorisation for Phase 1 was granted in December 2010. Work also commenced with the detailed Construction Environmental Management Plan for Phase 1. Baseline studies were initiated to determine ambient conditions and background variability for aspects such as vegetation, dust and water quality. Traffic volumes and road conditions were investigated. Detailed mapping, identification and analysis of assets and infrastructure in the pipeline servitude area were conducted. Environmental performance criteria were integrated into the infrastructure design and contract specifications of the tender documentation.

Socio-economic objectives

Capacity building

In the reporting period, TCTA seconded one engineer-in-training to the engineering consultants Mokolo Crocodile Consultants (MCC) for a technology/skills transfer programme which includes mentoring, such that the trainee can attain professional accreditation at the end of the contract. An environmental trainee will be seconded to MCC once construction has commenced.

Enterprise development and preferential procurement

At the end of the reporting period, the process of appointing the contractor was being finalised. The socio-economic development targets are included in the tender documents and will be implemented once the award of the construction contract is completed.

Key challenge

The main challenge for the project has been in relation to expediting the implementation of the project in order to ensure that water is delivered on time to the Medupi Power Station.





Our projects continued



Emergency Acid Mine Drainage Works Phase 1 (AMD1)

An Inter-Ministerial Committee established to advise government on Acid Mine Drainage, adopted a report from a team of experts which identified remedial measures in the three affected basins in the Witwatersrand, namely Western, Central and Eastern basins. The Western basin has the highest priority as it is already experiencing decanting of acid mine water consistently, while the Central basin will become a critical problem to the City of Johannesburg in early 2012. Following the adoption of this report, DWA was instructed to implement the recommendations in the report.

The emergency project actions required over the next 12-month period are as follows:

- Installation of pumps to extract water from the mine void to on-site treatment plants.
- Construction of an on-site water treatment plant in each basin with the option of refurbishing and upgrading the existing ones owned by the mines.
- Installation of infrastructure to convey treated water to nearby water courses.
- Operation of the pump stations and treatment works.

The Minister of Water and Environmental Affairs approved the implementation of the Acid Mine Drainage Project as an emergency works in terms of section 103(2) of the National Water Act of 1998. In this regard, in April 2011, TCTA received a directive from the Minister to implement Emergency Works Water Management on the Witwatersrand Gold Fields with special emphasis on Acid Mine Drainage.

Since March 2011, TCTA has held various sessions with key stakeholder groups in the basins, including CBEC (Central Basin) and WBEC (Western Basin), with the view to gaining an in-depth understanding of the current situation pertaining to AMD within the respective basins. This included the identification of possible areas of cooperation in finding solutions, possible funding options, purchasing of long-lead items, availability of existing

infrastructure and land ownership. The sessions further provided TCTA with the opportunity to assess the status and effectiveness of water treatment operations within the respective basins. In a broader sense, the institutional options and legal frameworks within which the technical solutions may be implemented and governed have also been explored.

Engagements with the respective roleplayers were positive and constructive, providing an opportunity to accelerate the implementation of interim technical solutions pending finalisation of more permanent medium-term solutions.

Further meetings were also held with Western Utilities Corporation (WUC), who had conducted detailed feasibility and design studies on behalf of the mines, to find a sustainable and permanent solution to the AMD problem.

Project profile

The AMD project entails construction of the necessary infrastructure or upgrade of existing infrastructure to extract and treat acid mine water, and then to convey the treated water to nearby water courses.

Funding

National Treasury has allocated R225 million for the implementation of AMD Phase 1. These funds have been made available to DWA and are intended to cover project costs over a two-year period.

Engineering

In the reporting period, TCTA appointed BKS in association with Golder Associates, as the Professional Service Provider (PSP) to undertake due diligence on the proposed solutions, based on information from various work groups and available studies.

It is anticipated that the PSP will complete the due-diligence review in July 2011. TCTA, together with DWA, will consider the recommendations from the due diligence and approve the preferred technical solutions for each basin. The detail design and construction phase will commence thereafter.

During this financial year, we will focus more on monitoring of groundwater resources, especially Acid Mine Drainage, trans-boundary aquifer systems, climate variability and municipality systems

Environmental

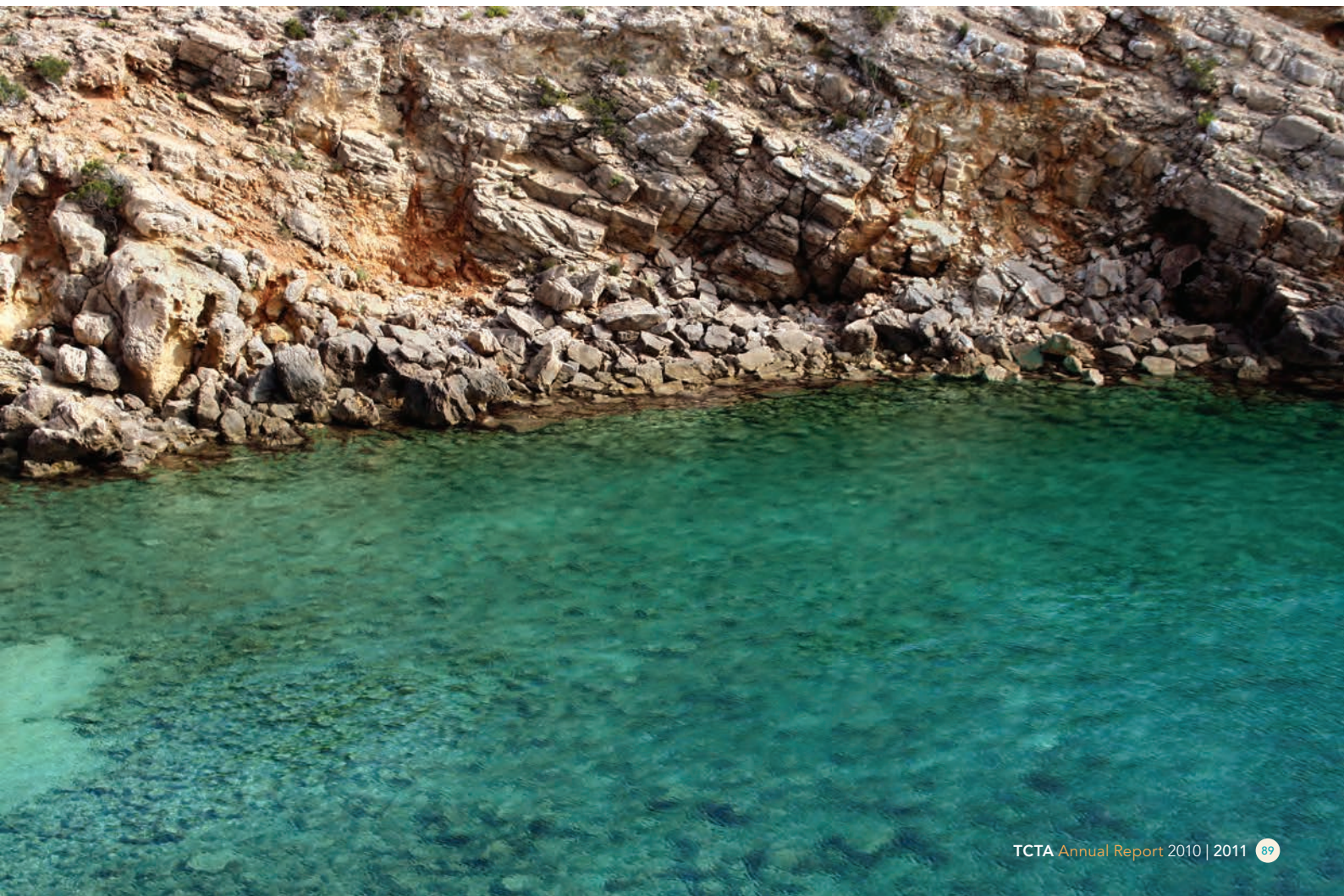
An interdepartmental coordination team will be established to assist with the identification of licensing and environmental requirements.

Acquisition of land will only be considered once the interim technical solutions have been defined and after taking due consideration of possible permanent AMD solutions.

Key challenges

The main challenges with the implementation of the AMD project are associated with the severely tight implementation timelines and funding constraints given that the estimated cost for the short-term solution exceeds current National Treasury budget allocations.

The AMD has drawn much public interest and TCTA will need to manage expectations and communications carefully.



Our projects continued



Metsi Bophelo Borehole Project

The Metsi Bophelo Borehole Project is a DWA-initiated project aimed to make clean drinking water accessible to poor rural communities in a sustainable manner, with a broader goal to improve the communities' health and livelihood. The project is being implemented in five provinces: the Eastern Cape, Free State, Limpopo, Mpumalanga and North West.

The project prioritises the rehabilitation of existing dysfunctional boreholes bringing them to a functional state. Where there are no existing boreholes, the project drills and equips new holes, and designs and constructs storage facilities and distribution infrastructure. DWA issued a directive to TCTA early in March 2011, authorising project implementation. The project is planned over an eight-month period.

Project profile

The MBBP involves water needs assessment planning, assessment of existing dysfunctional boreholes and designing, rehabilitating and equipping of existing boreholes in selected communities of the following five provinces: North West, Eastern Cape, Free State, Limpopo and Mpumalanga. The project also provides training to ensure the new infrastructure is properly maintained. Also, in areas where there are no existing boreholes, the project involves geo-hydrological exploration, siting, designing, sinking, testing and equipping of new boreholes. Where required, the work involves the design and construction of water storage facilities and the associated water reticulation networks to communal points of use. The operation and maintenance of the completed borehole schemes will be the responsibility of the respective Water Service Authority.

Funding

The MBBP is a Ministerial Project fully funded by DWA from the Director-General's Discretionary Fund. The total funding under the current project scope is R26 million.

Engineering

Over the reporting period, TCTA appointed three joint-venture entities, namely: Mokolo Crocodile Consultants, BKS (Pty) Limited and Aurecon-Ndodana JV to provide engineering consultancy services. The consultants will be responsible for assessing existing boreholes; conducting geo-hydrological assessments; siting and sinking new boreholes; conducting yield and water quality tests; equipping the boreholes; and designing and supervising the construction of storage and reticulation infrastructure.

Environmental

In principle, limited environmental challenges are anticipated from the project. However, DWA will be responsible for the relevant environmental approvals related to the project. Further, TCTA, in collaboration with its specialist consultants, will oversee the implementation of the environmental requirements on-site to safeguard environmental fundamentals.

Socio-economic objectives

Capacity building

A vital element of the project is to develop sound borehole operation and maintenance capacity within the project communities. This is intended to ensure sustainable management of the completed water supply infrastructure. A training programme will be developed and selected local community members trained on scheme operation and maintenance.

Key challenge

The fundamental challenge associated with the project is the huge number of communities requiring improved access to (ground) water supply, vis-à-vis the limited budget available. As a result, the prioritisation of target communities becomes an important element of the project.

The Metsi Bophelo Borehole Project is a Department of Water Affairs-initiated project aimed to make clean drinking water accessible to poor rural communities in a sustainable manner, with a broader goal to improve the communities' health and livelihood

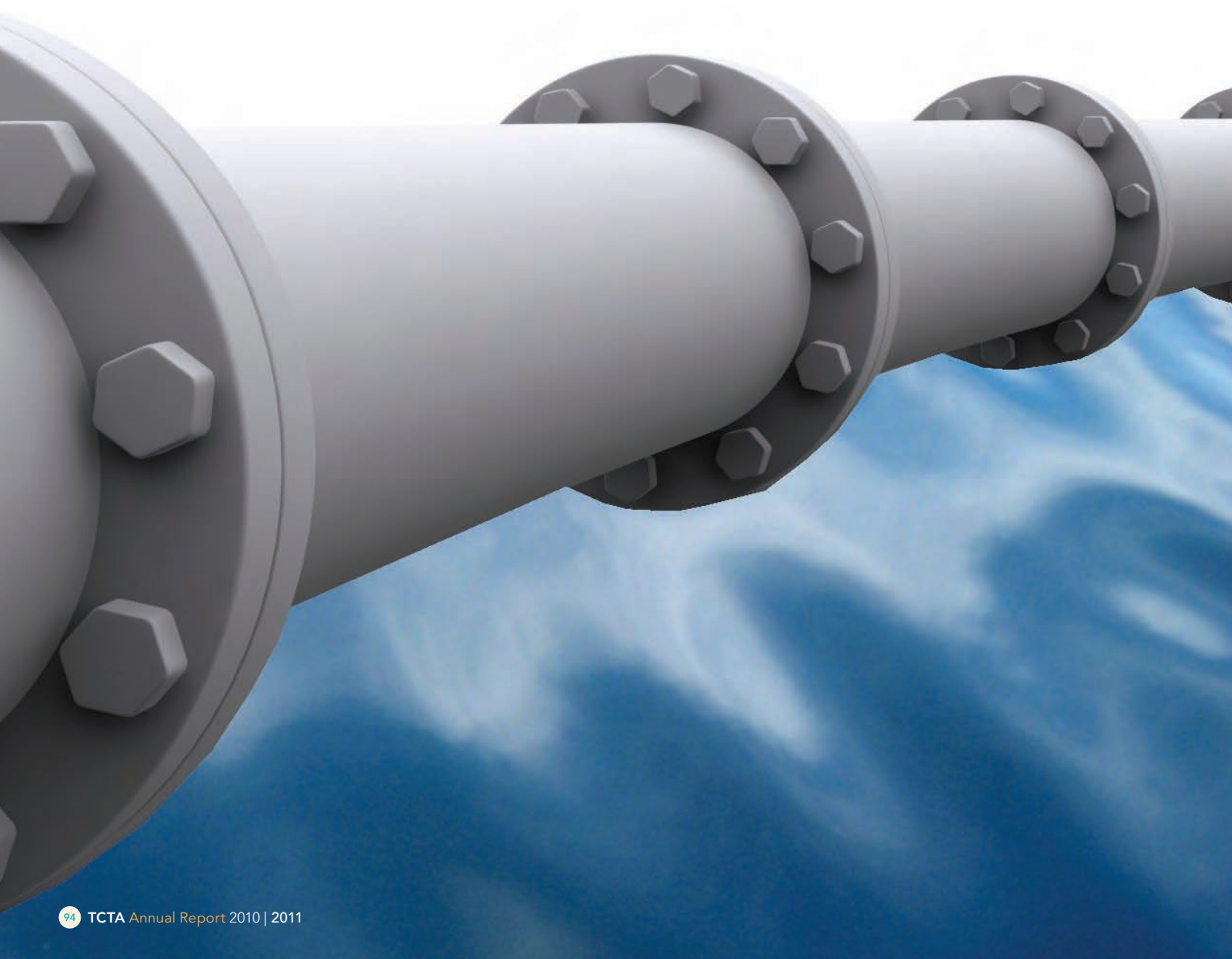


An existing borehole in the Free State province identified during the Assessment Phase





Annual financial statements



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Responsibility of directors for the annual financial statements

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

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

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

TCTA is a going concern. The long-term solvency of TCTA is determined by its tariff methodology, income agreements and guarantees (explicit and implicit). TCTA's tariffing methodology seeks to provide a stable planning platform for the future by smoothing the tariff over the period of repayment which is significantly less than the project life and results in end-user affordability. The income agreements allow for a CPI-adjusted increase on an annual basis. Furthermore, additional increases are provided for in the income agreements for any changes in the input assumptions, including changes in water demand and operations costs. TCTA will thus show a deficit, after interest, in the first number of years after completion of an infrastructure project. However, when matched to the income stream, underwritten by government guarantees, both explicit (LHWP) and implicit (BWP, VRESAP, MMTS2 and KWSAP), 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 30 June 2011 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

The Audit and Risk Committee (the Committee) has pleasure in submitting this report, as required in terms of section 51(1)(a) of the Public Finance Management Act (PFMA) and the Treasury Regulations (TRs) 27(1)(10)(b) and (c) issued in March 2005.

The Committee recognises its responsibilities to entrench risk management and corporate governance processes and procedures within the organisation as recommended by the King Code of Governance Principles for South Africa 2002 (King II) with respect to the responsibilities of the Audit and Risk Committee. The introduction of the King Code of Governance Principles for South Africa 2009 (King III), which became effective on 1 March 2010, heralded a new era with respect to the responsibilities of the Audit and Risk Committee. The Committee identified areas of improvement such as integrated reporting and sustainability reviews to ensure alignment with King III.

Execution of functions of the Committee

The Committee has executed its duties and responsibilities during the financial year in accordance with its formal terms of reference as they relate to TCTA's legal compliance, accounting, internal auditing, internal control, financial reporting and risk management practices.

During the year under review:

In respect of the external auditor and the external audit, the Committee, amongst others:

- nominated Deloitte & Touche and SizweNtsaluba VSP for reappointment as the designated auditor for the financial year ended 31 March 2011;
- ensured that the appointment of the external auditors complied with the Public Audit Act, 2004, and all applicable legal and regulatory requirements for the appointment of auditors;
- approved the external audit engagement letter, the plan and the budgeted audit fees payable to the external auditors and considered whether there were any significant ventures, investments or operations not subject to external audit and determined there were none;
- reviewed the auditors for their independence and evaluated the external auditors' management letter;
- obtained assurance that no member of the external audit team was hired by TCTA during the year;
- obtained assurances from the external auditors that adequate accounting records were being maintained; and
- considered whether any Reportable Irregularities were identified and reported by the external auditors in terms of the Auditing Profession Act, 2005, and determined that there were none.

In respect of the annual financial statements, the Committee, amongst others:

- confirmed the going concern as the basis of preparation of the annual financial statements;
- reviewed compliance with the financial conditions of loan covenants;
- examined and reviewed the annual financial statements, as well as all financial information disclosed to the public prior to submission and approval by the TCTA Board of Directors;
- ensured that the annual financial statements fairly present the financial position of TCTA as at the end of the financial year and the results of operations and cash flows for the financial year and considered the basis on which the organisation was determined to be a going concern;
- considered accounting treatments, significant unusual transactions and accounting judgements;
- considered the appropriateness of the accounting policies adopted and changes thereto;
- reviewed the external auditors' report on the annual financial statements of TCTA;
- considered any problems identified and reviewed any significant legal matters that could have a material impact on the financial statements; and
- considered the effectiveness of the TCTA's disclosure controls and procedures.

The Audit and Risk Committee's report continued

In respect of internal control and internal audit the Committee, amongst others:

- reviewed and approved the annual internal audit charter and audit plan and evaluated the independence, effectiveness and performance of the Internal Audit department and compliance with its charter;
- considered the reports of the Internal Audit department and external auditors on TCTA's systems of internal control including financial controls, business risk management and maintenance of effective internal control systems;
- received assurance that proper and adequate accounting records were maintained and that the systems safeguarded the assets against unauthorised use or disposal thereof;
- reviewed significant issues raised by the internal and forensic audit processes and the adequacy of corrective action in response to significant internal and forensic audit findings;
- reviewed significant differences in opinion between management and the Internal Audit department and noted that there were none; and
- assessed the adequacy of the performance of the Internal Audit department, and specifically assessed the adequacy of the available internal audit resources and found them to be satisfactory.

Based on the above, the Committee formed the opinion that there were no material breakdowns in internal control, including financial controls, business risk management and maintaining effective material control systems.

In respect of risk management and information technology, the Committee, insofar as relevant to the functions of the Committee:

- reviewed TCTA's policies on risk assessment and risk management, including fraud risks and information technology risks as they pertain to financial reporting and the going-concern assessment, and found them to be sound.

In respect of legal and regulatory requirements to the extent that it may have an impact on the annual financial statements, the Committee, amongst others:

- reviewed with management, and to the extent deemed necessary, internal and/or external counsel, legal matters that could have a material impact on TCTA;
- reviewed with the Compliance department the adequacy and effectiveness of TCTA's procedures to ensure compliance with legal and regulatory responsibilities;
- approved the compliance universe and annual programme;
- monitored complaints received via TCTA's ethics and fraud hotline, including complaints or concerns regarding accounting matters, internal audit, internal accounting controls, contents of the financial statements, potential violations of the law and questionable accounting or auditing matters; and
- considered reports provided by management, the Compliance and Internal Audit Departments as well as the external auditors regarding compliance with legal and regulatory requirements.

In respect of the coordination of assurance activities, the Committee reviewed the plans and work outputs of the Compliance department, the external and internal auditors and concluded that these were adequate to address all significant financial risks facing the business.

The Committee considered the expertise, resources and experience of the finance function and concluded that these were appropriate.

The Committee considered the appropriateness of the experience and expertise of the Chief Financial Officer and concluded that these were appropriate.

Independence of external auditors

The Committee is satisfied that the external auditors, Deloitte & Touche and SizweNtsaluba VSP, are independent of TCTA. The conclusion was arrived at, *inter alia*, after taking into account the following factors:

- Representations made by the external auditors to the Committee.
- The external auditors do not, except as external auditor or in rendering permitted non-audit services, receive any remuneration or other benefit from TCTA.
- The external auditors' independence was not impaired by any consultancy, advisory or other work undertaken by them.
- The external auditors' independence was not prejudiced as a result of any previous appointment as external auditors.
- The criteria specified for independence by the Independent Regulatory Board for Auditors and international regulatory bodies.

The Committee has adopted formal terms of reference in line with the PFMA and King Report on Good Corporate Governance. The Committee has met its objective and is satisfied with the level of disclosure to it and to the stakeholders.

Following our review of the annual financial statements for the year ended 31 March 2011, we are of the opinion that, in all material respects, they comply with the relevant provisions of the PFMA 1999 and fairly present the results of operations, cash flows and the financial position of the TCTA. On this basis, we recommended the annual financial statements of TCTA for approval to the TCTA Board of Directors.



Lebohang Thotanyana
Chairman: Audit and Risk Committee

30 June 2011

Independent auditors' report

To parliament on the Trans-Caledon Tunnel Authority

Report on the financial statements

Introduction

We have audited the accompanying financial statements of the Trans-Caledon Tunnel Authority, which comprise the aggregated statement of financial position as at 31 March 2011, and the aggregated statement of comprehensive income, aggregated statement of changes in equity and aggregated 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 102 to 221.

Board of Directors' responsibility for the financial statements

The Board of directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Public Finance Management Act of South Africa. 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 the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting 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 Trans-Caledon Tunnel Authority as at 31 March 2011, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Public Finance Management Act of South Africa.

Report on other legal and regulatory requirements

In terms of the Public Audit Act of South Africa and General Notice 1111 of 2010, issued in *Government Gazette No 33872* of 15 December 2010, we report on the following:

Predetermined objectives

We are required by the Auditor-General to undertake a limited assurance engagement on the performance against the shareholder compact as set out on pages 30 to 32 in the 'Operations overview and sustainability' section of the annual report in which the actual performance of the entity for the year ended 31 March 2011 is compared with target key performance indicators (predetermined objectives) and report thereon to those charged with governance. In this report we are required to report our findings from our engagement relating to non-compliance with regulatory requirements, where the reported information was inadequately presented or not received timeously, and where we have evaluated reported information to be useful or reliable. Based on our procedures, we report that we are not aware of any material findings.

Compliance with laws and regulations

We are required to report on compliance with laws and regulations in accordance with the guidance contained in the applicable R3: Reporting Guide of the Auditor-General. We report that there were no material findings on non-compliance with laws and regulations on the basis set out in the guide.

Internal control

We considered internal control relevant to our audit of the financial statements, and the report on predetermined objectives and compliance with laws and regulations, but not for the purpose of expressing an opinion on the effectiveness of internal control. We report that there were no material deficiencies identified during our audit that resulted in a modification of the auditors' opinion on the financial statements and/or material findings on predetermined objectives and/or compliance with laws and regulations.

Other reports

Agreed-upon procedures engagements

Commercial paper agreed-upon procedures

As requested by TCTA, two review engagements will be conducted concerning TCTA's compliance with the Commercial Paper Regulations. The reports will be issued by the end of July 2011.

National Treasury agreed-upon procedures

As requested by TCTA, a review engagement will be conducted concerning TCTA's completion of the National Treasury certificate. The report will be issued at the end of July 2011.

Deloitte & Touche
Per: Mgcinisihlalo Jordan
Registered Auditor
30 June 2011

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Registered Auditors
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Building 1 and 2, Deloitte Place
The Woodlands, Woodlands Drive
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Member of Deloitte Touche Tohmatsu Limited

National Executive: GG Gelink (Chief Executive), AE Swiegers (Chief Operating Officer), GM Pinnock (Audit), DL Kennedy (Risk Advisory), NB Kader (Tax & Legal Services), L Geeringh (Consulting), L Bam (Corporate Finance), JK Mazzocco (Human Resources), CR Beukman (Finance), TJ Brown (Clients), NT Mtoba (Chairman of the Board), MJ Comber (Deputy Chairman of the Board)

A full list of partners and directors is available on request

BBBEE rating: Level 2 contributor/AAA (certified by Empowerdex)

SizweNtsaluba vSP
Per: Anoosh Rooplal
Registered Auditor
30 June 2011

SizweNtsaluba vSP
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Partners: Aaron Mthimunya, Andrew Mashifane, Anton van den Heever, Anoosh Rooplal, Dumisani Manana, Hale Qangule, Johann Strauss, Lawrence Moepi, Luthando Saunders, Luyanda Dudumashe, Mxolisi Mthimkhulu, Natalie Arendse, Nhlanhla Sigasa, Pravesh Hiralall, Rakesh Bhika, Suleman Lockhat, Theodore Josias, Victor Sekese (CEO), Zaheeda Bashir

Registration number: 2000/007030/21

Joint Auditors

Aggregated statement of financial position

as at 31 March 2011

	Notes	Total 2011 R million	Restated total 2010 R million	Total 2009 R million
Assets				
Non-current assets				
		19 605	19 368	21 169
Property, plant and equipment	6	6 498	6 221	6 026
Intangible assets	7	13 087	13 123	13 107
Investment properties	8	11	14	14
Long-term financial market investments	9	–	–	2 000
Derivative financial instruments	9	5	5	17
Loans and other receivables	10	4	5	5
Current assets				
		4 099	5 304	2 691
Loans and other receivables	10	746	1 007	753
Derivative financial instruments	9	4	3	6
Short-term financial market investments	9	3 144	4 198	1 819
Prepaid expenditure	11	193	73	88
Non-contractual amounts	15	9	23	9
Cash and cash equivalents	17	1	–	16
Assets classified as held for sale	18	2	–	–
Total assets				
		23 704	24 672	23 860
Equity and liabilities				
Reserves and deficit				
		(3 906)	(3 930)	(3 761)
Non-distributable reserves	12	119	119	120
Cumulative deficit	13	(4 025)	(4 049)	(3 881)
Total equity				
		(3 906)	(3 930)	(3 761)
Liabilities				
Non-current liabilities				
		23 955	22 649	23 637
Long-term financial market liabilities	9	23 620	22 307	23 312
Provisions	16	331	340	282
Derivative financial instruments	9	4	2	43
Current liabilities				
		3 655	5 953	3 984
Trade and other payables	14	1 197	992	799
Non-contractual amounts	15	78	66	56
Provisions	16	41	37	41
Derivative financial instruments	9	7	80	36
Short-term financial market liabilities	9	2 332	4 778	3 046
Overdraft	17	–	–	6
Total liabilities				
		27 610	28 602	27 621
Total equity and liabilities				
		23 704	24 672	23 860

Aggregated statement of comprehensive income

for the year ended 31 March 2011

	Notes	Total 2011 R million	Restated total 2010 R million
Revenue	19	3 098	2 738
Other income	20	3	3
Expenses		(793)	(732)
Legal fees and litigation costs		(1)	(2)
Depreciation and amortisation		(111)	(130)
Operating costs for the works in Lesotho		(57)	(102)
Lesotho Highlands Water Commission (LHWC) costs		(11)	(9)
Staff costs		(119)	(101)
Directors' emoluments		(6)	(5)
Royalties paid	22	(438)	(342)
Other operating expenses	23	(50)	(41)
Operating surplus		2 308	2 009
Net finance costs		(2 284)	(2 177)
Finance income	21.1	683	849
Finance costs	21.2	(2 967)	(3 026)
Surplus/(deficit) for the year		24	(168)
Other comprehensive loss			
Realisation of revaluation		–	(1)
Other comprehensive loss for the year		–	(1)
Total comprehensive surplus/(deficit) for the year		24	(169)

Aggregated statement of changes in equity

for the year ended 31 March 2011

	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 2009	120	120	(3 881)	(3 761)
Realisation of revaluation	(1)	(1)	–	(1)
Net deficit for the year	–	–	(168)	(168)
Total comprehensive deficit for the year	(1)	(1)	(168)	(169)
Restated balance at 31 March 2010	119	119	(4 049)	(3 930)
Opening balance at 1 April 2010	119	119	(4 049)	(3 930)
Net surplus for the year	–	–	24	24
Total comprehensive surplus for the year	–	–	24	24
Balance at 31 March 2011	119	119	(4 025)	(3 906)

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

Aggregated statement of cash flows

for the year ended 31 March 2011

	Notes	Total 2011 R million	Restated total 2010 R million
Cash flow from operating activities			
Cash receipts from customers		3 216	2 722
Cash paid to suppliers and employees		(472)	(607)
Cash generated from project activities	A	2 744	2 115
Interest paid	C	(2 269)	(2 368)
Net cash inflow/(outflow) from operating activities		475	(253)
Cash flow from investing activities			
Payments to acquire financial assets		(1 437)	(216)
Proceeds on the sale of financial assets		2 047	64
Interest received	B	741	198
Capitalised to works in SA		(328)	(280)
Addition of other assets		(6)	(4)
Net cash inflow/(outflow) from investing activities		1 017	(238)
Cash flow from financing activities			
Proceeds from long-term borrowings		1 564	2 550
Repayments on long-term borrowings		(3 305)	(1 114)
Proceeds from short-term borrowings		2 063	1 039
Repayments on short-term borrowings		(1 813)	(1 994)
Net cash (outflow)/inflow from financing activities		(1 491)	481
Net increase/(decrease) in cash and cash equivalents		1	(10)
Cash and cash equivalents at beginning of period		–	10
Cash and cash equivalents at end of period	D	1	–

Notes to the aggregated statement of cash flows

for the year ended 31 March 2011

	Total 2011 R million	Restated total 2010 R million
A. Cash generated from project activities		
Net surplus/(deficit) for the year	24	(168)
Adjustments for non-cash flow items and amounts separately disclosed:		
Depreciation of non-current assets	111	130
Finance cost recognised in surplus/(deficit)	2 272	2 193
Foreign exchange gains	(83)	(62)
Foreign exchange losses	95	88
Higher than actual O&M costs	(21)	28
Rental income – RSA account	(2)	(2)
Changes in working capital:		
Movement in loans and other receivables	275	(143)
Movement in other assets	–	(101)
Movement in prepaid expenditure	(120)	34
Movement in trade and other payables and provisions (excluding interest payable)	165	130
Non-cash flow item in loans and other receivables	43	(22)
Non-cash flow item in trade and other payables	(15)	10
Cash generated from project activities	2 744	2 115
B. Interest received		
Amount due at beginning of year	458	234
Income during the year adjusted for non-cash items	296	422
Amount received	602	788
Profit on switch auction	(11)	(1)
Loan premium amortised	(180)	(152)
Transfer to funding portfolio	(110)	(209)
Interest on RSA account	(5)	(3)
Profit on sale of financial asset	–	(1)
Amount due at end of year	(13)	(458)
Interest received	741	198

	Total 2011 R million	Restated total 2010 R million
C. Interest paid		
Amount not paid at beginning of year	(553)	(510)
Expensed during the year adjusted for non-cash items	(2 324)	(2 411)
Amount expensed	(2 898)	(2 989)
Loan discount amortised	19	30
Foreign loan payments	(8)	(7)
Transfer to redemption portfolio	110	209
Loss on switch auction	77	–
Capital adjustment to inflation-linked liability	172	143
Concessionary portion – on EIB loan	3	3
Interest capitalised	224	224
Cash flow in <i>cum/ex div</i> reflected under cash flow from financing activities	(23)	(24)
Amount not paid at end of year	608	553
Interest paid	(2 269)	(2 368)
D. Cash and cash equivalents at end of period		
Cash and cash equivalents consist of cash on hand and balances with banks	1	–

Notes to the annual financial statements

for the year ended 31 March 2011

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 where indicated. The impact of the adoption on the amounts reported in these financial statements are indicated where applicable but may also affect the accounting for future transactions or arrangements:

Standard/interpretation	Impact
Standards and interpretations effective for periods beginning on or after 1 April 2010 or later and that are required to be applied in annual periods ending 31 March 2011	
IFRS 1: First-Time Adoption of International Financial Reporting Standards and Interpretations (amended)	Amendments were issued to exempt entities that use the full-cost method for oil and gas properties from retrospective application of IFRSs and also exempts entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4. The adoption of these amendments do not have an impact on TCTA's financial statements. The effective date of these amendments are annual periods beginning on or after 1 January 2010.
IFRS 2: Share-based Payment (amended)	These amendments, which are effective from 1 January 2010, 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. These amendments do not affect the financial statements of TCTA as TCTA does not have any shares in issue.
IFRS 5: Non-current Assets Held for Sale and Discontinued Operations (amended)	The amendments to IFRS 5 clarify that the disclosure requirements in IFRSs other than IFRS 5 do not apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations unless those IFRSs require: (i) specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations; or (ii) disclosures about measurement of assets and liabilities within a disposal group that are not within the scope of the measurement requirement of IFRS 5 and the disclosures are not already provided in the consolidated financial statements. Adoption of these amendments, which are effective on 1 January 2010, has not had any impact on the disclosures in TCTA's financial statements as the assets classified as held for sale fall within the scope of IFRS 5.
IFRS 8: Operating Segments (amended)	The amendment to IFRS 8, which is effective 1 January 2010, requires that an entity discloses information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environment in which it operates. The standard requires the identification of operating segments based on the business activities from which revenues are earned and expenses incurred, and whose operating results are regularly reviewed by the entities' chief operating decision-maker. Refer to note 4.

Standard/interpretation	Impact
IAS 1: Presentation of Financial Statements (amended)	<p>The amendments to IAS 1, which are effective 1 January 2010, clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current.</p> <p>TCTA does not have any equity instruments and the adoption of this improvement does not have any impact on TCTA's financial statements.</p>
IAS 10: Events after the Reporting Period (amended)	<p>The IAS 10 amendment resulting from the issue of IFRIC 17 <i>Distributions of Non-cash Assets to Owners</i>, does not have an impact on the financial statements of TCTA as TCTA does not have share capital and neither does it make distributions to owners. This amendment is effective 1 January 2010.</p>
IAS 17: Leases (amended)	<p>As part of Improvements to IFRSs (2009) issued in April 2009, the International Accounting Standards Board (IASB) amended the requirements of IAS 17 regarding the classification of leases of land. Prior to the 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.</p> <p>TCTA does not have any agreements in which it leases land, therefore this amendment, effective 1 January 2010, does not affect the financial statements of TCTA.</p>
IAS 21: The Effects of Changes in Foreign Exchange Rates (amended)	<p>IAS 21 was amended in January 2008, is effective 1 July 2009, as a result of the Business Combinations Phase II Project relating to disposals of foreign operations. The amendments did not impact the financial statements of TCTA as TCTA does not participate in business combinations.</p>
IAS 27: Consolidated and Separate Financial Statements (amended)	<p>The revised consolidation standard moves IFRS to a mandatory adoption of the economic entity model. 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, effective 1 July 2009, has not had any impact on TCTA's financial statements as TCTA does not have a controlling interest in another entity.</p>

Notes to the annual financial statements continued

for the year ended 31 March 2011

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

2.1 Standards, amendments and interpretations effective and adopted in the current period (continued)

Standard/interpretation	Impact
IAS 28: Investments in Associates (amended)	<p>The amendments, which are effective 1 July 2009, clarify:</p> <ul style="list-style-type: none"> • 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. <p>TCTA has no investment in associates and the amendment has therefore had no impact on its financial statements.</p>
IAS 31: Interests in Joint Ventures (amended)	<p>The amendments, which are effective 1 July 2009, clarify the disclosure required by a venture 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 interests in joint ventures and therefore the amendment has had no impact on TCTA.</p>
IAS 32: Financial Instruments: Presentation (amended)	<p>The amendments to IAS 32, effective 1 February 2010, address the classification of certain instruments (offered <i>pro rata</i> to all existing owners of the same class of non-derivative equity instruments) giving the right to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency. TCTA does not have any equity instruments, therefore adoption of this amendment has not had an impact on TCTA's financial statements.</p>
IAS 36: Impairment of Assets (amended)	<p>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) before aggregation.</p> <p>Entities that use aggregated operating segments to determine their cash-generating units will be forced to disaggregate them when the amendment becomes effective.</p> <p>This might result in the recognition of an impairment charge. TCTA is reporting each of its projects as a separate segment. This amendment, with effect 1 January 2010, has no impact on TCTA as segments are ring-fenced and are reported on separately.</p>
IAS 38: Intangible Assets (amended)	<p>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:</p> <ul style="list-style-type: none"> • 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. <p>Amendment is effective for annual periods beginning on or after 1 July 2009 (or upon adoption of IFRS 3 (revised), if earlier).</p> <p>The amendment 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.</p> <p>This amendment has not had an impact on TCTA.</p>

Standard/interpretation	Impact
IAS 39: Financial Instruments: Recognition and Measurement (amended)	<p>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.</p> <p>Reference to transactions between segments as being hedgeable transactions in individual or separate financial statements, was removed.</p> <p>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.</p> <p>These amendments, which are effective 1 January 2010, have not had any impact on TCTA financial statements, because TCTA:</p> <ul style="list-style-type: none"> • does not hold any convertible instruments; • has ring-fenced projects that do not permit the ability to hedge between projects; and • is not expected to be part of a business combination.
IFRIC 16: Hedges of a Net Investment in a Foreign Operation (amended)	<p>The amendment, effective 1 July 2009, removed the previous restriction that prevented the hedging instrument from being held by the foreign operation being hedged. This amendment does not impact the financial statements of TCTA, as TCTA does not have any foreign operations.</p>
IFRIC 17: Distributions of Non-cash Assets to Owners	<p>This interpretation applies to the entity making the distribution, not to the recipient. It applies when non-cash assets are distributed to owners or when the owner is given a choice of taking cash in lieu of the non-cash assets. This interpretation does not impact on the financial statements of TCTA, as TCTA does not make distributions to its owners. The interpretation is effective 1 July 2009.</p>
IFRIC 18: Transfers of Assets from Customers	<p>IFRIC 18 clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant, and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). TCTA has not entered into such agreements, therefore this interpretation, which is effective 1 July 2009, does not impact the financial statements.</p>
IFRIC 19: Distinguishing Financial Liabilities with Equity Instruments	<p>The interpretation provides guidance on how to account for the extinguishment of a financial liability by the issue of equity instruments.</p> <p>This interpretation, which is effective 1 April 2010, has not had an impact on TCTA's financial statements, as TCTA does not issue equity instruments.</p>

Notes to the annual financial statements continued

for the year ended 31 March 2011

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

2.2 Early adoption of standards, amendments and interpretations

Standard/interpretation	Impact
IFRS 1: First-Time Adoption of International Financial Reporting Standards (amended)	<p>The 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.</p> <p>The adoption of this amendment, effective 1 July 2010, has not had an impact on TCTA's financial statements, as TCTA has already adopted IFRS.</p>
IFRS 1: First-Time Adoption of International Financial Reporting Standards (amended)	<p>The amendment, which is effective 1 January 2011, clarifies that the changes in accounting policies in the year of adoption will fall outside the scope of IAS 8.</p> <p>The adoption of this amendment has not had an impact on TCTA's financial statements, as TCTA has already adopted IFRS.</p>
IFRS 1: First-Time Adoption of International Financial Reporting Standards (amended)	<p>The amendment permits the use of revaluation carried out after the date of transition as a basis for deemed cost and it also permits the carrying amount under previous GAAP as deemed cost for operations subject to rate regulation.</p> <p>The adoption of this amendment, effective 1 January 2011, has not had an impact on TCTA's financial statements, as TCTA has already adopted IFRS.</p>
IFRS 1: First-Time Adoption of International Financial Reporting Standards (amended)	<p>The following standard amendments have been inserted in IFRS 1 for implementation in annual periods beginning on or after 1 July 2011:</p> <ul style="list-style-type: none"> • Provision of guidance for entities emerging from severe hyperinflation and resuming presentation of IFRS-compliant financial statements, or presenting IFRS-compliant financial statements for the first time. • Removal of the fixed date of 1 January 2004 relating to the retrospective application of the derecognition requirements of IAS 39 and relief for the first-time adopters from calculating day 1 gains on transactions that occurred before the date of adoption.
IFRS 3: Business Combinations (amended)	<p>The amendments for adoption for annual periods beginning on or after 1 January 2011 makes the following adjustments:</p> <ul style="list-style-type: none"> • Amendments to transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS. • Clarification on the measurement of non-controlling interests. • Additional guidance provided on unreplaced and voluntarily replaced share-based payment awards. <p>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, with each project being ring-fenced and TCTA not entering into any business combinations, the adoption of this revised standard has not had any impact on the financial information presented.</p>

Standard/interpretation	Impact
IFRS 9: Financial Instruments	<p>In the prior year, TCTA applied IFRS 9 <i>Financial Instruments</i> (as issued in November 2009) and the related consequential amendments in advance of its effective date of 1 January 2013. TCTA chose 31 March 2010 as its date of initial application. IFRS 9 was applied retrospectively and comparative amounts have been restated, where appropriate.</p> <p>IFRS 9 <i>Financial Instruments</i> (IFRS 9) (as issued in November 2009) was revised in October 2010. TCTA has early adopted the amendments to IFRS 9.</p> <p>Financial assets</p> <p>The standard as issued in November 2009 requires all financial assets to be classified and subsequently measured at either amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The majority of TCTA's financial assets have been accounted for at amortised cost. The adoption of IFRS 9 did not impact the measurement of TCTA's financial assets. The impairment of financial assets will be reviewed in terms of IAS 39 as was previously the case. All derivatives are accounted for at fair value through profit or loss. TCTA had accounted for derivatives at fair value, therefore the adoption of IFRS 9 had no impact on the measurement of derivatives.</p> <p>Financial liabilities</p> <p>IFRS 9 (as revised in October 2010) contains requirements for the classification and measurement of financial liabilities. One major change in the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability.</p> <p>Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.</p>
IFRS 10: Consolidated Financial Statements	<p>This new standard, which is effective 1 January 2013, replaces the consolidation requirements in SIC-12 <i>Consolidation – Special Purpose Entities</i> and IAS 27 <i>Consolidated and Separate Financial Statements</i>. This standard builds on principles that identify the concept of control as the determining factor in whether an entity should be included within the financial statements of the parent company or not.</p> <p>The early adoption of this revised standard has not had an impact on the financial statements, as TCTA does not prepare consolidated financial statements.</p>
IFRS 11: Joint Arrangements	<p>This standard deals with the accounting for joint arrangements and focuses on the rights and obligations of the arrangement, rather than its legal form. The standard requires a single method for accounting for interest in jointly controlled entities.</p> <p>The early adoption of this revised standard, which is effective 1 January 2013, has not had an impact on the financial statements, as TCTA does not have any interests in any jointly controlled entities.</p>

Notes to the annual financial statements continued

for the year ended 31 March 2011

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

2.2 Early adoption of standards, amendments and interpretations (continued)

Standard/interpretation	Impact
IFRS 12: Disclosure of Interest in Other Entities	<p>This new standard, which is effective 1 January 2013, deals with disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special-purpose vehicles and other off-statement of financial position vehicles.</p> <p>The early adoption of this revised standard has not had an impact on the financial statements, as TCTA does not have an interest in any arrangements, associates or vehicles as defined in the statement.</p>
IAS 1: Presentation of Financial Statements (amended)	<p>The amendments to IAS 1 clarifies that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. TCTA has applied the amendments in advance of their effective date (annual periods beginning on or after 1 January 2011), electing to present it in the statement of changes in equity.</p> <p>Refer to the statement of changes in equity.</p>
IAS 12: Income Taxes (amended)	<p>This amendment, effective 1 January 2012, provides a practical approach for measuring deferred tax liabilities and assets when investment property is measured using the fair value method. A rebuttle presumption has been introduced that an investment property will be recovered in its entirety on sale.</p> <p>The early adoption of this revised standard has not had an impact on the financial statements, as TCTA is accounting for investment property at cost.</p>
IAS 24: Related-party Disclosures (amended)	<p>In November 2009, the IASB issued amendments to IAS 24 <i>Related-party Disclosures</i>. The amendments, which are effective 1 January 2011, modify the definition of a related party and simplify related-party disclosures for government-related entities.</p> <p>Related-party definition now includes key management personnel of the reporting entity or of a parent of the reporting entity.</p> <p>TCTA is a government-related entity; therefore the disclosure exemptions have affected TCTA.</p> <p>The necessary detailed information regarding both key management compensation and related-party disclosures have been included in note 24.</p>
IAS 27: Consolidated and Separate Financial Statements (amended)	<p>This amendment clarifies the transition rules in respect of the disposal or partial disposal of an interest in a foreign operation.</p> <p>TCTA does not have any foreign operations and therefore this amendment, which is effective 1 July 2010, has not had any impact on TCTA's financial statements.</p>
IAS 28: Investments in Associates (amended)	<p>Consequential amendments from changes to IAS 27 <i>Consolidated and Separate Financial Statements</i>. This amendment clarifies the transition rules in respect of the disposal or partial disposal of an interest in a foreign operation.</p> <p>TCTA does not have any foreign operations and therefore this amendment, which is effective 1 July 2010, has not had any impact on TCTA's financial statements.</p>

Standard/interpretation	Impact
IAS 31: Interests in Joint Ventures (amended)	<p>Consequential amendments from changes to IAS 27 <i>Consolidated and Separate Financial Statements</i>. This amendment clarifies the transition rules in respect of the disposal or partial disposal of an interest in a foreign operation.</p> <p>TCTA does not have any foreign operations and therefore this amendment, effective 1 July 2010, has not had any impact on TCTA's financial statements.</p>
IAS 34: Interim Financial Reporting (amended)	<p>The amendment, which is effective 1 January 2011, clarifies the disclosure requirements around significant events and transactions including financial instruments.</p> <p>This statement is not applicable to TCTA, hence the amendment has not had any impact on the financial information as presented.</p>
IFRIC 13: Customer Loyalty Programmes (amended)	<p>This interpretation addresses accounting by entities that grant loyalty award credits to customers who buy other goods or services. The amendment explains how such entities should account for their obligations to provide free or discounted goods or services ('awards') to customers who redeem award credits.</p> <p>The adoption of this amendment, effective 1 January 2011, has not had any impact on TCTA's financial statements, as TCTA does not have a customer loyalty programme.</p>
IFRIC 14: Prepayments of a Minimum Funding Requirement (amended)	<p>The amendment, effective 1 January 2011, addresses the situations when an entity with minimum funding requirements makes a prepayment of contributions to cover those requirements. The amendment permits the benefit of such prepayment to be recognised as an asset rather than an expense.</p> <p>TCTA does not have a defined benefit plan and therefore the adoption of this amendment has not had an impact on TCTA's financial statements.</p>

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

Standard/interpretation	Impact
IFRS 7: Financial Instruments: Disclosures (amended)	<p>These amendments that relate to the transfer of financial assets:</p> <ul style="list-style-type: none"> • the first amendment, effective 1 January 2011, clarifies the intended interaction between qualitative and quantitative disclosures of the nature and extent of the risks arising from financial instruments and removed some disclosure items which were seen to be superfluous and misleading; and • the second amendment, which is effective 1 July 2011, requires additional disclosure on transfer transactions of financial assets, including the possible effects of any residual risks that the transferring entity retains. The amendment also requires additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. <p>TCTA has not had any transfer transactions of financial assets and therefore these amendments are not anticipated to have an impact on the financial statements.</p>
IFRS 13: Fair Value Measurement	<p>This standard gives new guidance on fair value measurement and disclosure requirements.</p> <p>The adoption of this amendment will have an impact on the fair valuation of all assets carried at fair value and the disclosure thereof. This amendment is only effective for annual periods beginning on or after 1 January 2013.</p>

Notes to the annual financial statements continued

for the year ended 31 March 2011

3. Significant accounting policies

The principal accounting policies applied in the preparation of these 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 (IFRS).

3.2 Basis of preparation

The 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 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 financial statements, are disclosed in note 29.

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 (SA)

Works in SA 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.
- (d) 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*.
- (e) 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⁾.

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

- 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 are reassessed during the revaluations. The assets' value is adjusted to account for the revalued amounts at the five-year revaluation.

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 are reassessed during the revaluations. The assets' value is adjusted to account for the revalued amounts at the five-year revaluation.

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 are reassessed during the revaluations. The assets' value is adjusted to account for the revalued amounts at the five-year revaluation.

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 surplus/deficit.

3.4 Intangible assets

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 (LHDA) 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*, dated 24 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 indefinite component. The finite component is the mechanical portion of the works and is estimated to be 5% of the water resource components. This finite portion is amortised over the estimated useful life of the asset, 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.

Notes to the annual financial statements continued

for the year ended 31 March 2011

3. Significant accounting policies (continued)

3.4 Intangible assets (continued)

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

3.5 Investment property

LHWP

Investment properties are measured initially at cost, including transaction costs. 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.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

3.6 Assets classified as held for sale

LHWP

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

3.7 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. Recoverable amount is defined as the higher of fair value less cost to sell and value in use.

Fair value less cost to sell

Where 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 asset in an arm's length transaction between knowledgeable and willing parties, 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.

Works in SA and enduring benefit

The recoverable amount for the works in SA is determined annually by management to assess if there are any indications of impairment. As there is no active market for the water infrastructure assets, the recoverable amount is deemed to be the value in use. The value in use is calculated based on the estimated future cash flows that are expected to flow from the assets, using an appropriately adjusted risk-free discount rate. An appropriately qualified independent expert is sourced to perform the value-in-use calculations every three years to corroborate management's assessment of the value in use.

3.8 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.

3.9 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 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. Unrealised differences on monetary assets and liabilities are recognised in surplus or deficit in the year in which they occur.

3.10 Financial assets

The business model for managing financial assets

IFRS 9 introduces a two-step classification approach:

Firstly, 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.

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

Notes to the annual financial statements continued

for the year ended 31 March 2011

3. Significant accounting policies (continued)

3.10 Financial assets (continued)

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. 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.

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 financial assets 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 assets, 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 surplus or deficit. TCTA's business model includes the securing of income agreements with the 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.

3.11 Financial liabilities

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss (FVTPL)' or 'other financial liabilities'.

3.11.1 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 about the financial liability 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.

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 surplus or deficit for the year in which they arise. At present no such instruments are held by TCTA. Refer to note 5 for information relating to the management of interest rate risk.

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 *Financial Instruments: Recognition and Measurement*.

3.11.2 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.

Notes to the annual financial statements continued

for the year ended 31 March 2011

3. Significant accounting policies (continued)

3.11 Financial liabilities (continued)

3.11.2 Other financial liabilities (continued)

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 *Financial Instruments: Recognition and Measurement* and are hence stated at amortised cost, applying the yield-to-maturity method. Repo transactions are offset against the short-term portion of the locally issued bonds as the transactions in the borrows in substance result in a reduction of the debt.

Local loans are stated at amortised cost and classified as 'other liabilities' in terms of IAS 39 *Financial Instruments: Recognition and Measurement*. 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 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 *Financial Instruments: Recognition and Measurement* and are hence stated at amortised cost.

3.11.3 Derecognition of financial liabilities

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

3.11.4 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 are included in surplus or deficit for the year in which they arise.

3.11.5 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.

3.11.6 Fair value estimation

The fair values of the listed bonds are the JSE Limited's bond market 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.

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.

3.12 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.

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.

3.13 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.

3.13.1 Liabilities of the water delivery component of the project in Lesotho

The borrowings incurred by the 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 recognised as a provision 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 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 (Pty) Limited (Sasol) and Eskom Holdings Limited (Eskom).

Notes to the annual financial statements continued

for the year ended 31 March 2011

3. Significant accounting policies (continued)

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. The total interest income (calculated using the effective interest method) for financial assets that are measured at amortised cost are recognised in surplus or deficit in accordance with IFRS 9 *Financial Instruments*.

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

TCTA has applied the government-related entities exemption in terms of IAS 24 *Related-party Disclosures*, and has disclosed significant transactions with entities controlled by the Government of South Africa in note 24.

3.18 Irregular expenditure

Irregular expenditure is recognised as expenditure in the aggregate statement of comprehensive income.

3.19 Government grants

Government grants are recognised when there is reasonable assurance that:

- TCTA will comply with the conditions attached to the grant; and
- the grants will be received.

Government grants related to income are government grants other than those related to assets and are recognised as income in surplus or deficit over the period necessary to match them with the related costs that they are intended to compensate.

Government grants related to assets are government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. Subsidiary conditions may also be attached restricting the type or location of the assets or the periods during which they are to be acquired or held. Government grants related to assets, including non-monetary grants at fair value, are presented in the statement of financial position as deferred income, included in trade and other payables. The deferred income is then recognised in profit or loss on a systematic basis over the useful life of the asset.

For TCTA the government grants relate to government's contribution towards the social portion of the project, where a project has both a social and commercial component.

4. Segmental information

4.1 Identification of operating segments

An important criterion for identifying operating segments is that the operating results are regularly reviewed by the entity's Chief Operating Decision-maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance. The accounting policy for identifying segments is based on internal management reporting information that is regularly reviewed by the CODM. The Chief Executive Officer and EXCO members review the financial results of TCTA on a monthly basis. IFRS 8 *Operating Segments* 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. 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 states that 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)
- Mokolo-Crocodile Water Augmentation Project (MCWAP)
- Mooi-Mgeni Transfer Scheme Phase 2 (MMTS2)
- Komati Water Scheme Augmentation Project (KWSAP)
- Olifants River Water Resource Development Project Phase 2 (ORWRDP2)
- The Borehole Water Supply Project (Borehole)

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

4.2 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 2011

4. Segmental information (continued)

4.3 Operating segments: financial results

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

Segmental statement of financial position

	Notes	LHWP ⁽¹⁾ 2011 R million	BWP ⁽²⁾ 2011 R million	VRESAP ⁽³⁾ 2011 R million
Assets				
Non-current assets		15 173	1 234	2 849
Property, plant and equipment	6	2 070	1 230	2 849
Intangible assets	7	13 087	–	–
Investment properties	8	11	–	–
Long-term financial market investments	9	–	–	–
Derivative financial instruments	9	5	–	–
Loans and other receivables	10	–	4	–
Current assets		3 614	23	121
Loans and other receivables	10	552	–	68
Derivative financial instruments	9	4	–	–
Short-term financial market investments	9	2 988	22	50
Prepaid expenditure	11	68	–	1
Non-contractual amounts	15	–	1	2
Cash and cash equivalents	17	–	–	–
Assets classified as held for sale	18	2	–	–
Total assets		18 787	1 257	2 970
Equity and liabilities				
Reserves and deficit		(3 129)	(61)	(495)
Non-distributable reserves	12	119	–	–
Cumulative deficit	13	(3 248)	(61)	(495)
Total equity		(3 129)	(61)	(495)
Liabilities				
Non-current liabilities		19 445	1 167	3 343
Long-term financial market liabilities	9	19 110	1 167	3 343
Provisions	16	331	–	–
Derivative financial instruments	9	4	–	–
Current liabilities		2 471	151	122
Trade and other payables	14	656	28	64
Non-contractual amounts	15	66	–	–
Provisions	16	41	–	–
Derivative financial instruments	9	7	–	–
Short-term financial market liabilities	9	1 701	123	58
Overdraft	17	–	–	–
Total liabilities		21 916	1 318	3 465
Total equity and liabilities		18 787	1 257	2 970

Financial statements are rounded to the nearest million.

Refer to page 132 for footnotes.

MCWAP ⁽⁴⁾ 2011 R million	MMTS2 ⁽⁵⁾ 2011 R million	ORWRDP2 ⁽⁶⁾ 2011 R million	KWSAP ⁽⁷⁾ 2011 R million	Borehole ⁽⁸⁾ 2011 R million	Total 2011 R million
98	105	47	99	–	19 605
98	105	47	99	–	6 498
–	–	–	–	–	13 087
–	–	–	–	–	11
–	–	–	–	–	–
–	–	–	–	–	5
–	–	–	–	–	4
56	110	34	127	14	4 099
53	43	16	–	14	746
–	–	–	–	–	4
–	66	18	–	–	3 144
2	1	–	121	–	193
–	–	–	6	–	9
1	–	–	–	–	1
–	–	–	–	–	2
154	215	81	226	14	23 704
(55)	(54)	(66)	(46)	–	(3 906)
–	–	–	–	–	119
(55)	(54)	(66)	(46)	–	(4 025)
(55)	(54)	(66)	(46)	–	(3 906)
–	–	–	–	–	23 955
–	–	–	–	–	23 620
–	–	–	–	–	331
–	–	–	–	–	4
209	269	147	272	14	3 655
198	57	146	36	12	1 197
6	3	1	–	2	78
–	–	–	–	–	41
–	–	–	–	–	7
5	209	–	236	–	2 332
–	–	–	–	–	–
209	269	147	272	14	27 610
154	215	81	226	14	23 704

Notes to the annual financial statements continued

for the year ended 31 March 2011

4. Segmental information (continued)

4.3 Operating segments: financial results (continued)

4.3.1 TCTA will report detailed statements of financial position for each project as well as statements of comprehensive income (continued)

Segmental statement of financial position (continued)

	Notes	LHWP ⁽¹⁾ 2010 R million	BWP ⁽²⁾ 2010 R million	VRESAP ⁽³⁾ 2010 R million
Assets				
Non-current assets		15 205	1 230	2 853
Property, plant and equipment	6	2 063	1 225	2 853
Intangible assets	7	13 123	–	–
Investment properties	8	14	–	–
Long-term financial market investments	9	–	–	–
Derivative financial instruments	9	5	–	–
Loans and other receivables	10	–	5	–
Current assets		4 941	25	164
Loans and other receivables	10	838	–	50
Derivative financial instruments	9	3	–	–
Short-term financial market investments	9	4 076	6	78
Prepaid expenditure	11	24	–	36
Non-contractual amounts	15	–	19	–
Cash and cash equivalents	17	–	–	–
Assets classified as held for sale	18	–	–	–
Total assets		20 146	1 255	3 017
Equity and liabilities				
Reserves and deficit		(3 391)	(111)	(303)
Non-distributable reserves	12	119	–	–
Cumulative deficit	13	(3 510)	(111)	(303)
Total equity		(3 391)	(111)	(303)
Liabilities				
Non-current liabilities		18 375	1 055	3 219
Long-term financial market liabilities	9	18 033	1 055	3 219
Provisions	16	340	–	–
Derivative financial instruments	9	2	–	–
Current liabilities		5 162	311	101
Trade and other payables	14	612	64	42
Non-contractual amounts	15	60	–	1
Provisions	16	37	–	–
Derivative financial instruments	9	80	–	–
Short-term financial market liabilities	9	4 373	247	58
Overdraft	17	–	–	–
Total liabilities		23 537	1 366	3 320
Total equity and liabilities		20 146	1 255	3 017

Financial statements are rounded to the nearest million.

Refer to page 132 for footnotes.

MCWAP ⁽⁴⁾ 2010 R million	MMTS2 ⁽⁵⁾ 2010 R million	ORWRDP2 ⁽⁶⁾ 2010 R million	KWSAP ⁽⁷⁾ 2010 R million	Borehole ⁽⁸⁾ 2010 R million	Restated total 2010 R million	Total 2009 R million
23	26	8	23	–	19 368	21 169
23	26	8	23	–	6 221	6 026
–	–	–	–	–	13 123	13 107
–	–	–	–	–	14	14
–	–	–	–	–	–	2 000
–	–	–	–	–	5	17
–	–	–	–	–	5	5
22	66	81	5	–	5 304	2 691
15	25	76	3	–	1 007	753
–	–	–	–	–	3	6
–	38	–	–	–	4 198	1 819
7	–	5	1	–	73	88
–	3	–	1	–	23	9
–	–	–	–	–	–	16
–	–	–	–	–	–	–
45	92	89	28	–	24 672	23 860
(25)	(35)	(38)	(27)	–	(3 930)	(3 761)
–	–	–	–	–	119	120
(25)	(35)	(38)	(27)	–	(4 049)	(3 881)
(25)	(35)	(38)	(27)	–	(3 930)	(3 761)
–	–	–	–	–	22 649	23 637
–	–	–	–	–	22 307	23 312
–	–	–	–	–	340	282
–	–	–	–	–	2	43
70	127	127	55	–	5 953	3 984
68	27	124	55	–	992	799
2	–	3	–	–	66	56
–	–	–	–	–	37	41
–	–	–	–	–	80	36
–	100	–	–	–	4 778	3 046
–	–	–	–	–	–	6
70	127	127	55	–	28 602	27 621
45	92	89	28	–	24 672	23 860

Notes to the annual financial statements continued

for the year ended 31 March 2011

4. Segmental information (continued)

4.3 Operating segments: financial results (continued)

4.3.1 TCTA will report detailed statements of financial position for each project as well as statements of comprehensive income (continued)

Segmental statement of comprehensive income

	Notes	LHWP ⁽¹⁾ 2011 R million	BWP ⁽²⁾ 2011 R million	VRESAP ⁽³⁾ 2011 R million
Revenue	19	2 708	171	219
Other income	20	3	–	–
Expenses		(581)	(16)	(100)
Legal fees and litigation costs		–	–	(1)
Depreciation and amortisation		(29)	(9)	(73)
Operating costs for the works in Lesotho		(57)	–	–
Lesotho Highlands Water Commission (LHWC) costs		(11)	–	–
Staff costs		(119)	–	–
Directors' emoluments		(6)	–	–
Royalties paid	22	(438)	–	–
Other operating expenses	23	79	(7)	(26)
Operating surplus/(deficit)		2 130	155	119
Net finance costs		(1 868)	(105)	(311)
Finance income	21.1	675	2	6
Finance costs	21.2	(2 543)	(107)	(317)
Surplus/(deficit) for the year		262	50	(192)
Other comprehensive loss				
Realisation of revaluation		–	–	–
Other comprehensive loss for the year		–	–	–
Total comprehensive surplus/(deficit) for the year		262	50	(192)

Financial statements are rounded to the nearest million.

Refer to page 132 for footnotes.

MCWAP ⁽⁴⁾ 2011 R million	MMTS2 ⁽⁵⁾ 2011 R million	ORWRDP2 ⁽⁶⁾ 2011 R million	KWSAP ⁽⁷⁾ 2011 R million	Borehole ⁽⁸⁾ 2011 R million	Total 2011 R million
-	-	-	-	-	3 098
-	-	-	-	-	3
(30)	(19)	(28)	(19)	-	(793)
-	-	-	-	-	(1)
-	-	-	-	-	(111)
-	-	-	-	-	(57)
-	-	-	-	-	(11)
-	-	-	-	-	(119)
-	-	-	-	-	(6)
-	-	-	-	-	(438)
(30)	(19)	(28)	(19)	-	(50)
(30)	(19)	(28)	(19)	-	2 308
-	-	-	-	-	(2 284)
-	-	-	-	-	683
-	-	-	-	-	(2 967)
(30)	(19)	(28)	(19)	-	24
-	-	-	-	-	-
-	-	-	-	-	-
(30)	(19)	(28)	(19)	-	24

Notes to the annual financial statements continued

for the year ended 31 March 2011

4. Segmental information (continued)

4.3 Operating segments: financial results (continued)

4.3.1 TCTA will report detailed statements of financial position for each project as well as statements of comprehensive income (continued)

Segmental statement of comprehensive income (continued)

	Notes	LHWP ⁽¹⁾ 2010 R million	BWP ⁽²⁾ 2010 R million	VRESAP ⁽³⁾ 2010 R million
Revenue	19	2 420	173	145
Other income	20	3	–	–
Expenses		(537)	(20)	(96)
Legal fees and litigation costs		(2)	–	–
Depreciation and amortisation		(36)	(13)	(81)
Operating costs for the works in Lesotho		(102)	–	–
Lesotho Highlands Water Commission (LHWC) costs		(9)	–	–
Staff costs		(101)	–	–
Directors' emoluments		(5)	–	–
Royalties paid	22	(342)	–	–
Other operating expenses	23	60	(7)	(15)
Operating surplus/(deficit)		1 886	153	49
Net finance costs		(1 786)	(105)	(286)
Finance income	21.1	832	4	13
Finance costs	21.2	(2 618)	(109)	(299)
Surplus/(deficit) for the year		100	48	(237)
Other comprehensive income				
Realisation of revaluation		(1)	–	–
Other comprehensive income for the year		(1)	–	–
Total comprehensive surplus/(deficit) for the year		99	48	(237)

Financial statements are rounded to the nearest million.

(1) LHWP – Lesotho Highlands Water Project.

(2) BWP – Berg Water Project.

(3) VRESAP – Vaal River Eastern Subsystem Augmentation Project.

(4) MCWAP – Mokolo Crocodile River Water Augmentation Project.

(5) MMTS2 – Mooi-Mgeni Transfer Scheme Phase 2.

(6) ORWRDP2 – Olifants River Water Resource Development Project Phase 2.

(7) KWSAP – Komati Water Scheme Augmentation Project.

(8) Borehole – The Borehole Water Supply Project.

Segmental statement of cash flows

See detailed cash flow statements attached as annexure A.

MCWAP ⁽⁴⁾ 2010 R million	MMTS2 ⁽⁵⁾ 2010 R million	ORWRDP2 ⁽⁶⁾ 2010 R million	KWSAP ⁽⁷⁾ 2010 R million	Borehole ⁽⁸⁾ 2010 R million	Restated total 2010 R million
–	–	–	–	–	2 738
–	–	–	–	–	3
(19)	(17)	(23)	(20)	–	(732)
–	–	–	–	–	(2)
–	–	–	–	–	(130)
–	–	–	–	–	(102)
–	–	–	–	–	(9)
–	–	–	–	–	(101)
–	–	–	–	–	(5)
–	–	–	–	–	(342)
(19)	(17)	(23)	(20)	–	(41)
(19)	(17)	(23)	(20)	–	2 009
–	–	–	–	–	(2 177)
–	–	–	–	–	849
–	–	–	–	–	(3 026)
(19)	(17)	(23)	(20)	–	(168)
–	–	–	–	–	(1)
–	–	–	–	–	(1)
(19)	(17)	(23)	(20)	–	(169)

Notes to the annual financial statements continued

for the year ended 31 March 2011

4. Segmental information (continued)

4.3 Operating segments: financial results (continued)

4.3.2 Major customers

LHWP

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

BWP

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

VRESAP

TCTA entered into an income agreement with DWA in October 2005, which determines the raw water tariff for augmentation schemes. VRESAP revenue consists of receipt of these tariffs from DWA.

5. Risk management

5.1 Capital management

TCTA manages its capital to ensure that projects will be able to continue as going concerns while optimising the debt for each project. TCTA's overall strategy remains unchanged from 2010.

The capital structure of TCTA consists of total debt (borrowings). TCTA is not subject to any externally imposed capital requirements. TCTA's Asset and Liability Committee (ALCO) reviews the capital structure of TCTA on a quarterly basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital.

5.2 Financial risk management objectives

TCTA's Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of TCTA through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

TCTA seeks to minimise the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives is governed by TCTA's policies approved by the Board of Directors (Board), which provides written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the internal audit and compliance officers regularly. TCTA does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Treasury function reports quarterly to ALCO, which monitors risks and policies implemented to mitigate risk exposures.

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 projects 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.

5.2.1 Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board, which has established an appropriate liquidity risk management framework for the management of TCTA's short-, medium- and long-term funding and liquidity management requirements. TCTA manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. The notes below set out details of additional undrawn facilities that TCTA has at its disposal to further reduce 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 projects are 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.

Liquidity and interest risk tables

The following tables detail TCTA's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which TCTA can be required to pay. The tables include the principal cash flows. The contractual maturity is based on the earliest date on which TCTA may be required to pay. The liquidity and risk tables are included for each project and include the contractual maturity analysis reports for non-derivative liabilities, non-derivative financial assets as well as the liquidity analysis for derivatives.

Notes to the annual financial statements continued

for the year ended 31 March 2011

5. Risk management (continued)

5.2.1 Liquidity risk (continued)

LHWP

Funding sources and utilisation at 31 March:

	2011 R million	2010 R million
Total borrowing authority		
Limit	23 850	24 500
Utilisation	21 426	20 085
Available	2 424	4 415

The table above includes the total utilisation of all facilities, including both local and foreign loans, against the borrowing limit.

The following tables reflect the bonds and commercial paper and excludes local and foreign loans as the latter does not have authorised limits:

Total utilisation of facilities: 2011	Limit R million	Utilisation R million	Available R million
Total issue to date			
Commercial Paper Programme	4 000	1 799	2 201
Capital Market – WS03	4 500	–	4 500
Capital Market – WS04	10 000	7 079	2 921
Capital Market – WS05	7 000	3 525	3 475 ⁽¹⁾
Capital Market – WSP1	1 000	355	645
Capital Market – WSP2	1 000	1 887	(887) ⁽²⁾
Capital Market – WSP3	1 000	285	715
Capital Market – WSP4	1 000	253	747
Capital Market – WSP5	4 000	3 088	912
Repurchases			
Repurchases for the year	1 000	154	846

Total utilisation of facilities: 2010	Limit R million	Utilisation R million	Available R million
Total issue to date			
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 ⁽³⁾
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			
Repurchases for the year	1 000	159	841

(1) The CPI-adjusted inflated figure for WS05 is R6 014 million with a nominal value of R3 525 million.

(2) The limits for commercial paper and the individual bonds are the authorised limits. The borrowing limits for WSP bonds are offset from the available utilisation on the WS04 bond as approved by the ALCO meeting on 25 November 2010.

(3) 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.

Government-guaranteed facilities

TCTA has in place government-guaranteed facilities of R900 million (2010: 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 2011, these facilities were not utilised (2010: no facilities utilised).

Contractual maturity analysis report: Non-derivative financial liabilities

31 March 2011	Weighted average effective interest rate %	Maturity date	1 – 3 months R million	3 – 12 months R million	1 – 5 years R million	>5 years R million	Total R million
Variable interest rate instruments							
ZAR							
Commercial paper	5,20	01/04/11	222	–	–	–	222
Loan ^(*)	5,61	31/03/18	–	8	69	31	108
Loan ^(*)	10,09	30/09/22	–	5	33	45	83
Loan ^(*)	5,97	15/12/17	12	12	97	48	169
Loan ^(*)	3,63	15/03/18	–	15	59	33	107
Bonds	11,54	01/08/18	–	–	–	6 014	6 014
EUR							
Loan ^(*)	1,65	31/07/12	–	22	11	–	33
USD							
Loan ^(*)	0,66	15/05/13	2	2	7	–	11
Fixed interest rate instruments							
ZAR							
Term	5,50	18/04/11	150	–	–	–	150
Term	5,48	19/04/11	20	–	–	–	20
Term	5,52	26/04/11	100	–	–	–	100
Term	5,55	19/05/11	200	–	–	–	200
Term	5,53	23/05/11	150	–	–	–	150
Term	5,52	30/05/11	52	–	–	–	52
Term	5,65	22/07/11	–	50	–	–	50
Term	5,78	23/08/11	–	40	–	–	40
Term	5,85	12/09/11	–	115	–	–	115
Term	5,85	13/09/11	–	100	–	–	100
Term	5,84	14/09/11	–	100	–	–	100
Term	5,93	18/11/11	–	100	–	–	100
Term	5,74	12/12/11	–	100	–	–	100
Term	6,00	15/12/11	–	100	–	–	100
Term	6,21	23/02/12	–	100	–	–	100
Term	6,31	22/03/12	–	100	–	–	100
Repos	9,00	07/04/11	19	–	–	–	19
Repos	8,20	07/04/11	57	–	–	–	57
Repos	8,20	07/04/11	12	–	–	–	12
Repos	9,30	07/04/11	20	–	–	–	20

(*) Loan repayments occur every six months. Maturity date reflects final repayment date.

Notes to the annual financial statements continued

for the year ended 31 March 2011

5. Risk management (continued)

5.2.1 Liquidity risk (continued)

31 March 2011	Weighted average effective interest rate %	Maturity date	1 – 3 months R million	3 – 12 months R million	1 – 5 years R million	>5 years R million	Total R million
Bonds	10,13	30/05/16	–	–	–	7 079	7 079
Bonds	9,05	28/05/15	–	–	355	–	355
Bonds	8,71	28/05/17	–	–	–	1 887	1 887
Bonds	8,93	28/05/19	–	–	–	285	285
Bonds	8,83	28/05/20	–	–	–	253	253
Bonds	8,75	28/05/21	–	–	–	3 088	3 088
EUR							
Loan ^(*)	5,73	31/07/12	–	11	5	–	16
Loan ^(*)	3,00	31/01/18	–	7	31	17	55
			1 016	987	667	18 780	21 450

31 March 2010	Weighted average effective interest rate %	Maturity date	1 – 3 months R million	3 – 12 months R million	1 – 5 years R million	>5 years R million	Total R million
Variable interest rate instruments							
ZAR							
Commercial paper	6,21	01/04/10	350	–	–	–	350
Loan ^(*)	6,15	31/03/18	–	15	61	46	122
Loan ^(*)	9,83	30/09/22	–	34	30	52	116
Loan ^(*)	7,30	15/12/17	12	12	96	73	193
Loan ^(*)	7,55	15/03/18	–	10	40	28	78
Loan ^(*)	5,39	15/09/18	–	6	24	20	50
Loan	13,25	31/08/10	–	100	–	–	100
Bonds	11,54	01/08/18	–	–	–	5 812	5 812
EUR							
Loan ^(*)	1,31	31/07/12	–	23	34	–	57
USD							
Loan ^(*)	0,63	15/05/13	3	3	13	–	19
Fixed interest rate instruments							
ZAR							
Term	6,94	08/04/10	50	–	–	–	50
Term	7,10	16/04/10	3	–	–	–	3
Term	7,15	19/04/10	25	–	–	–	25
Term	7,24	20/04/10	231	–	–	–	231
Term	7,25	26/04/10	100	–	–	–	100
Term	7,27	29/04/10	20	–	–	–	20
Term	7,08	29/04/10	150	–	–	–	150
Term	6,99	29/04/10	100	–	–	–	100
Term	7,24	30/04/10	20	–	–	–	20

(*) Loan repayments occur every six months. Maturity date reflects final repayment date.

31 March 2010	Weighted average effective interest rate %	Maturity date	1 – 3 months R million	3 – 12 months R million	1 – 5 years R million	>5 years R million	Total R million
Term	7,20	05/05/10	50	–	–	–	50
Term	7,15	11/05/10	30	–	–	–	30
Term	7,14	19/05/10	100	–	–	–	100
Term	7,11	28/05/10	100	–	–	–	100
Term	7,11	28/05/10	100	–	–	–	100
Term	7,11	28/05/10	59	–	–	–	59
Term	7,11	02/06/10	50	–	–	–	50
Term	7,12	07/06/10	130	–	–	–	130
Term	7,05	08/06/10	6	–	–	–	6
Term	6,66	25/06/10	2	–	–	–	2
Term	6,66	25/06/10	10	–	–	–	10
Term	6,66	28/06/10	50	–	–	–	50
Repos	8,62	01/04/10	59	–	–	–	59
Repos	7,42	15/04/10	163	–	–	–	163
Bonds	12,77	15/09/10	–	2 585	–	–	2 585
Bonds	9,78	30/05/16	–	–	–	8 934	8 934
Bonds	9,02	28/05/15	–	–	–	366	366
Bonds	9,01	28/05/17	–	–	–	400	400
Bonds	8,92	28/05/19	–	–	–	400	400
Bonds	8,90	28/05/20	–	–	–	400	400
Bonds	8,51	28/05/21	–	–	–	990	990
EUR							
Loan ^(*)	5,73	31/07/12	–	11	17	–	28
Loan ^(*)	3,00	31/01/18	–	7	31	26	64
			1 973	2 806	346	17 547	22 672

(*) Loan repayments occur every six months. Maturity date reflects final repayment date.

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

Expected cash flows for non-derivative financial assets

The following table details TCTA's expected cash flows for LHWP's non-derivative financial assets. The table has been drawn up based on the undiscounted contractual cash flows of the financial assets. The inclusion of information on non-derivative financial assets is necessary in order to understand TCTA's liquidity risk management as the liquidity is managed on a net asset and liability basis.

Notes to the annual financial statements continued

for the year ended 31 March 2011

5. Risk management (continued)

5.2.1 Liquidity risk (continued)

Expected cash flows for non-derivative financial assets (continued)

31 March 2011	Weighted average effective interest rate %	Maturity date	1 – 3 months R million	3 – 12 months R million	1 – 5 years R million	>5 years R million	Total R million
Variable interest rate instruments							
ZAR							
Investments	5,26	01/04/11	308	–	–	–	308
Fixed interest rate instruments							
ZAR							
Investments	5,50	01/04/11	4	–	–	–	4
Investments	5,50	04/04/11	45	–	–	–	45
Investments	5,55	13/04/11	43	–	–	–	43
Investments	5,51	18/04/11	149	–	–	–	149
Investments	5,55	19/04/11	20	–	–	–	20
Investments	5,50	21/04/11	22	–	–	–	22
Investments	5,55	26/04/11	99	–	–	–	99
Investments	5,50	29/04/11	15	–	–	–	15
Investments	5,55	06/05/11	25	–	–	–	25
Investments	5,55	19/05/11	197	–	–	–	197
Investments	5,60	23/05/11	322	–	–	–	322
Investments	5,52	30/05/11	478	–	–	–	478
Investments	5,63	02/06/11	49	–	–	–	49
Investments	5,60	03/06/11	50	–	–	–	50
Investments	5,60	13/06/11	20	–	–	–	20
Investments	5,68	23/07/11	–	49	–	–	49
Investments	5,88	23/08/11	–	39	–	–	39
Investments	5,85	12/09/11	–	112	–	–	112
Investments	5,90	13/09/11	–	97	–	–	97
Investments	5,85	14/09/11	–	97	–	–	97
Investments	5,98	18/11/11	–	96	–	–	96
Investments	6,00	12/12/11	–	97	–	–	97
Investments	6,00	15/12/11	–	96	–	–	96
Investments	6,29	07/02/12	–	116	–	–	116
Investments	6,35	09/02/12	–	141	–	–	141
Investments	6,25	23/02/12	–	95	–	–	95
Investments	6,33	22/03/12	–	94	–	–	94
			1 846	1 129	–	–	2 975

31 March 2010	Weighted average effective interest rate %	Maturity date	1 – 3 months R million	3 – 12 months R million	1 – 5 years R million	>5 years R million	Total R million
Variable interest rate instruments							
ZAR							
Investments	6,30	01/04/01	157	–	–	–	157
Fixed interest rate instruments							
ZAR							
Investments	6,80	01/04/10	36	–	–	–	36
Investments	6,80	06/04/10	5	–	–	–	5
Investments	6,90	08/04/10	50	–	–	–	50
Investments	7,10	16/04/10	3	–	–	–	3
Investments	6,85	19/04/10	25	–	–	–	25
Investments	6,85	23/04/10	6	–	–	–	6
Investments	7,40	26/04/10	98	–	–	–	98
Investments	7,05	29/04/10	248	–	–	–	248
Investments	7,05	30/04/10	18	–	–	–	18
Investments	6,85	03/05/10	4	–	–	–	4
Investments	6,85	04/05/10	34	–	–	–	34
Investments	7,10	05/05/10	50	–	–	–	50
Investments	7,04	11/05/10	30	–	–	–	30
Investments	7,19	13/05/10	49	–	–	–	49
Investments	6,95	17/05/10	4	–	–	–	4
Investments	7,13	19/05/10	101	–	–	–	101
Investments	7,44	27/05/10	148	–	–	–	148
Investments	7,19	28/05/10	257	–	–	–	257
Investments	7,42	02/06/10	49	–	–	–	49
Investments	6,95	04/06/10	35	–	–	–	35
Investments	7,12	07/06/10	125	–	–	–	125
Investments	7,10	08/06/10	6	–	–	–	6
Investments	7,03	25/06/10	12	–	–	–	12
Investments	7,03	28/06/10	49	–	–	–	49
Investments	10,74	15/10/10	–	2 019	–	–	2 019
			1 599	2 019	–	–	3 618

The amounts included above for variable interest rate instruments for both non-derivative financial assets and liabilities is subject to change if changes in variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.

Notes to the annual financial statements continued

for the year ended 31 March 2011

5. Risk management (continued)

5.2.1 Liquidity risk (continued)

Liquidity analysis for the derivative financial instruments

The following table details TCTA's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis, and the undiscounted gross inflows and outflows on those derivatives that require gross settlement.

The following table details the liquidity analysis for the derivative financial instruments. The table that is drawn up is based on actual FEC rates and will, therefore, not tie in to the statement of financial position balances.

31 March 2011	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
Forward exchange contracts (gross settled)	3	121	7	1	–	–	–	132

31 March 2010	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
Forward exchange contracts (gross settled)	2	251	5	6	1	–	–	265

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

BWP

Funding sources and utilisation at 31 March:

Total borrowing authority	2011 R million	2010 R million
Limit	1 350	1 400
Utilisation	1 290	1 302
Available	60	98

Total utilisation of facilities: 2011	Limit R million	Utilisation R million	Available R million
Commercial Paper Programme	450	56	394
DBSA loan	500	360	140
EIB	800	774	26
Absa	300	100	200

Total utilisation of facilities: 2010	Limit R million	Utilisation R million	Available R million
Commercial Paper Programme	450	178	272
DBSA loan	500	380	120
EIB	800	704	96
Absa	300	40	260

Contractual Maturity Analysis report:

As at 31 March 2011, BWP had contractual maturities as summarised below:

Contractual maturity analysis report: Non-derivative financial liabilities

31 March 2011	Weighted average effective interest rate %	Maturity date	1 – 3 months R million	3 – 12 months R million	1 – 5 years R million	>5 years R million	Total R million
Variable interest rate instruments ZAR							
Commercial paper	5,25	01/04/11	56	–	–	–	56
Loan ^(*)	7,55	31/03/28	–	–	–	100	100
Fixed interest rate instruments ZAR							
Loan ^(*)	8,85	31/03/29	–	10	90	260	360
Loan ^(*)	8,02	15/09/24	–	57	229	488	774
			56	67	319	848	1 290

31 March 2010	Weighted average effective interest rate %	Maturity date	1 – 3 months R million	3 – 12 months R million	1 – 5 years R million	>5 years R million	Total R million
Variable interest rate instruments ZAR							
Commercial paper	6,25	01/04/10	178	–	–	–	178
Loan ^(*)	8,64	31/03/28	–	–	–	40	40
Loan ^(*)	7,39	15/09/24	–	43	171	406	620
Fixed interest rate instruments ZAR							
Loan ^(*)	8,85	31/03/29	–	20	80	280	380
Loan ^(*)	10,76	15/09/24	–	6	23	55	84
			178	69	274	781	1 302

(*) Loan repayments occur every six months. Maturity date reflects final repayment date.

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

Notes to the annual financial statements continued

for the year ended 31 March 2011

5. Risk management (continued)

5.2.1 Liquidity risk (continued)

Expected cash flows for non-derivative financial assets

31 March 2011	Weighted average effective interest rate %	Maturity date	1 – 3 months R million	3 – 12 months R million	1 – 5 years R million	>5 years R million	Total R million
Variable interest rate instruments ZAR							
Investments	5,25	01/04/11	22	–	–	–	22
			22	–	–	–	22
31 March 2010	Weighted average effective interest rate %	Maturity date	1 – 3 months R million	3 – 12 months R million	1 – 5 years R million	>5 years R million	Total R million
Variable interest rate instruments ZAR							
Investments	6,30	01/04/10	6	–	–	–	6
			6	–	–	–	6

The amounts included above for variable interest rate instruments for both non-derivative financial assets and liabilities is subject to change if changes in variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.

Loan commitments

As at 31 March 2011, BWP has unutilised long-term facilities of R200 million (2010: R393 million).

VRESAP

Funding sources and utilisation at 31 March:

	2011 R million	2010 R million	
Total borrowing authority			
Limit	3 600	3 300	
Utilisation	3 262	2 995	
Available	338	305	
	Limit R million	Utilisation R million	Available R million
Total utilisation of facilities: 2011			
Commercial Paper Programme	300	58	242
EIB	906	906	–
Standard Bank	1 350	1 350	–
Absa	1 000	443	557
Investec	155	155	–
Nedbank	350	350	–

Total utilisation of facilities: 2010	Limit R million	Utilisation R million	Available R million
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

Contractual Maturity Analysis report:

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

Contractual maturity analysis report: Non-derivative financial liabilities

31 March 2011	Weighted average effective interest rate %	Maturity date	1 – 3 months R million	3 – 12 months R million	1 – 5 years R million	>5 years R million	Total R million
Variable interest rate instruments							
ZAR							
Commercial paper	5,25	01/04/11	58	–	–	–	58
Loan ^(*)	6,74	01/03/28	–	–	68	306	374
Loan ^(*)	7,42	15/03/28	–	–	58	347	405
Loan ^(*)	5,46	31/03/28	–	–	5	373	378
Fixed interest rate instruments							
ZAR							
Loan ^(*)	8,49	15/06/27	–	–	160	746	906
Loan ^(*)	11,25	01/03/28	–	–	107	1 012	1 119
Loan ^(*)	9,43	31/03/28	–	–	–	220	220
			58	–	398	3 004	3 460

31 March 2010

Variable interest rate instruments

ZAR							
Commercial paper		01/04/10	58	–	–	–	58
Loan	7,38	31/03/28	–	–	–	207	207
Loan ^(*)	7,09	15/03/28	–	–	81	511	592
Loan ^(*)	9,27	01/03/28	–	–	111	720	831
Loan ^(*)	8,09	31/03/28	–	–	2	153	155

Fixed interest rate instruments

ZAR							
Loan ^(*)	10,90	01/03/28	–	–	41	739	780
Loan ^(*)	9,43	31/03/28	–	–	–	200	200
Loan ^(*)	9,08	15/03/28	–	–	45	459	504
			58	–	280	2 989	3 327

(*) Loan repayments occur every six months. Maturity date reflects final repayment date.

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

Notes to the annual financial statements continued

for the year ended 31 March 2011

5. Risk management (continued)

5.2.1 Liquidity risk (continued)

Expected cash flows for non-derivative financial assets

31 March 2011	Weighted average effective interest rate %	Maturity date	1 – 3 months R million	3 – 12 months R million	1 – 5 years R million	>5 years R million	Total R million
Variable interest rate instruments ZAR							
Investments	5,27	01/04/11	50	–	–	–	50
			50	–	–	–	50
31 March 2010	Weighted average effective interest rate %	Maturity date	1 – 3 months R million	3 – 12 months R million	1 – 5 years R million	>5 years R million	Total R million
Variable interest rate instruments ZAR							
Investments	6,34	01/04/10	78	–	–	–	78
			78	–	–	–	78

The amounts included above for variable interest rate instruments for both non-derivative financial assets and liabilities is subject to change if changes in variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.

Loan commitments

As at 31 March, VRESAP has unutilised long-term facilities of R527 million (2010: R824 million).

MMTS2

Funding sources and utilisation at 31 March:

	2011 R million	2010 R million	
Total borrowing authority			
Limit	3 100	200	
Utilisation	200	100	
Available	2 900	100	
	Limit R million	Utilisation R million	Available R million
Total utilisation of facilities: 2011			
Bridging facility	200	200	–
Total utilisation of facilities: 2010			
Bridging facility	200	100	100

Contractual Maturity Analysis report:

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

Contractual maturity analysis report: Non-derivative financial liabilities

31 March 2011	Weighted average effective interest rate %	Maturity date	1 – 3 months R million	3 – 12 months R million	1 – 5 years R million	>5 years R million	Total R million
Variable interest rate instruments ZAR							
Loan ^(*)	6,77	30/06/11	209	–	–	–	209
			209	–	–	–	209

(*) At 31 March, TCTA had utilised the full facility of R200 million. The outstanding liability of R209 million includes capitalised interest.

31 March 2010	Weighted average effective interest rate %	Maturity date	1 – 3 months R million	3 – 12 months R million	1 – 5 years R million	>5 years R million	Total R million
Variable interest rate instruments ZAR							
Loan	8,01	31/03/11	–	100	–	–	100
			–	100	–	–	100

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

Expected cash flows for non-derivative financial assets

31 March 2011	Weighted average effective interest rate %	Maturity date	1 – 3 months R million	3 – 12 months R million	1 – 5 years R million	>5 years R million	Total R million
Variable interest rate instruments ZAR							
Investments	5,27	01/04/11	66	–	–	–	66
			66	–	–	–	66

31 March 2010	Weighted average effective interest rate %	Maturity date	1 – 3 months R million	3 – 12 months R million	1 – 5 years R million	>5 years R million	Total R million
Variable interest rate instruments ZAR							
Investments	6,30	01/04/10	38	–	–	–	38
			38	–	–	–	38

Notes to the annual financial statements continued

for the year ended 31 March 2011

5. Risk management (continued)

5.2.1 Liquidity risk (continued)

Expected cash flows for non-derivative financial assets

Loan commitments

As at 31 March 2011, MMTS2 had unutilised facilities of Rnil (2010: R100 million).

KWSAP, ORWRDP2 and MCWAP

TCTA ALCO approved a revolving bridging facility for KWSAP, ORWRDP2 and MCWAP on 11 November 2010 as National Treasury had approved a borrowing limit of R250 million for a global bridging facility. This bridging facility is a short-term financing of the projects pending the finalisation of obtaining long-term funding for these projects. DWA has provided a written undertaking that:

- in the event that TCTA fails to comply with any applicable provision or requirement of the PFMA, including but not limited to obtaining all necessary written authorisations required in terms thereof, or any terms of the KWSAP, ORWRDP2 and MCWAP directives issued by the Minister, DWA shall take over the implementation of KWSAP, ORWRDP2 and MCWAP and assume the obligations of TCTA pertaining to KWSAP, ORWRDP2 and MCWAP as set out in the facility agreement;
- in the event that DWA withdraws any directive prior to implementation of the project, DWA undertakes to repay all bridging costs incurred in respect of that specific project.

Funding source for KWSAP, ORWRDP2 and MCWAP at 31 March 2011:

Global facility	Limit	Utilisation			Total	Available
	R million	KWSAP R million	ORWRDP2 R million	MCWAP R million	R million	R million
Bridging facility ^(*)	250	236	–	5	241	9

^(*) The bridging facility is one facility for all three projects. There were no bridging facilities in place for the year ended 31 March 2010.

KWSAP

Funding sources and utilisation at 31 March:

Total borrowing authority	2011 R million	2010 R million
Limit	2 700	–
Utilisation	236	–
Available	2 464	–

Contractual maturity analysis report: Non-derivative financial liabilities

31 March 2011	Weighted average effective interest rate %	Maturity date	1 – 3 months R million	3 – 12 months R million	1 – 5 years R million	>5 years R million	Total R million
Variable interest rate instruments							
ZAR Loan	5,90	31/10/12	–	–	236	–	236
			–	–	236	–	236

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

There was no facility in place as at 31 March 2010.

There is no contractual maturity analysis report for non-derivative financial assets for KWSAP as at 31 March 2011, as there were no non-derivative assets (2010: none).

ORWRDP2

There is no contractual maturity analysis report for non-derivative financial liabilities for ORWRDP2 as at 31 March 2011, as the liabilities had been repaid in full at that date.

Non-derivative financial assets

31 March 2011	Weighted average effective interest rate %	Maturity date	1 – 3 months R million	3 – 12 months R million	1 – 5 years R million	>5 years R million	Total R million
Variable interest rate instruments ZAR							
Investments	5,27	01/04/11	18	–	–	–	18
			18	–	–	–	18

There were no non-derivative assets as at 31 March 2010.

MCWAP

Funding sources and utilisation at 31 March:

Total borrowing authority	2011 R million	2010 R million
Limit	2 000	–
Utilisation	5	–
Available	1 995	–

Contractual maturity analysis report: Non-derivative financial liabilities

31 March 2011	Weighted average effective interest rate %	Maturity date	1 – 3 months R million	3 – 12 months R million	1 – 5 years R million	>5 years R million	Total R million
Variable interest rate instruments ZAR							
Loan	5,90	31/10/12	–	–	5	–	5
			–	–	5	–	5

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

There was no facility in place as at 31 March 2010.

There is no contractual maturity analysis report for non-derivative financial assets for MCWAP as at 31 March 2011, as there were no non-derivative assets (2010: none).

Notes to the annual financial statements continued

for the year ended 31 March 2011

5. Risk management (continued)

5.2.2 Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to TCTA. TCTA has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. TCTA only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, TCTA uses other publicly available financial information and its own trading records to rate its major customers. TCTA's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread among approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by ALCO annually.

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;
- 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 500 million and limited to counterparties where 5% of shareholders' funds exceed R100 million;
- the credit limit consumption of forward exchange contracts (FECs) with commercial banks is 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.

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.

The credit limit per counterparty refers to the overall limit for all TCTA projects. The table below reflects the utilisation per counterparty against the credit limit at 31 March:

LHWP

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

2011		Credit limit R million	Total utilisation R million	Available R million
Rating (Fitch – ABCA)				
Short term	Long term			
F1+	AA+	1 500	632	868
F1+	A	800	376	424
F1+	AA-	1 500	531	969
F1+	AA	1 500	607	893
F1+	AA-	1 500	89	1 411
F1+	AA-	1 500	181	1 319
F1+	AAA	860	20	840
F1+	AA	130	19	111
F1+	AA-	1 500	192	1 308
F1+	AAA	1 500	469	1 031
		12 290	3 116	9 174

The total utilisation includes derivatives.

2010		Credit limit R million	Total utilisation R million	Available R million
Rating (Fitch – ABCA)				
Short term	Long term			
F1+	AA+	1 000	1 315	(315) ^(*)
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

(*) The total utilisation exceeded the credit limit. This, however, is made up of an initial investment of R841 million and accrued interest of R474 million. This has subsequently been rectified by higher credit limit and a concentration risk policy within TCTA to limit one counterparty exposure to less than 40% of the total exposure.

The total utilisation includes derivatives.

BWP

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

2011		Credit limit R million	Total utilisation R million	Available R million
Rating (Fitch – ABCA)				
Short term	Long term			
F1+	A	800	5	795
F1+	AA-	1 500	4	1 496
F1+	AA-	1 500	3	1 497
F1+	AAA	1 500	10	1 490
		5 300	22	5 278

2010		Credit limit R million	Total utilisation R million	Available R million
Rating (Fitch – ABCA)				
Short term	Long term			
F1	AA-	600	1	599
F1+	AA-	400	4	396
F1+	AAA	1 000	1	999
		2 000	6	1 994

Notes to the annual financial statements continued

for the year ended 31 March 2011

5. Risk management (continued)

5.2.2 Credit risk (continued)

VRESAP

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

2011		Credit limit R million	Total utilisation R million	Available R million
Rating (Fitch – ABCA)				
Short term	Long term			
F1+	A	800	9	791
F1+	AA-	1 500	28	1 472
F1+	AA-	1 500	6	1 494
F1+	AA-	1 500	7	1 493
		5 300	50	5 250

2010		Credit limit R million	Total utilisation R million	Available R million
Rating (Fitch – ABCA)				
Short term	Long term			
F1	AA-	600	1	599
F1+	AA-	400	72	328
F1+	AAA	1 000	5	995
		2 000	78	1 922

MMS2

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

2011		Credit limit R million	Total utilisation R million	Available R million
Rating (Fitch – ABCA)				
Short term	Long term			
F1+	A	800	10	790
F1+	AA-	1 500	22	1 478
F1+	AA-	1 500	17	1 483
F1+	AA-	1 500	17	1 483
		5 300	66	5 234

2010		Credit limit R million	Total utilisation R million	Available R million
Rating (Fitch – ABCA)				
Short term	Long term			
F1	AA	1 000	10	990
F1+	AA-	400	18	382
F1+	AAA	1 000	10	990
		2 400	38	2 362

KWSAP

There are no investments for the year (2010: none).

ORWRDP2

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

2011		Credit limit R million	Total utilisation R million	Available R million
Rating (Fitch – ABCA)				
Short term	Long term			
F1+	AA-	1 500	10	1 490
F1+	AA-	1 500	8	1 492
		3 000	18	2 982

There were no investments for 2010.

MCWAP

There are no investments for the year (2010: none).

Borehole

There are no investments for the year (2010: none).

5.2.3 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.

TCTA's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (see A below) and interest rates (see B below). TCTA enters into a variety of derivative financial instruments to manage its exposure to foreign currency risk and interest rate risk, including:

- FECs to hedge the exchange rate risk arising on the repayment of foreign loans.

There has been no change to TCTA's exposure to market risks or the manner in which these risks are managed and measured.

A. Foreign currency risk management

TCTA undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising FECs.

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.

Notes to the annual financial statements continued

for the year ended 31 March 2011

5. Risk management (continued)

5.2.3 Market risk (continued)

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

Foreign exchange contracts maturity profile

	2011 EUR million	2010 EUR million	2011 USD million	2010 USD million
Assets				
<1 year	–	17	2	3
1 – 2 years	–	–	1	2
2 – 3 years	–	–	1	2
3 – 4 years	–	–	–	1
4 – 5 years	–	–	–	–
>5 years	–	–	–	–
	–	17	4	8
Liabilities				
<1 year	12	–	2	2
1 – 2 years	–	–	2	1
2 – 3 years	–	–	1	1
3 – 4 years	–	–	–	1
4 – 5 years	–	–	–	–
>5 years	–	–	–	–
	12	–	5	5

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 2011 (2010: 25%). A 15% change was considered for the USD/ZAR exchange rate (2010: 15%). The sensitivity analysis is based on foreign currency financial instruments held at each reporting date and also takes into account FECs that offset effects from changes in currency exchange rates.

If the rand had weakened against the US dollar and euro by 25% (2010: 25%) and 15% (2010: 15%) respectively then this would have had the following impact:

	2011 Change in euro R million	2010 Change in euro R million	2011 Change in USD R million	2010 Change in USD R million
Increase in rates				
(Surplus)/deficit	–	12	(5)	2

If the rand had strengthened against the US dollar and euro by 25% (2010: 25%) and 15% (2010: 15%) respectively then this would have had the following impact:

	2011 Change in euro R million	2010 Change in euro R million	2011 Change in USD R million	2010 Change in USD R million
Decrease in rates				
(Surplus)/deficit	5	20	(5)	2

BWP

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

VRESAP

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

MMTS2

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

KWSAP

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

ORWRDP2

The ORWRDP2 is currently not exposed to currency risk as it does not have any foreign exchange liabilities.

MCWAP

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

Borehole

The Borehole 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 negatively impacting 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.

Notes to the annual financial statements continued

for the year ended 31 March 2011

5. Risk management (continued)

5.2.3 Market risk (continued)

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

	Fixed rate 2011 %	Fixed rate 2010 %	Variable rate 2011 %	Variable rate 2010 %
Euro	1	1	–	1
USD	–	–	–	1
Rand	68	67	31	30
Total liabilities	69	68	31	32

Refinancing risk

The duration of liabilities can be viewed as the rate at which liabilities will reprice when refinanced. In terms of duration analysis, liabilities with short duration stand to gain by repricing at lower levels on refinancing date in a downward 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. 90% of the debt issued by end of March 2011 supports asset and liability matching.

The table below shows the weighted/modified average duration of bonds as at 31 March 2011:

Bonds	Amount issued R million	Maturity date	Duration (years)	Weighted average duration	Modified duration
WS04	7 079	30/05/2016	3,91	33,15	3,76
WS05	3 525	01/08/2018	6,28	26,50	6,20
WSP1	355	28/05/2015	3,45	1,47	3,31
WSP2	1 887	28/05/2017	4,70	10,62	4,50
WSP3	285	28/05/2019	5,75	1,96	5,49
WSP4	253	28/05/2020	6,19	1,87	5,91
WSP5	3 088	28/05/2021	6,61	24,44	6,32
	16 472		5,07⁽¹⁾	25,81⁽¹⁾	4,90⁽¹⁾

(1) The total is the weighted average calculation of the bonds.

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 (2010: +/-100 bps) and +200 bps and -200 bps (2010: +/-200 bps), with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on LHWP's financial instruments (liabilities and assets) held at each reporting date. All other variables are held constant.

	2011 R million	2010 R million	2011 R million	2010 R million
	(1,00%)	(1,00%)	1,00%	1,00%
Financial liabilities (Surplus)/deficit	29	25	(15)	(40)
Financial assets (Surplus)/deficit	(2)	(21)	2	21
	(2,00%)	(2,00%)	2,00%	2,00%
Financial liabilities (Surplus)/deficit	53	57	(41)	(71)
Financial assets (Surplus)/deficit	(4)	(41)	4	41

BWP

Fixed vs variable-rate loans

The ratio of fixed to floating debt as at 31 March 2011 was 88% fixed and 12% floating. This is in line with the benchmark of a minimum of 50% fixed.

2011 Borrowings	ZAR values		% of total debt book	
	Fixed (R'm)	Variable (R'm)	Fixed %	Variable %
ZAR	1 134	156	88	12

The ratio of fixed to floating debt as at 31 March 2010 was 36% fixed and 64% floating.

2010 Borrowings	ZAR values		% of total debt book	
	Fixed (R'm)	Variable (R'm)	Fixed %	Variable %
ZAR	464	838	36	64

Refinancing and repricing risk

As at 31 March 2011, BWP had no term paper in issue (2010: no term paper in issue).

Notes to the annual financial statements continued

for the year ended 31 March 2011

5. Risk management (continued)

5.2.3 Market risk (continued)

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 (2010: +/-100 bps) and +200 bps and -200 bps (2010: +/-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.

	2011 R million	2010 R million	2011 R million	2010 R million
	(1,00%)	(1,00)	1,00%	1,00
Financial liabilities (Surplus)/deficit	8	11	(8)	(5)
Financial assets (Surplus)/deficit	-	-	-	-
	(2,00%)	(2,00%)	2,00%	2,00%
Financial liabilities (Surplus)/deficit	15	19	(16)	(13)
Financial assets (Surplus)/deficit	-	-	-	-

VRESAP

Fixed vs variable-rate loans

At 31 March 2011, the ratio of fixed to floating debt was 65% fixed and 35% floating. This is in line with the benchmark of a minimum of 50% fixed.

2011 Borrowings	ZAR values		% of total debt book	
	Fixed (R'm)	Variable (R'm)	Fixed %	Variable %
ZAR	2 245	1 215	65	35

The split as at 31 March 2010 between the ratio of fixed and floating interest rates was 45% fixed and 55% floating.

2010 Borrowings	ZAR values		% of total debt book	
	Fixed (R'm)	Variable (R'm)	Fixed %	Variable %
ZAR	1 484	1 843	45	55

Refinancing and repricing risk

As at 31 March 2011, VRESAP had no term paper in issue (2010: 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 (2010: +/-100 bps) and +200 bps and -200 bps (2010: +/-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.

	2011 R million	2010 R million	2011 R million	2010 R million
	(1,00%)	(1,00%)	1,00%	1,00%
Financial liabilities (Surplus)/deficit	10	21	(27)	(6)
Financial assets (Surplus)/deficit	-	-	-	-
	(2,00%)	(2,00%)	2,00%	2,00%
Financial liabilities (Surplus)/deficit	27	34	(42)	(19)
Financial assets (Surplus)/deficit	-	-	-	-

MMTS2

Fixed vs variable-rate loans

At 31 March 2011, the ratio of fixed to floating debt was 0% fixed and 100% floating. The approved capital structure of projects still under construction are not expected to comply with the 70% to 30% guideline.

2011 Borrowings	ZAR values		% of total debt book	
	Fixed	Variable	Fixed %	Variable %
ZAR	-	209	-	100

At 31 March 2010, the ratio of fixed to floating debt was 0% fixed and 100% floating.

2010 Borrowings	ZAR values		% of total debt book	
	Fixed	Variable	Fixed %	Variable %
ZAR	-	100	-	100

Refinancing and repricing risk

As at 31 March 2011, MMTS2 had no term paper in issue (2010: 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 (2010: +/-100 bps) and +200 bps and -200 bps (2010: +/-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.

Notes to the annual financial statements continued

for the year ended 31 March 2011

5. Risk management (continued)

5.2.3 Market risk (continued)

Interest rate sensitivity (continued)

	2011 R million	2010 R million	2011 R million	2010 R million
	(1,00%)	(1,00%)	1,00%	1,00%
Financial liabilities				
Surplus/(deficit)	1	–	(1)	–(1)
Financial assets				
Surplus/(deficit)	–	–	–	–(1)
	(2,00%)	(2,00%)	2,00%	2,00%
Financial liabilities				
Surplus/(deficit)	3	–	(3)	–(1)
Financial assets				
Surplus/(deficit)	–	–	–	–(1)

(1) The movements are less than R500 000.

KWSAP

Fixed vs variable-rate loans

At 31 March 2011, the ratio of fixed to floating debt was 0% fixed and 100% floating (2010: no borrowings).

2011 Borrowings	ZAR values		% of total debt book	
	Fixed	Variable	Fixed %	Variable %
ZAR	–	236	–	100

Refinancing and repricing risk

As at 31 March 2011, KWSAP had no term paper in issue (2010: 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 KWSAP's financial instruments held at each reporting date. All other variables are held constant.

	2011 R million	2011 R million
	(1,00%)	1,00%
Financial liabilities		
(Surplus)/deficit	–	–(1)
Financial assets		
(Surplus)/deficit	–	–(1)
	(2,00%)	2,00%
Financial liabilities		
(Surplus)/deficit	–	(1)
Financial assets		
(Surplus)/deficit	–	–(1)

(1) The movements are less than R500 000.

There were no financial market liabilities or investments as at 31 March 2010.

ORWRDP2

Fixed vs variable-rate loans

There were no borrowings as at 31 March 2011 and 2010.

2011 Borrowings	ZAR values		% of total debt book	
	Fixed	Variable	Fixed %	Variable %
ZAR	-	-	-	-

Refinancing and repricing risk

As at 31 March 2011, ORWRDP2 had no term paper in issue (2010: 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 ORWRDP2's financial instruments held at each reporting date. All other variables are held constant.

	2011 R million	2011 R million
	(1,00%)	1,00%
Financial liabilities (Surplus)/deficit	-	-(1)
Financial assets (Surplus)/deficit	-	-(1)
	(2,00%)	2,00%
Financial liabilities (Surplus)/deficit	-	-
Financial assets (Surplus)/deficit	(2,00%)	2,00%
	-	-(1)

(1) The movements are less than R500 000.

There were no financial market liabilities or investments as at 31 March 2010.

MCWAP

Fixed vs variable-rate loans

At 31 March 2011, the ratio of fixed to floating debt was 0% fixed and 100% floating (2010: no borrowings).

2011 Borrowings	ZAR values		% of total debt book	
	Fixed	Variable	Fixed %	Variable %
ZAR	-	5	-	100

Refinancing and repricing risk

As at 31 March 2011, MCWAP had no term paper in issue (2010: no term paper in issue).

Notes to the annual financial statements continued

for the year ended 31 March 2011

5. Risk management (continued)

5.2.3 Market risk (continued)

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 MCWAP's financial instruments held at each reporting date. All other variables are held constant.

	2011 R million	2011 R million
	(1,00%)	1,00%
Financial liabilities (Surplus)/deficit	–	–(1)
Financial assets (Surplus)/deficit	–	–(1)
	(2,00%)	2,00%
Financial liabilities (Surplus)/deficit	–	–(1)
Financial assets (Surplus)/deficit	–	–(1)

(1) The movements are less than R500 000.

There were no financial market liabilities or investments as at 31 March 2010.

5.3 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.

	Level 1 inputs	Level 2 inputs	Level 3 inputs
Derivative financial instruments		Derive pricing from the market and then derive a curve based on that price	

5.4 Operational risk management

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

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

6. Property, plant and equipment

6.1 Works in South Africa

2011	LHWP R million	BWP R million	VRESAP R million	MCWAP R million	MMTS2 R million	ORWRDP2 R million	KWSAP R million	Total R million
Cost as previously stated	2 091	1 244	2 934	23	26	8	23	6 349
Accumulated depreciation	(34)	(19)	(81)	–	–	–	–	(134)
Carrying amount at beginning of year	2 057	1 225	2 853	23	26	8	23	6 215
During the year:								
Additions	–	14	111	75	79	39	76	394
Recovery ⁽¹⁾	–	–	(42)	–	–	–	–	(42)
Depreciation	5	(9)	(73)	–	–	–	–	(77)
Cost/depreciated replacement value	2 091	1 258	3 003	98	105	47	99	6 701
Accumulated depreciation	(29)	(28)	(154)	–	–	–	–	(211)
Carrying amount at end of year	2 062	1 230	2 849	98	105	47	99	6 490
2010	LHWP R million	BWP R million	VRESAP R million	MCWAP R million	MMTS2 R million	ORWRDP2 R million	KWSAP R million	Total 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	23	290
Depreciation	(3)	(13)	(81)	–	–	–	–	(97)
Cost/depreciated replacement value	2 091	1 244	2 934	23	26	8	23	6 349
Accumulated depreciation	(34)	(19)	(81)	–	–	–	–	(134)
Carrying amount at end of year	2 057	1 225	2 853	23	26	8	23	6 215

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

Notes to the annual financial statements continued

for the year ended 31 March 2011

6. Property, plant and equipment (continued)

6.2 Other assets

2011	LHWP R million	BWP R million	VRESAP R million	MCWAP R million	MMTS2 R million	ORWRDP2 R million	KWSAP R million	Total R million
Cost as previously stated	25	–	–	–	–	–	–	25
Accumulated depreciation	(19)	–	–	–	–	–	–	(19)
Carrying amount at beginning of year	6	–	–	–	–	–	–	6
During the year:								
Additions	6	–	–	–	–	–	–	6
Depreciation	(4)	–	–	–	–	–	–	(4)
Cost/depreciated replacement value	31	–	–	–	–	–	–	31
Accumulated depreciation	(23)	–	–	–	–	–	–	(23)
Carrying amount at end of year	8	–	–	–	–	–	–	8
2010	LHWP R million	BWP R million	VRESAP R million	MCWAP R million	MMTS2 R million	ORWRDP2 R million	KWSAP R million	Total 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
Depreciation	(3)	–	–	–	–	–	–	(3)
Cost/depreciated replacement value	25	–	–	–	–	–	–	25
Accumulated depreciation	(19)	–	–	–	–	–	–	(19)
Carrying amount at end of year	6	–	–	–	–	–	–	6

6.3 Total property, plant and equipment

	Works capitalised R million	Other R million	2011 Total R million	2010 Total R million
LHWP	2 062	8	2 070	2 063
BWP	1 230	–	1 230	1 225
VRESAP	2 849	–	2 849	2 853
MCWAP	98	–	98	23
MMTS2	105	–	105	26
ORWRDP2	47	–	47	8
KWSAP	99	–	99	23
Total	6 490	8	6 498	6 221

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

6.4 Works in SA

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 had a full technical valuation of the works in South Africa conducted during the 2008 financial year. This revaluation was performed by SSI Engineers and Environmental Consultants (Pty) Limited (SSI) during March 2008. The revaluation was performed on the physical construction of the works and excluded 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.

In terms of its accounting policies, TCTA obtains a valuation based on the future cash flow streams performed by an independent valuator every three years. A valuation was performed by an independent valuator, Rakoma and Associates Inc., for the 2011 financial year. The valuation report issued by the valuers in May 2011, reflected a value in use of R21 527 million, indicating that the carrying amount reflected at the end of the 2011 financial year does not need to be impaired.

See note 29 on the critical accounting estimates and judgements for details of the assumptions and process followed to perform the value-in-use calculation.

BWP

The BWP comprises the Berg River Dam and supplement scheme located in the upper reaches of the Berg River near Franschhoek. The project is divided into two 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.

In terms of its accounting policies, TCTA determines the value in use of the BWP works based on the fair value of the future cash flow streams using an appropriate discount rate. Valuations are performed by management annually based on the fair value of the future cash flow streams, while a qualified valuer performs these calculations every three years. This exercise is 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 provide evidence of the fair value of the works as stated.

Notes to the annual financial statements continued

for the year ended 31 March 2011

6. Property, plant and equipment (continued)

6.4 Works in SA (continued)

A valuation was performed by an independent valuator, Rakoma and Associates Inc., for the 2011 financial year. The valuation report issued by the valutors in May 2011 reflected a value in use of R1 246 million, indicating that the carrying amount reflected at the end of the 2011 financial year does not need to be impaired.

See note 29 on the critical accounting estimates and judgements for details of the process followed to perform the value-in-use calculation and discount rates used.

VRESAP

VRESAP was declared operational during the 2010 financial year. Management assessed the value in use based on the fair value of the future income streams. There was no indication of impairment.

6.5 Works in SA/works capitalised

2011	LHWP R million	BWP R million	VRESAP R million	MCWAP R million	MMTS2 R million	ORWRDP2 R million	KWSAP R million	Total R million
The carrying amount consists of:								
• Costs capitalised	2 207	1 747	3 007	98	105	47	99	7 310
• Levies/income received	(253)	(443)	(4)	–	–	–	–	(700)
• Depreciation	(29)	(28)	(154)	–	–	–	–	(211)
• Berg Water capital charge adjustment	–	(46)	–	–	–	–	–	(46)
• Revaluation	137	–	–	–	–	–	–	137
	2 062	1 230	2 849	98	105	47	99	6 490
2010	LHWP R million	BWP R million	VRESAP R million	MCWAP R million	MMTS2 R million	ORWRDP2 R million	KWSAP R million	Total R million
The carrying amount consists of:								
• Costs capitalised	2 207	1 733	2 938	23	26	8	23	6 958
• Levies/income received	(253)	(443)	(4)	–	–	–	–	(700)
• Depreciation	(34)	(19)	(81)	–	–	–	–	(134)
• Berg Water capital charge adjustment	–	(46)	–	–	–	–	–	(46)
• Revaluation	137	–	–	–	–	–	–	137
	2 057	1 225	2 853	23	26	8	23	6 215

6.6 Costs capitalised

2011	BWP R million	VRESAP R million	MCWAP R million	MMTS2 R million	ORWRDP2 R million	KWSAP R million	TOTAL R million
Costs capitalised comprise:							
• Engineering and construction	1 507	2 448	91	91	48	87	4 272
• Finance costs	199	542	6	14	(1)	11	771
• Directly attributable costs	41	17	1	–	–	1	60
	1 747	3 007	98	105	47	99	5 103
2010	BWP R million	VRESAP R million	MCWAP R million	MMTS2 R million	ORWRDP2 R million	KWSAP R million	Total R million
Costs capitalised comprise:							
• Engineering and construction	1 493	2 379	21	22	7	21	3 943
• Finance costs	199	542	2	3	1	2	749
• Directly attributable costs	41	17	–	1	–	–	59
	1 733	2 938	23	26	8	23	4 751

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

	Accumulated Cost depreciation R million	Accumulated depreciation R million	Carrying amount 2011 R million	Carrying amount 2010 R million
LHWP	1 953	(27)	1 926	1 928
BWP	1 258	(28)	1 230	1 225
VRESAP	3 003	(154)	2 849	2 853
MCWAP	98	–	98	23
MMTS2	105	–	105	26
ORWRDP2	47	–	47	8
KWSAP	99	–	99	23
Total	6 563	(209)	6 354	6 086

Notes to the annual financial statements continued

for the year ended 31 March 2011

7. Intangible asset

7.1 Enduring benefit

LHWP

	Total 2011 R million	Total 2010 R million
Cost as previously stated	13 368	13 322
Accumulated amortisation	(245)	(215)
Carrying amount at beginning of year	13 123	13 107
Compensation	(7)	46
Amortisation	(29)	(30)
Cost/depreciated replacement value	13 361	13 368
Accumulated amortisation	(274)	(245)
Carrying amount at end of year	13 087	13 123

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

The enduring benefit was completed in two phases, namely Phase 1A and Phase 1B. The amortisation periods remaining as at 31 March 2011 are 32 years and 38 years respectively for Phase 1A and for Phase 1B (2010: 33 years and 39 years respectively for Phase 1A and for Phase 1B).

The carrying amount of the indefinite portion of the enduring benefit as at 31 March 2011 is R12 031 274 525 (2010: R12 031 274 525).

Enduring benefit

	Carrying amount		Capitalised/(recovered) for the year	
	2011 R million	2010 R million	2011 R million	2010 R million
Cost-related payments (borrowing costs)	7 367	7 367	–	–
Cost-related payments (capital)	4 022	4 029	(7)	46
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	(274)	(245)	(29)	(30)
Total	13 087	13 123	(36)	16

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 repayable.

7.3 Future cost-related payments

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

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 properties LHWP

	Total 2011 R million	Total 2010 R million
Carrying amount at beginning of year	14	14
Cost/depreciated replacement value	16	16
Accumulated depreciation	(2)	(2)
During the year:		
Reclassifications	(2)	–
Donations	(2)	–
Depreciation	–	–
Accumulated depreciation on donated asset	1	–
Cost/depreciated replacement value	12	16
Accumulated depreciation	(1)	(2)
Carrying amount at end of year	11	14

Investment properties consist of the Lesotho Bank Towers building and the Clarens Guesthouse.

Lesotho Bank Towers

The Lesotho Bank Towers was purchased by the LHDA from Standard Lesotho Bank at a cost of M20 million in 2008. TCTA paid 50% towards the cost of acquiring the building and has, in the current year, contributed 50% towards the administrative and maintenance cost. Rental income received from the leasing of office space to external parties has been included in other income. Total rental received for the 2011 financial year amounts to R2 285 784 (2010: R2 512 747).

The fair value is estimated to be in line with the original cost price due to the fact that the property was acquired two years prior to the end of the current financial year and this value is not expected to have increased significantly due to prevailing economic conditions. The fair value was not determined by an independent valuator in the current financial year, however, the replacement cost (derived from the sum insured) has been based upon the value used for the 2010/2011 insurance year and is R114 million (2010: R95 million).

No indicators of impairment were identified.

Clarens Guesthouse

This property consists of land (cost R25 000) and buildings with a cost price of R210 000. Rental income amounting to R30 000 was received for the year (2010: R30 000).

Pietersdal

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

The estimated useful life of the buildings has been estimated at 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.

Notes to the annual financial statements continued

for the year ended 31 March 2011

8. Investment properties (continued)

Pietersdal (continued)

The Pietersdal Office Block is situated in Clarens, in the eastern Free State. The building was donated to the Public Works Department of the Free State Provincial Government on 25 May 2009. The office block was donated as an unregistered and unsurveyed portion estimated to be 2,5 hectares of subdivision 1 of the Farm Pietersdal 1207. The original title deed for subdivision 1 of the Farm Pietersdal 1207 indicates that the land is 36,2366 hectares. Until the handover ceremony on 19 August 2010, TCTA had been responsible for the utilities and security of this property and therefore the transaction was recorded in 2010/11.

Khubetswana

TCTA constructed 41 houses in Khubetswana during the construction phase of the Lesotho Highlands Water Project, which are currently being rented to members of the community. These houses, which were previously classified as investment property have been reclassified to current assets held for sale in the current year, as a disposal strategy has been approved for the houses and it is expected that they will be sold within the next 12 months.

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 Notice No 21017*, dated 24 March 2000, the Minister of Water and Environmental Affairs, with the concurrence of the Minister of Finance, is required to approve any adjustment in TCTA's borrowing limit. The borrowing limit is based on TCTA's borrowing requirement in order to fulfil the Republic of South Africa's financial obligations in terms of, or resulting from, the Treaty or from any other function that the Minister of Water and Environmental Affairs may require in terms of section 103(2) of the National Water Act, 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 has statistically determined that an optimal capital structure of 70% fixed and 30% floating rate debt is the most appropriate for the structure and nature of projects. This, furthermore, ensures that there is less volatility on the debt curve;
- redemption portfolio management: Refinancing and repricing risks are further managed by the creation of redemption portfolios. TCTA runs redemption portfolios over a three-year period prior to maturity of a bond. This approach, ensures that the interest rate risk is spread over a three-year horizon;
- proactive (IR) risk management: The following market risks are actively managed and monitored on a continuous basis:
 - liquidity risk;
 - interest rate risk;
 - credit risk;
 - currency risk.

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

The Treasury function 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 addition 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 Financial instruments by category

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

9.2.1 Financial assets

	Note	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 2011					
Derivative financial instruments	9.3	9	–	9	9
Loans and other receivables	9.3, 10	–	750	750	750
Financial market investments	9.3	–	3 144	3 144	3 144
Cash and cash equivalents	9.3, 17	–	1	1	1
Total		9	3 895	3 904	3 904
Assets as per statement of financial position at 31 March 2010					
Derivative financial instruments	9.3	8	–	8	8
Loans and other receivables	9.3, 10	–	1 012	1 012	1 012
Financial market investments	9.3	–	4 198	4 198	4 198
Cash and cash equivalents	9.3, 17	–	–	–	–
Total		8	5 210	5 218	5 218

9.2.2 Financial liabilities

	Note	Financial 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 2011					
Derivative financial instruments	9.3	11	–	11	11
Financial market liabilities	9.3	–	25 952	25 952	29 092
Trade and other payables	9.3, 14	–	1 197	1 197	1 197
Total		11	27 149	27 160	30 300

Notes to the annual financial statements continued

for the year ended 31 March 2011

9. Financial instruments (continued)

9.2 Financial instruments by category (continued)

9.2.2 Financial liabilities (continued)

	Note	Financial 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					
Derivative financial instruments	9.3	82	–	82	82
Financial market liabilities	9.3	–	27 085	27 085	30 333
Trade and other payables	9.3, 14	–	992	992	992
Total		82	28 077	28 159	31 407

9.3 Financial instruments in time buckets

Financial instruments	Current (One year and less) 2011 R million	Current (One year and less) 2010 R million	Non-current (1 to 5 years) R million
Financial assets			
LHWP			
Amortised cost			
Financial market investments	2 988	4 076	–
Loans and other receivables	552	838	–
Financial assets at fair value through profit or loss			
Derivative financial instruments	4	3	5
Total	3 544	4 917	5
BWP			
Amortised cost			
Financial market investments	22	6	–
Loans and other receivables	–	–	4
Total	22	6	4
VRESAP			
Amortised cost			
Financial market investments	50	78	–
Loans and other receivables	68	50	–
Total	118	128	–

Non-current (5 to 10 years) R million	Non-current (10 years and longer) R million	Non-current 2011 R million	Non-current 2010 R million	Total 2011 R million	Total 2010 R million
-	-	-	-	2 988	4 076
-	-	-	-	552	838
-	-	5	5	9	8
-	-	5	5	3 549	4 922
-	-	-	-	22	6
-	-	4	5	4	5
-	-	4	5	26	11
-	-	-	-	50	78
-	-	-	-	68	50
-	-	-	-	118	128

Notes to the annual financial statements continued

for the year ended 31 March 2011

9. Financial instruments (continued)

9.3 Financial instruments in time buckets (continued)

Financial instruments	Current (One year and less) 2011 R million	Current (One year and less) 2010 R million	Non-current (1 to 5 years) R million
MCWAP			
Amortised cost			
Cash and cash equivalents	1	–	–
Loans and other receivables	53	15	–
Total	54	15	–
MMTS2			
Amortised cost			
Financial market investments	66	38	–
Loans and other receivables	43	25	–
Total	109	63	–
ORWRDP2			
Amortised cost			
Financial market investments	18	–	–
Loans and other receivables	16	77	–
Total	34	77	–
KWSAP			
Amortised cost			
Loans and other receivables	–	2	–
Total	–	2	–
Borehole			
Amortised cost			
Loans and other receivables	14	–	–
Total	14	–	–
Total financial assets	3 895	5 208	9
Financial liabilities			
Financial liabilities at fair value through profit or loss			
LHWP			
Derivative financial instruments	7	80	4
Total financial liabilities at fair value through profit or loss	7	80	4

Non-current (5 to 10 years) R million	Non-current (10 years and longer) R million	Non-current 2011 R million	Non-current 2010 R million	Total 2011 R million	Total 2010 R million
-	-	-	-	1	-
-	-	-	-	53	15
-	-	-	-	54	15
-	-	-	-	66	38
-	-	-	-	43	25
-	-	-	-	109	63
-	-	-	-	18	-
-	-	-	-	16	77
-	-	-	-	34	77
-	-	-	-	-	2
-	-	-	-	-	2
-	-	-	-	14	-
-	-	-	-	14	-
-	-	9	10	3 904	5 218
-	-	4	2	11	82
-	-	4	2	11	82

Notes to the annual financial statements continued

for the year ended 31 March 2011

9. Financial instruments (continued)

9.3 Financial instruments in time buckets (continued)

Financial instruments	Current (One year and less) 2011 R million	Current (One year and less) 2010 R million	Non-current (1 to 5 years) R million
Other financial liabilities			
LHWP			
Local debt (A)			
Issued bonds	(243)	1 877	352
LHDA	–	989	–
Repo borrows	(243)	(690)	–
TCTA	–	1 578	352
Other loans (B)	1 812	1 912	256
TCTA	1 794	1 765	166
LHDA	18	147	90
Foreign debt (C)			
Debt translated at spot rates	44	46	53
LHDA	44	46	53
Repo carries (D)	88	538	–
Financial market liabilities (A+B+C+D)	1 701	4 373	661
Trade and other payables	656	612	–
Total	2 357	4 985	661
BWP			
Financial market liabilities: Local debt	123	247	319
Trade and other payables	28	64	–
Total	151	311	319
VRESAP			
Financial market liabilities: Local debt	58	58	393
Trade and other payables	64	42	–
Total	122	100	393
MCWAP			
Financial market liabilities: Local debt	5	–	–
Trade and other payables	198	68	–
Total	203	68	–
MMTS2			
Financial market liabilities: Local debt	209	100	–
Trade and other payables	57	27	–
Total	266	127	–

Non-current (5 to 10 years) R million	Non-current (10 years and longer) R million	Non-current 2011 R million	Non-current 2010 R million	Total 2011 R million	Total 2010 R million
15 162	3 114	18 628	17 453	18 385	19 330
-	-	-	-	-	989
-	-	-	-	(243)	(690)
15 162	3 114	18 628	17 453	18 628	19 031
148	8	412	461	2 224	2 373
79	-	245	276	2 039	2 041
69	8	167	185	185	332
17	-	70	119	114	165
17	-	70	119	114	165
-	-	-	-	88	538
15 327	3 122	19 110	18 033	20 811	22 406
-	-	-	-	656	612
15 327	3 122	19 110	18 033	21 467	23 018
387	461	1 167	1 055	1 290	1 302
-	-	-	-	28	64
387	461	1 167	1 055	1 318	1 366
834	2 116	3 343	3 219	3 401	3 277
-	-	-	-	64	42
834	2 116	3 343	3 219	3 465	3 319
-	-	-	-	5	-
-	-	-	-	198	68
-	-	-	-	203	68
-	-	-	-	209	100
-	-	-	-	57	27
-	-	-	-	266	127

Notes to the annual financial statements continued

for the year ended 31 March 2011

9. Financial instruments (continued)

9.3 Financial instruments in time buckets (continued)

Financial instruments	Current (One year and less) 2011 R million	Current (One year and less) 2010 R million	Non-current (1 to 5 years) R million
Other financial liabilities (continued)			
ORWRDP2			
Trade and other payables	146	124	–
Total	146	124	–
KWSAP			
Financial market liabilities: Local debt	236	–	–
Trade and other payables	36	55	–
Total	272	55	–
Borehole			
Trade and other payables	12	–	–
Total	12	–	–
Total other financial liabilities	3 529	5 770	1 373
Total financial liabilities	3 536	5 850	1 377
Net financial (assets)/liabilities	(359)	642	1 368

9.4 Interest rates

	2011 %	2010 %
LHWP		
Loans bear effective interest at rates ranging from	3,5 to 22,1(*)	5,1 to 21,5 (*)
TCTA funded at a weighted average rate of	9,72	10,11
Project funded at a weighted average rate of	9,80	10,23

(*) The interest rate applicable to one of the development funding foreign loans is 3,5%. This is a euro loan facility drawn as ZAR funding. The 22,1% relates to a Calyon loan for Mohale Tunnel, valued at spot at R16 million (2010: R28 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 22,1% (2010: 21,5%).

The project funded at a weighted average rate of	2011 %	2010 %
BWP	8,10	7,75
VRESAP	8,78	8,71
MMTS2	6,87	8,01
KWSAP	5,90	–
ORWRDP2	5,90	–
MCWAP	5,90	–

Non-current (5 to 10 years) R million	Non-current (10 years and longer) R million	Non-current 2011 R million	Non-current 2010 R million	Total 2011 R million	Total 2010 R million
-	-	-	-	146	124
-	-	-	-	146	124
-	-	-	-	236	-
-	-	-	-	36	55
-	-	-	-	272	55
-	-	-	-	12	-
-	-	-	-	12	-
16 548	5 699	23 620	22 307	27 149	28 077
16 548	5 699	23 624	22 309	27 160	28 159
16 548	5 699	23 615	22 299	23 256	22 941

9.5 Exchange rates (closing rates)

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

Foreign currency	2011 Bid Rand	2010 Bid Rand	2011 Offer Rand	2010 Offer Rand
US dollars	6,715	9,911	6,716	9,921
Euros	9,548	7,335	9,551	7,345

9.6 Bonds

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

Loan No	Type	Redemption date	Interest rate %	Authorised nominal/ principal value R million	Nominal/capital indexed issued R million
WS04	Nominal	30/05/2016	12,50	10 000	7 079
WS05	Inflation indexed	01/08/2018	5,00	7 000	6 014 ^(*)
WSP1	Nominal	28/05/2015	9,00	1 000	355
WSP2	Nominal	28/05/2017	9,00	1 000	1 887 ^(**)
WSP3	Nominal	28/05/2019	9,00	1 000	285
WSP4	Nominal	28/05/2020	9,00	1 000	253
WSP5	Nominal	28/05/2021	9,00	4 000	3 088

^(*) Inflation indexed bond reflected at CPI value.

^(**) The limit for WSP2 is offset by the available limit on the WS04 bonds as approved by the ALCO as at 25 November 2010.

Notes to the annual financial statements continued

for the year ended 31 March 2011

9. Financial instruments (continued)

9.6 Bonds (continued)

Value of bonds	Fair value	Nominal	Fair value	Nominal
	2011	value	2010	value
	R million	R million	R million	R million
Authorised		29 500		29 500
Issued	21 717 ^(*)	18 960 ^(**)	23 236 ^(*)	19 887 ^(**)
Unrealised premium to be amortised over the life of the loan		1 089		1 522
Unrealised discount to be amortised over the life of the loan		(96)		(94)
Unrealised amortisation of CPI upliftment for WS05		(1 325)		(1 294)

^(*) The fair value of the locally registered bonds issued is measured at the market price at financial year-end.

^(**) The amounts in issue may not exceed the consolidated capital market guarantee of R21 000 million.

9.7 Guarantees

LHWP

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

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

Currency	Amount	Amount	Amount	Amount
	guaranteed	utilised	guaranteed	utilised
	2011	2011	2010	2010
	million	million	million	million
TCTA loans:				
Euro	101	18 ^(*)	101	20 ^(*)
Rand	26 100	17 784	26 100	20 022
LHDA loans:				
USD	51	2	51	2
Euro	94	6 ^(**)	94	37 ^(**)
Rand	274	2	600	13

^(*) Included in the euro amount is the European Investment Bank facility which was drawn in rands, ie R170 million (2010: R194 million), and will be repaid in rands.

^(**) Included in the euro amount is the European Investment Bank facility which was drawn in rands, ie R107 million (2010: R222 million), and will be repaid in rands.

BWP

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

In favour of	Nature	Amount guaranteed 2011 R million	Amount guaranteed 2010 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

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

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

VRESAP

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

In favour of	Nature	Amount guaranteed 2011 R million	Amount guaranteed 2010 R million
Department of Minerals and Energy	Guarantees provided for rehabilitation of burrow pits	5	5

9.8 Derivative exposures

LHWP

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

	Current 2011 R million	Current 2010 R million	Non-current 2011 R million	Non-current 2010 R million
Forward exchange contracts				
Assets				
Fair value amount	4	3	5	5
Liabilities				
Fair value amount	7	80	4	2
	Foreign amount 2011 million	Rand amount 2011 million	Foreign amount 2010 million	Rand amount 2010 million
Forward exchange contracts				
– EUR	12	120	17	248
– USD	2	12	3	17

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 at the reporting date.

Notes to the annual financial statements continued

for the year ended 31 March 2011

9. Financial instruments (continued)

9.9 Interest rate risk management

Maturity periods: Interest exposure

Liabilities	LHWP		BWP		VRESAP	
	2011 R million	2010 R million	2011 R million	2010 R million	2011 R million	2010 R million
Floating						
<1 month	330	892	56	178	58	58
1 – 3 months	407	696	–	–	–	–
3 – 12 months	948	146	–	49	–	–
1 – 2 years	72	75	–	48	–	–
2 – 3 years	65	71	–	49	22	13
3 – 4 years	54	64	–	48	23	79
4 – 5 years	54	54	–	49	93	94
>5 years	5 147	5 070	100	501	960	1 547
	7 077	7 068	156	922	1 156	1 791
Fixed						
<1 year	22	2 718	67	20	–	–
1 – 2 years	20	23	77	10	22	–
2 – 3 years	18	20	87	20	76	8
3 – 4 years	15	18	77	30	82	40
4 – 5 years	367	15	78	20	87	44
>5 years	13 303	12 626	748	280	1 978	1 394
Total liabilities	13 745	15 420	1 134	380	2 245	1 486

The table above excludes the maturity periods for trade and other payables.

Assets	LHWP		BWP		VRESAP	
	2011 R million	2010 R million	2011 R million	2010 R million	2011 R million	2010 R million
Floating						
<1 month	309	160	22	6	50	78
1 – 3 months	–	–	–	–	–	–
3 – 12 months	4	3	–	–	–	–
1 – 2 years	2	2	–	–	–	–
2 – 3 years	3	–	–	–	–	–
3 – 4 years	–	2	–	–	–	–
4 – 5 years	–	–	–	–	–	–
>5 years	–	–	–	–	–	–
	318	167	22	6	50	78
Fixed						
<1 year	2 679	3 917	–	–	–	–
1 – 2 years	–	–	–	–	–	–
2 – 3 years	–	–	–	–	–	–
3 – 4 years	–	–	–	–	–	–
4 – 5 years	–	–	–	–	–	–
>5 years	–	–	–	–	–	–
Total liabilities	2 679	3 917	–	–	–	–

The table above excludes the maturity periods for trade and other receivables and cash and cash equivalents.

MCWAP		MMTS2		KWSAP		Total	
2011 R million	2010 R million	2011 R million	2010 R million	2011 R million	2010 R million	2011 R million	2010 R million
-	-	-	-	-	-	444	1 128
-	-	209	-	-	-	616	696
5	-	-	100	236	-	1 189	295
-	-	-	-	-	-	72	123
-	-	-	-	-	-	87	133
-	-	-	-	-	-	77	191
-	-	-	-	-	-	147	197
-	-	-	-	-	-	6 207	7 118
5	-	209	100	236	-	8 839	9 881
-	-	-	-	-	-	89	2 738
-	-	-	-	-	-	119	33
-	-	-	-	-	-	181	48
-	-	-	-	-	-	174	88
-	-	-	-	-	-	532	79
-	-	-	-	-	-	16 029	14 300
-	-	-	-	-	-	17 124	17 286

MCWAP		MMTS2		KWSAP		Total	
2011 R million	2010 R million	2011 R million	2010 R million	2011 R million	2010 R million	2011 R million	2010 R million
-	-	66	38	-	-	447	282
-	-	-	-	-	-	-	-
-	-	-	-	-	-	4	3
-	-	-	-	-	-	2	2
-	-	-	-	-	-	3	-
-	-	-	-	-	-	-	2
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	66	38	-	-	456	289
-	-	-	-	-	-	2 679	3 917
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	2 679	3 917

Notes to the annual financial statements continued

for the year ended 31 March 2011

10. Loans and other receivables

	LHWP 2011	BWP 2011	VRESAP 2011	MCWAP 2011	MMTS2 2011	ORWRDP2 2011	KWSAP 2011	Borehole 2011	Total 2011
Non-current	R million	R million	R million	R million	R million	R million	R million	R million	R million
Other debtors	–	4	–	–	–	–	–	–	4
Total	–	4	–	–	–	–	–	–	4

	LHWP 2010	BWP 2010	VRESAP 2010	MCWAP 2010	MMTS2 2010	ORWRDP2 2010	KWSAP 2010	Borehole 2010	Total 2010
Non-current	R million	R million	R million	R million	R million	R million	R million	R million	R million
Other debtors	–	5	–	–	–	–	–	–	5
Total	–	5	–	–	–	–	–	–	5

	LHWP 2009	BWP 2009	VRESAP 2009	MCWAP 2009	MMTS2 2009	ORWRDP2 2009	KWSAP 2009	Borehole 2009	Total 2009
Non-current	R million	R million	R million	R million	R million	R million	R million	R million	R million
Other debtors	–	5	–	–	–	–	–	–	5
Total	–	5	–	–	–	–	–	–	5

	LHWP 2011	BWP 2011	VRESAP 2011	MCWAP 2011	MMTS2 2011	ORWRDP2 2011	KWSAP 2011	Borehole 2011	Total 2011
Current	R million	R million	R million	R million	R million	R million	R million	R million	R million
Water income receivables ⁽¹⁾	510	–	50	–	–	–	–	–	560
Other debtors ⁽²⁾	1	–	18	53	43	16	–	14	145
Loan account: LHWP	–	–	–	–	–	–	–	–	–
Loan account: BWP	2	–	–	–	–	–	–	–	2
Loan account: VRESAP	7	–	–	–	–	–	–	–	7
Loan account: MCWAP	20	–	–	–	–	–	–	–	20
Loan account: MMTS2	3	–	–	–	–	–	–	–	3
Loan account: ORWRDP2	4	–	–	–	–	–	–	–	4
Loan account: KWSAP	5	–	–	–	–	–	–	–	5
Total	552	–	68	53	43	16	–	14	746

(1) Water income receivable for LHWP and VRESAP is 60 days. At year-end R19 million payable was reclassified to trade and other payables. Water income receivable for LHWP is 60 days and BWP is 30 days.

(2) Other debtors included in MCWAP, MMTS2, ORWRDP2 and Borehole relate to advance payment invoices to DWA that had not been paid by DWA on 31 March 2011. Other debtors for ORWRDP2, MCWAP and KWSAP have been restated due to a prior period error. Refer to note 27.

	LHWP 2010	BWP 2010	VRESAP 2010	MCWAP 2010	MMTS2 2010	ORWRDP2 2010	KWSAP 2010	Borehole 2010	Restated total 2010
Current	R million	R million	R million	R million	R million	R million	R million	R million	R million
Water income receivables ⁽¹⁾	682	–	33	–	–	–	–	–	715
Other debtors ⁽²⁾	1	–	17	15	–	76	3	–	112
Loan account: LHWP	–	–	–	–	25	–	–	–	25
Loan account: BWP	1	–	–	–	–	–	–	–	1
Loan account: VRESAP	2	–	–	–	–	–	–	–	2
Loan account: MCWAP	58	–	–	–	–	–	–	–	58
Loan account: MMTS2	2	–	–	–	–	–	–	–	2
Loan account: ORWRDP2	51	–	–	–	–	–	–	–	51
Loan account: KWSAP	41	–	–	–	–	–	–	–	41
Total	838	–	50	15	25	76	3	–	1 007

Current	LHWP 2009 R million	BWP 2009 R million	VRESAP 2009 R million	Total 2009 ⁽³⁾ R million
Water income receivables ⁽¹⁾	643	–	–	643
Other debtors ⁽²⁾	10	–	46	56
Loan account: LHWP	–	–	–	–
Loan account: BWP	1	–	–	1
Loan account: VRESAP	3	–	–	3
Loan account: MCWAP	6	–	–	6
Loan account: MMTS2	22	–	–	22
Loan account: ORWRDP2	15	–	–	15
Loan account: KWSAP	7	–	–	7
Total	707	–	46	753

(1) Water income receivable for LHWP and VRESAP is 60 days. At year-end R19 million payable was reclassified to trade and other payables. Water income receivable for LHWP is 60 days and BWP is 30 days.

(2) Other debtors included in MCWAP, MMTS2, ORWRDP2 and Borehole relate to advance payment invoices to DWA that had not been paid by DWA on 31 March 2011. Other debtors for ORWRDP2, MCWAP and KWSAP have been restated due to a prior period error. Refer to note 27.

(3) 2009 presented due to IFRS requirements due to restatement of 2010.

Notes to the annual financial statements continued

for the year ended 31 March 2011

10. Loans and other receivables (continued)

	2011 R million	2010 R million	2009 R million
Non-current			
BWP	4	5	5
Balance at end of year	4	5	5
	2011 R million	2010 R million	2009 R million
Current			
LHWP	552	838	707
BWP	–	–	–
VRESAP	68	50	46
MCWAP	53	15	–
MMTS2	43	25	–
ORWRDP2	16	76	–
KWSAP	–	3	–
Borehole	14	–	–
Total	746	1 007	753

11. Prepaid expenditure

	2011 R million	2010 R million
LHWP	68	24
BWP	–	–
VRESAP	1	36
MCWAP	2	7
MMTS2	1	–
ORWRDP2	–	5
KWSAP	121	1
Borehole	–	–
Balance at end of year	193	73

12. Non-distributable reserves

Revaluation reserve

LHWP

	2011 R million	2010 R million
Balance at beginning of year	119	120
Movement during the year	–	(1)
• Realisation of revaluation surplus ⁽¹⁾	–	(1)
Balance at end of year	119	119

(1) Revaluation surpluses:

Revaluation surplus 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

	2011 R million	Restated 2010 R million	2009 ⁽¹⁾ R million
Balance at beginning of year	(4 049)	(3 881)	(3 672)
Movement during the year	24	(168)	(209)
• Net deficit for the year	24	(168)	(209)
Balance at end of year	(4 025)	(4 049)	(3 881)

(1) 2009 presented due to IFRS requirements due to restatement of 2010.

14. Trade and other payables

	LHWP 2011 R million	BWP 2011 R million	VRESAP 2011 R million	MCWAP 2011 R million	MMTS2 2011 R million	ORWRDP2 2011 R million	KWSAP 2011 R million	Borehole 2011 R million	Total 2011 R million
Interest payable									
• TCTA	580	3	24	–	–	–	–	–	607
• LHDA	1	–	–	–	–	–	–	–	1
Loan account:									
LHWP	–	2	7	20	3	4	5	–	41
Other creditors	60	4	33	8	16	9	31	–	161
Deferred income ⁽¹⁾	–	–	–	170	38	133	–	12	353
Royalties (see note 23)	15	–	–	–	–	–	–	–	15
Water income payables	–	19	–	–	–	–	–	–	19
Total	656	28	64	198	57	146	36	12	1 197

	LHWP 2010 R million	BWP 2010 R million	VRESAP 2010 R million	MCWAP 2010 R million	MMTS2 2010 R million	ORWRDP2 2010 R million	KWSAP 2010 R million	Borehole 2010 R million	Restated total 2010 R million
Interest payable									
• TCTA	518	3	24	–	–	–	–	–	545
• LHDA	7	–	–	–	–	–	–	–	7
Loan account:									
LHWP	–	1	2	–	–	37	19	–	59
Other creditors	58	6	16	31	27	13	24	–	175
Deferred income ⁽¹⁾⁽²⁾	–	–	–	37	–	74	12	–	123
Royalties (see note 23)	29	–	–	–	–	–	–	–	29
Water income payables	–	54	–	–	–	–	–	–	54
Total	612	64	42	68	27	124	55	–	992

(1) TCTA entered into memorandum of understanding agreements with DWA on various projects in order to contractually allow DWA to make working capital advance payments to TCTA as an interim funding mechanism until TCTA secures long-term funding on each project.

(2) Deferred income for ORWRDP2, MCWAP and KWSAP has been restated due to a prior period error. Refer to note 27.

Notes to the annual financial statements continued

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14. Trade and other payables (continued)

	LHWP 2009 R million	BWP 2009 R million	VRESAP 2009 R million	MCWAP 2009 R million	MMTS2 2009 R million	ORWRDP2 2009 R million	KWSAP 2009 R million	Borehole 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	12	113	18	–	5	–	–	–	148
Deferred income ⁽¹⁾	–	–	–	–	–	–	–	–	–
Royalties (see note 23)	52	–	–	–	–	–	–	–	52
Water income payables	–	40	–	–	–	–	–	–	40
Total	555	158	36	6	22	15	7	–	799

(1) TCTA entered into memorandum of understanding agreements with DWA on various projects in order to contractually allow DWA to make working capital advance payments to TCTA as an interim funding mechanism until TCTA secures long-term funding on each project.

	2011 R million	Restated ⁽¹⁾ 2010 R million	2009 R million
LHWP	656	612	555
BWP	28	64	158
VRESAP	64	42	36
MCWAP	198	68	6
MMTS2	57	27	22
ORWRDP2	146	124	15
KWSAP	36	55	7
Borehole	12	–	–
Total	1 197	992	799

(1) Restated due to prior period error on ORWRDP2, MCWAP and KWSAP.

15. Non-contractual amounts

	LHWP 2011 R million	BWP 2011 R million	VRESAP 2011 R million	MCWAP 2011 R million	MMTS2 2011 R million	ORWRDP2 2011 R million	KWSAP 2011 R million	Borehole 2011 R million	Total 2011 R million
South African Revenue Service ⁽¹⁾	(66)	1	2	(6)	(3)	(1)	6	(2)	(69)
Total	(66)	1	2	(6)	(3)	(1)	6	(2)	(69)

(1) 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 not a contractual obligation but a legal obligation. The non-contractual amounts disclosed were previously included in the financial instruments, trade and other payables.

	LHWP 2010 R million	BWP 2010 R million	VRESAP 2010 R million	MCWAP 2010 R million	MMTS2 2010 R million	ORWRDP2 2010 R million	KWSAP 2010 R million	Borehole 2010 R million	Restated ⁽¹⁾ total 2010 R million
South African Revenue Service ⁽²⁾	(60)	19	(1)	(2)	3	(3)	1	–	(43)
Total	(60)	19	(1)	(2)	3	(3)	1	–	(43)

	LHWP 2009 R million	BWP 2009 R million	VRESAP 2009 R million	MCWAP 2009 R million	MMTS2 2009 R million	ORWRDP2 2009 R million	KWSAP 2009 R million	Borehole 2009 R million	Total 2009 R million
South African Revenue Service ⁽²⁾	(56)	5	4	–	–	–	–	–	(47)
Total	(56)	5	4	–	–	–	–	–	(47)

	2011 R million	Restated ⁽¹⁾ 2010 R million	2009 R million
LHWP	(66)	(60)	(56)
BWP	1	19	5
VRESAP	2	(1)	4
MCWAP	(6)	(2)	–
MMTS2	(3)	3	–
ORWRDP2	(1)	(3)	–
KWSAP	6	1	–
Borehole	(2)	–	–
Total non-contractual amounts as at 31 March 2011	(69)	(43)	(47)

(1) Restated due to prior period error on ORWRDP2, MCWAP and KWSAP.

(2) 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 not a contractual obligation but a legal obligation. The non-contractual amounts disclosed were previously included in the financial instruments, trade and other payables.

Notes to the annual financial statements continued

for the year ended 31 March 2011

16. Provisions

16.1 Provision for leave pay

LHWP

Reconciliation	2011 R million	2010 R million
Balance at beginning of year	5	3
Leave accrued during the year	7	6
Leave utilised	(7)	(4)
Leave provision as at 31 March	5	5

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.

16.2 Incentive provision

LHWP

Reconciliation	2011 R million	2010 R million
Balance at beginning of year	16	12
Incentive paid in the year	(16)	(12)
Incentive provision raised in the year	19	16
Incentive provision as at 31 March	19	16

16.3 Provision for future compensation

LHWP

The provision for future compensation relates to compensation payments payable on LHWP. This is in respect of households that were resettled during the construction of the dam infrastructure.

Reconciliation of provision	R million
Balance at 31 March 2010	356
– Long-term portion of future compensation	340
– Short-term portion of future compensation ⁽¹⁾	16
Payment in current year	(44)
Increase in provision based on revised rates	5
Increase in long-term provision based on payments not made	31
Balance at 31 March 2011	348
– Long-term portion of future compensation	331
– Short-term portion of future compensation ⁽¹⁾	17

(1) Short-term portion has been included in current provisions.

16.4 Total provisions

Reconciliation	2011 R million	2010 R million
Non-current provisions		
Future compensation	331	340
Total non-current provisions	331	340
Current provisions		
Provision for leave pay	5	5
Incentive provision	19	16
Future compensation	17	16
Total current provisions	41	37

17. Cash and cash equivalents

	LHWP 2011 R million	BWP 2011 R million	VRESAP 2011 R million	MCWAP 2011 R million	MMTS2 2011 R million	ORWRDP2 2011 R million	KWSAP 2011 R million	Borehole 2011 R million	Total 2011 R million
Bank	-	-	-	1	-	-	-	-	1
Total	-	-	-	1	-	-	-	-	1

	LHWP 2010 R million	BWP 2010 R million	VRESAP 2010 R million	MCWAP 2010 R million	MMTS2 2010 R million	ORWRDP2 2010 R million	KWSAP 2010 R million	Borehole 2010 R million	Total 2010 R million
Bank	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-	-

	2011 R million	2010 R million
LHWP	-	-
BWP	-	-
VRESAP	-	-
MCWAP	1	-
MMTS2	-	-
ORWRDP2	-	-
KWSAP	-	-
Borehole	-	-
Balance at end of year	1	-

Notes to the annual financial statements continued

for the year ended 31 March 2011

18. Assets classified as held for sale

LHWP

Plan to dispose of investment property – Khubetswana houses

TCTA has 41 residential houses in Khubetswana constructed during the implementation of the Phase 1 of LHWP. These houses are currently rented out to the residents of Khubetswana who are currently paying a monthly rental below market levels due to the affordability range of the community.

On 13 September 2010, the Executive Committee of TCTA approved a strategy to dispose of the houses. The houses were independently valued by Breytenbach Mavuso Inc., at R85 000 each and tenants of the houses were requested to submit offers to purchase the houses. To date, 32 of the tenants have made offers, including 23 accepted cash offers, on a community-agreed selling price of R79 000 each. It is expected that the process of disposing of the houses will be completed by 30 September 2011.

The Khubetswana houses are reflected at their carrying amount prior to reclassification from investment property as the agreed selling price less cost to sell exceeds the carrying amount.

	Total 2011 R million	Total 2010 R million
Carrying value	2	–
Cost	2	–
Accumulated depreciation	–	–

19. Revenue

	LHWP 2011 R million	BWP 2011 R million	VRESAP 2011 R million	MCWAP 2011 R million	MMTS2 2011 R million	ORWRDP2 2011 R million	KWSAP 2011 R million	Borehole 2011 R million	Total 2011 R million
Bulk raw water tariff	2 708	171	219	–	–	–	–	–	3 098
Total	2 708	171	219	–	–	–	–	–	3 098

	LHWP 2010 R million	BWP 2010 R million	VRESAP 2010 R million	MCWAP 2010 R million	MMTS2 2010 R million	ORWRDP2 2010 R million	KWSAP 2010 R million	Borehole 2010 R million	Restated total 2010 R million
Bulk raw water tariff ⁽¹⁾	2 420	173	145	–	–	–	–	–	2 738
Total	2 420	173	145	–	–	–	–	–	2 738

(1) KWSAP restated due to prior period error. Refer to note 27.

	2011 R million	2010 R million
LHWP	2 708	2 420
BWP	171	173
VRESAP	219	145
MMS2	–	–
MCWAP	–	–
ORWRDP2	–	–
KWSAP	–	–
Borehole	–	–
Balance at end of year	3 098	2 738

Bulk raw water tariff

Income is based on the part of the bulk raw water tariff due to TCTA as set out below:

Project	2010/2011 Tariff cents per m ³	2010/2011 Volume million m ³	2009/2010 Tariff cents per m ³	2009/2010 Volume million m ³
LHWP	179,19	1 511,27	168,82	1 433,56
BWP				
April to June	48,31	75,16	63,15	77,02
July to March	51,64	261,04	48,31	256,58
VRESAP				
Eskom	51,00	273,80	44,00	196,24
Sasol	95,00	83,90	81,00	72,71

20. Other income

LHWP

	2011 R million	2010 R million
Rental income ⁽¹⁾	3	3
Total	3	3

(1) Rental income: Rental income includes rental derived from leasing office space in the LHDA office building, to external parties amounting to R2 285 784 (2010: R2 512 747). Income received from the leasing of the houses at Khubetswana and the Clarens Guesthouse is also included in rental income.

Notes to the annual financial statements continued

for the year ended 31 March 2011

21. Finance income and costs

21.1 Finance income

	LHWP 2011 R million	BWP 2011 R million	VRESAP 2011 R million	MCWAP 2011 R million	MMTS2 2011 R million	ORWRDP2 2011 R million	KWSAP 2011 R million	Borehole 2011 R million	Total 2011 R million
Interest income on financial assets carried at amortised cost	668	2	6	–	–	–	–	–	676
Interest income on financial assets at fair value through profit or loss ⁽¹⁾	7	–	–	–	–	–	–	–	7
Finance income	675	2	6	–	–	–	–	–	683

	LHWP 2010 R million	BWP 2010 R million	VRESAP 2010 R million	MCWAP 2010 R million	MMTS2 2010 R million	ORWRDP2 2010 R million	KWSAP 2010 R million	Borehole 2010 R million	Total 2010 R million
Interest income on financial assets carried at amortised cost	777	4	13	–	–	–	–	–	794
Interest income on financial assets at fair value through profit or loss ⁽¹⁾	55	–	–	–	–	–	–	–	55
Finance income	832	4	13	–	–	–	–	–	849

(1) Fair value gains on forward exchange contracts.

Finance income is mainly comprised of interest received from the 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 2011 R million	BWP 2011 R million	VRESAP 2011 R million	MCWAP 2011 R million	MMTS2 2011 R million	ORWRDP2 2011 R million	KWSAP 2011 R million	Borehole 2011 R million	Total 2011 R million
Interest expense on financial liabilities carried at amortised cost	2 448	107	317	–	–	–	–	–	2 872
– Locally issued bonds	2 184	–	–	–	–	–	–	–	2 184
– Other local debt	236	107	317	–	–	–	–	–	660
– Foreign debt	28	–	–	–	–	–	–	–	28
Interest expense on financial liabilities carried at fair value through profit or loss ⁽¹⁾	95	–	–	–	–	–	–	–	95
Finance costs	2 543	107	317	–	–	–	–	–	2 967

(1) Fair value losses on forward exchange contracts.

Notes to the annual financial statements continued

for the year ended 31 March 2011

21. Finance income and costs (continued)

21.2 Finance costs (continued)

	LHWP 2010 R million	BWP 2010 R million	VRESAP 2010 R million	MCWAP 2010 R million	MMTS2 2010 R million	ORWRDP2 2010 R million	KWSAP 2010 R million	Borehole 2010 R million	Total 2010 R million
Interest expense on financial liabilities carried at amortised cost	2 530	109	299	–	–	–	–	–	2 938
– Locally issued bonds	2 070	–	–	–	–	–	–	–	2 070
– Other local debt	417	109	299	–	–	–	–	–	825
– Foreign debt	43	–	–	–	–	–	–	–	43
Interest expense on financial liabilities carried at fair value through profit or loss⁽¹⁾	88	–	–	–	–	–	–	–	88
Finance costs	2 618	109	299	–	–	–	–	–	3 026

(1) Fair value losses on forward exchange contracts.

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		Total	
	2011 R million	2010 R million	2011 R million	2010 R million	2011 R million	2010 R million	2011 R million	2010 R million
Financial assets and liabilities of fair value through profit or loss	88	33	–	–	–	–	88	33
Financial assets carried at amortised cost	(668)	(777)	(2)	(4)	(6)	(13)	(676)	(794)
Other financial liabilities	2 448	2 530	107	109	317	299	2 872	2 938
Net result from financial assets and liabilities	1 868	1 786	105	105	311	286	2 284	2 177
Net amounts reported in:								
• Surplus or deficit	1 868	1 786	105	105	311	286	2 284	2 177
• 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 730 million m³ (2010: 784 million m³) of water delivered. The reduction in the volume is the result of the shutdown of the delivery tunnel for maintenance for the month of March 2011. During this financial year, there was an adjustment to the Eskom Sustainability Index which has had the effect of increasing the variable royalties.

	2011 R million	2010 R million
Fixed royalties	167	156
Variable royalties	271	186
Total	438	342

23. Other operating expenses

Other operating expenses include the following:

	2011 R million	2010 R million
Operating lease payments	7	5
Audit fees ⁽¹⁾	3	2
Other operating expenditure ⁽²⁾	40	34
Total	50	41

(1) Audit fee R2 690 952 (2010: R1 702 090; 2009: R1 863 091).

(2) Other operating expenses were restated due to a prior period error. Refer to note 27.

Notes to the annual financial statements continued

for the year ended 31 March 2011

23. Other operating expenses (continued)

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
- Affiliated project houses are billed at the actual staff rates

24. Related parties

TCTA, as a government-related entity has applied the exemption in paragraph 25 of IAS 24 in the disclosure of related parties. These related parties are either controlled, jointly controlled or significantly influenced by the Government of the Republic of South Africa. The significant transactions below are as a result of contractual agreements entered into between TCTA and the related parties in fulfilling TCTA's mandate in terms of directives issues in various projects.

24.1 Trading transactions

Revenue

During the year, TCTA received revenue from the DWA from the sale of bulk water.

Project	Revenue received from water sales	
	2011 R million	2010 R million
LHWP	2 708	2 420
BWP	171	173
VRESAP	219	145

The following balances were outstanding at the end of the reporting period:

Project	Amounts owed by	
	2011 R million	2010 R million
LHWP	510	682
VRESAP	50	33

Project	Amounts owed to	
	2011 R million	2010 R million
BWP	19	54

Water sales to DWA are made in terms of the implementation agreement in all projects, in order to repay outstanding debt in the prescribed period, without making a surplus.

Loans
DBSA
2011

Project	Opening balance 1 April 2010 R million	Drawdowns R million	Repayments R million	Closing balance 31 March 2011 R million	Interest incurred for the period R million	Interest outstanding at 31 March 2011 R million
LHWP	122	–	(15)	107	7	–
LHWP – LHDA loans	117	–	(35)	82	10	–
BWP	380	–	(20)	360	33	–

DBSA
2010

Project	Opening balance 1 April 2009 R million	Drawdowns R million	Repayments R million	Closing balance 31 March 2010 R million	Interest incurred for the period R million	Interest outstanding at 31 March 2011 R million
LHWP	137	–	(15)	122	10	–
LHWP – LHDA loans	152	–	(35)	117	14	–
BWP	400	–	(20)	380	35	–

24.2 Other transactions

Lesotho Highlands Water Commission Costs

The Government of RSA and the Government of Lesotho entered into a Treaty with the purpose to provide for the establishment, implementation, operation and maintenance of the LHWP project.

The LHWC is the body overseeing the two vehicles (TCTA and LHDA) mandated with the execution of the Treaty functions on behalf of the two governments.

The LHWC is responsible and accountable for the project, acts on behalf of and advises the governments and is the channel of all government inputs relating to the project.

The costs of establishing the LHWC as well as the working capital necessary for the functioning of the LHWC, is shared by both TCTA and the LHDA. Each party is liable for the costs of its own delegation and all other costs are met by the parties on an equal basis.

Notes to the annual financial statements continued

for the year ended 31 March 2011

24. Related parties (continued)

24.2 Other transactions (continued)

The following amounts represent the costs relating to the LHWC paid for by TCTA:

Project	Payments made to related party	
	2011 R million	2010 R million
LHWP		
LHWC costs: RSA contribution and delegation costs	11	9

Deferred income

TCTA entered into memorandum of understanding agreements with DWA on ORWRDP2 and MCWAP in order to contractually allow DWA to make working capital advance payments to TCTA as an interim funding mechanism until TCTA secures long-term funding on each project. The working capital advance payments have been reflected as deferred income and have been included in trade and other payables in the statement of financial position.

The following amounts were invoiced to DWA as advance payments (disclosed as deferred income):

Project	2011 R million	2010 R million
ORWRDP2	59	34
MCWAP	133	37

The following amounts were invoiced to DWA as advance payments and were outstanding at year-end:

Project	2011 R million	2010 R million
ORWRDP2	16	78
MCWAP	53	43

TCTA received a directive in March 2011 to provide management services in the implementation of the Borehole water supply project in various rural communities, as well as a directive to refurbish the MMTS1 pipeline. As all projects are ring-fenced, TCTA also entered into memorandum of understanding agreements with DWA to allow DWA to make advance payments to fund the MMTS1 refurbishment and Borehole projects. These advance payments received are to cover expenses of executing the directive and will not be repaid once the projects have been successfully implemented. The working capital advance payments have been reflected as deferred income and have been included in trade and other payables in the statement of financial position.

The following amounts were invoiced for advance payments and were outstanding at year-end:

Project	2011 R million	2010 R million
Borehole	14	–
MMTS1	43	–

Advance

A memorandum of agreement was entered into between TCTA, Eskom and DWA relating to the KWSAP project. The purpose of the agreement was that Eskom and DWA provide TCTA with funding until TCTA has secured long-term funding. In terms of the agreement, Eskom would fund the predirective engineering costs.

The following amounts were invoiced to Eskom as working capital advance payments in the year and have been reflected as deferred income, and have been included in trade and other payables in the statement of financial position:

Project	2011 R million	2010 R million
KWSAP	8	12

There were amounts outstanding from Eskom at year-end.

Notes to the annual financial statements continued

for the year ended 31 March 2011

24. Related parties (continued)

24.3 Compensation of directors and executive management

Non-executive directors

2011

Names	Board fees R'000	Ad hoc fees ^(*) R'000	Travel R'000	REMCO R'000
Board 01/04/2010 to 31/03/2011				
S Khoza	792	1	–	41
S Kondlo ⁽¹⁾	465	–	28	52
A Makwetla ⁽²⁾	95	49	–	–
R Mbwana ⁽²⁾	95	51	44	11
E Malefane ⁽²⁾	95	–	–	–
P Makhsha ⁽²⁾	95	2	–	–
L Thotanyana ⁽⁵⁾	397	–	25	45
G White	228	38	8	45
J Geenen	214	16	8	17
M Mosidi	200	4	–	11
D Dondur ⁽³⁾	133	–	1	–
S Sekgobela ⁽³⁾	119	13	–	17
S Sono ⁽³⁾	133	–	–	–
M Furumele ⁽³⁾	133	8	–	34
O Ayaya ⁽⁴⁾	–	–	–	–
T Shomang ⁽³⁾⁽⁴⁾	–	–	–	–
Total non-executive directors	3 194	182	114	273

(*) Ad hoc fees comprise all additional TCTA-related work done outside scheduled engagements, in line with the Directors' Remuneration Policy.

(1) Appointed as Board Deputy Chairperson from 1 September 2010.

(2) Served as director from 1 April 2010 to 31 August 2010.

(3) Appointed as director from 1 September 2010.

(4) Non-remunerated Board members.

(5) Served as Board Deputy Chairperson from 1 April 2010 to 31 August 2010.

2010

Names	Board fees R'000	Ad hoc fees ^(*) R'000	Travel R'000	REMCO R'000
Board 01/04/2009 to 31/03/2010				
S Khoza	740	–	29	15
L Thotanyana	592	4	32	11
A Makwetla	200	13	–	–
S Kondlo	213	7	30	11
R Mbwana	200	12	28	11
E Malefane	213	2	–	–
P Makhsha	184	–	–	–
G White	213	33	48	11
J Geenen	213	10	48	11
M Mosidi	213	2	–	–
Total non-executive directors	2 981	83	215	70

(*) Ad hoc fees comprise all additional TCTA-related work done outside scheduled engagements, in line with the Directors' Remuneration Policy.

(**) Payments for VRESAP Technical and other Technical committees were combined during the 2010 financial year.

ALCO R'000	Audit and Risk Committee R'000	ICT and Knowledge Management Committee R'000	Human Resources and Transformation Committee R'000	Technical Committee R'000	VRESAP Committee R'000	Grand total R'000
-	-	-	-	-	-	834
-	-	28	-	137	137	847
-	-	-	28	-	-	172
-	-	-	-	47	67	315
-	28	-	-	47	47	217
-	-	-	17	-	-	114
62	96	-	-	9	-	634
28	-	39	96	-	-	482
96	68	28	-	-	-	447
-	-	79	-	113	113	520
39	39	6	17	-	-	235
-	-	56	39	66	-	310
28	28	-	23	-	-	212
-	-	-	-	94	66	335
-	-	-	-	-	-	-
-	-	-	-	-	-	-
253	259	236	220	513	430	5 674

ALCO R'000	Audit and Risk Committee R'000	ICT and Knowledge Management Committee R'000	Human Resources and Transformation Committee R'000	Technical Committee R'000	VRESAP Committee(**) R'000	Grand total R'000
-	-	-	-	-	-	784
63	90	-	-	-	-	792
-	-	-	63	-	-	276
-	-	-	-	144	-	405
-	-	-	-	144	-	395
-	53	-	-	111	-	379
-	-	-	53	-	-	237
66	-	-	90	-	-	461
103	53	-	-	-	-	438
-	-	27	2	105	-	349
232	196	27	208	504	-	4 516

Notes to the annual financial statements continued

for the year ended 31 March 2011

24. Related parties (continued)

24.3 Compensation of directors and executive management (continued)

Executive director

Director	Date appointed or resigned	CTC ⁽¹⁾ 2011	Other ⁽²⁾	Variable remuneration ⁽³⁾
J Ndlovu (Chief Executive Officer)	01/11/2008	3 158	–	–
Total executive director		3 158	–	–

(1) This amount refers to the guaranteed portion of the executive's remuneration.

(2) This relates to payments made to executives during the year which includes amounts paid as acting allowances.

(3) Variable portion refers to the portion of the executive's remuneration that is paid on condition of achieving predetermined objectives.

Executive management

Director	Date appointed or resigned	CTC ⁽⁴⁾ 2011	Other ⁽⁵⁾	Variable remuneration ⁽⁶⁾
J Nhlapho Chief Operations Officer	06/08/2007	2 570	–	–
H Nazeer Chief Financial Officer	01/09/2007	2 206	–	–
L Radzuma ⁽³⁾ Chief Risk Officer	01/07/2010	1 005	–	251
J Claassens Executive: Project Management and Implementation	01/04/2007	2 095	–	–
R Matabane Executive: Human Resource Management and Organisational Development	01/01/2006	1 899	–	–
E Motsatsing ⁽¹⁾ Executive: Enterprise-wide Support Services	Resigned 30/04/2010	126	–	–
C Bleeker ⁽²⁾ Executive: Enterprise-wide Support Services	01/09/2010	758	–	190
Z Mbele Executive: Project Finance and Treasury	01/11/2007	1 965	98	–
L Mnisi Executive: Company Secretariat and Company Secretary	01/11/2008	1 428	–	–
Prof Busari Executive: Knowledge Management	01/11/2009	1 929	243	–
Total executive		15 981	341	441

(1) E Motsatsing resigned 30 April 2010 thus the CTC figure reflected is in respect of one month only.

(2) C Bleeker was appointed with effect 1 September 2010 thus the CTC figure reflected is in respect of seven months.

(3) L Radzuma was appointed with effect 1 July 2010 thus the CTC figure reflected is in respect of nine months.

(4) This amount refers to the guaranteed portion of the executives' remuneration.

(5) This relates to payments made to executives during the year which includes amounts paid as acting allowances.

(6) Variable portion refers to the portion of the executives' remuneration that is paid on condition of achieving predetermined objectives.

(7) The incentive pool was approved by the Board of Directors on 30 June 2011.

The remuneration of directors and key executives is determined by REMCO having regard to the performance of individuals and market trends.

Incentive 2011	Total 2011	CTC 2010	Other ⁽²⁾	Incentive for 2009 rolled over for payment in 2010	Incentive 2010	Total 2010
2 013	5 171	2 894	–	–	1 210	4 104
2 013	5 171	2 894	–	–	1 210	4 104

Incentive ⁽⁷⁾ 2011	Total 2011	CTC 2010	Other ⁽⁵⁾	Incentive for 2009 rolled over for payment in 2010	Incentive 2010	Total 2010
624	3 194	2 357	129	103	699	3 288
686	2 892	2 022	–	73	607	2 702
256	1 512	–	–	–	–	–
643	2 738	1 920	–	171	577	2 668
486	2 385	1 740	–	147	523	2 410
–	126	1 386	–	126	407	1 919
108	1 056	–	–	–	–	–
754	2 817	1 800	–	75	553	2 428
455	1 883	1 310	–	–	376	1 686
701	2 873	675	–	–	198	873
4 713	21 476	13 210	129	695	3 940	17 974

Notes to the annual financial statements continued

for the year ended 31 March 2011

25. Net surplus for the year

As income is first used to cover operating expenditure, depreciation and royalties, the net surplus of R24 million (2010: R168 million net deficit adjusted) relates to the surplus after covering the net interest costs (2011) and the shortfall in covering interest costs at the end of 2010. The project financing approach adopted means that this deficit was anticipated in 2010. 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.

26. Commitments

2011	≤1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	>5 years	Total per project
BWP	–	–	–	–	–	–	–
VRESAP	78	–	–	–	–	–	78
MCWAP	611	537	170	76	–	–	1 394
ORWRDP2	653	648	142	1 743	2 191	116	5 493
KWSAP	829	128	9	1	–	–	967
MMTS2	438	454	160	31	–	–	1 083
Total per period	2 609	1 767	481	1 851	2 191	116	9 015

2010	≤1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	>5 years	Total per project
BWP	15	1	–	–	–	–	16
VRESAP	130	31	1	–	–	–	162
MCWAP	1 261	2 417	2 654	3 048	2 322	1 205	12 907
ORWRDP2	1 407	3 410	429	212	15	–	5 473
KWSAP	678	487	128	7	–	–	1 300
MMTS2	452	527	298	65	2	–	1 344
Total per period	3 943	6 873	3 510	3 332	2 339	1 205	21 202

27. Prior period errors

KWSAP

TCTA was directed by the Minister of Water Affairs and Forestry in September 2008 to procure funding for KWSAP. KWSAP is for the sole benefit of Eskom, and is needed to augment the Komati Water Scheme from other sources in the Vaal Eastern Subsystem by constructing the necessary infrastructure required to extend the existing Rietfontein Weir pumping station and convey the water via pipelines to Eskom's Matla and Duvha power stations. The cost of the project will be funded off-budget with loans secured by TCTA.

A memorandum of understanding agreement was entered into between TCTA, Eskom and DWA. The purpose of the agreement was that Eskom and DWA provide TCTA with funding until TCTA has secured long-term funding. In terms of the agreement, Eskom would fund the predirective engineering costs.

In the prior period the invoices relating to the Eskom advance payments had been incorrectly recognised as revenue instead of deferred income (trade and other payables). Further to this, VAT was incorrectly included in revenue. The correction reverses the revenue and recognises the deferred income (trade and other payables), corrects the output VAT (non-contractual amounts), the loan account with LHWP and other operating expenses incorrectly raised in KWSAP.

The prior period error resulted in:

- Understatement of trade and other payables
- Overstatement of non-contractual amounts
- Overstatement of revenue
- Overstatement of property, plant and equipment

Accounts affected	Balance reported in prior period R million	Prior period error adjustment R million	Adjusted balance R million
Statement of comprehensive income			
Revenue	(18)	18	–
Statement of financial position			
Trade and other payables	(40)	(15)	(55)
Non-contractual amounts	3	(2)	1
Property, plant and equipment	24	(1)	23

MCWAP

The Minister of Water and Environmental Affairs issued a directive to TCTA in May 2010, to co-fund and implement MCWAP, which prescribes that:

- the costs for the commercial users will be funded off-budget with loans secured by TCTA and the social portion (Lephalale Municipality) will be funded by the National Treasury through the DWA budget; and
- the tender design phase will be funded through the social portion.

The National Water Act, section 105(1), prescribes that TCTA should account for funds separately, meaning that TCTA has to implement the project while it does not have the revenue stream to do so. Both TCTA and DWA have to comply with the PFMA (paragraph 15.10.1.2c) which prescribes the avoidance of the prepayment for goods and services unless required by a contractual arrangement. A memorandum of understanding was entered into between TCTA and DWA, thus establishing the contractual agreement between DWA and TCTA which enables DWA to pay TCTA an advance in order for TCTA to act on the directive received from the Minister.

In the prior period the invoices relating to the DWA advance payments had been raised and were due and payable by DWA in terms of the agreement, but they were not recognised. This correction recognises the receivable (loans and receivables) that was due to TCTA as well as the deferred income (trade and other payables).

The prior period error resulted in:
 Understatement of trade and other payables
 Understatement of non-contractual amounts
 Understatement of loans and receivables

Accounts affected	Balance reported in prior period R million	Prior period error adjustment R million	Adjusted balance R million
Statement of financial position			
Trade and other payables	(58)	(10)	(68)
Loans and other receivables	–	15	15
Non-contractual amounts	3	(5)	(2)

ORWRDP2

TCTA received a directive from the Minister of Water Affairs and Forestry to implement and fund the project in June 2008. The directive prescribes that the design and tender stage (preparatory phase) should be undertaken with funds allocated by the National Treasury via the DWA budget. DWA will on behalf of Government enter into Water Supply Agreements with individual mines, Eskom, water supply authorities and other water users.

The National Water Act, section 105(1), prescribes that TCTA should account for funds separately, meaning that TCTA has to implement the project while it does not have the revenue stream to do so. Both TCTA and DWA have to comply with the PFMA (paragraph 15.10.1.2c) which prescribes the avoidance of the prepayment for goods and services unless required by a contractual arrangement. A memorandum of understanding was entered into between TCTA and DWA, thus establishing the contractual agreement between DWA and TCTA which enables DWA to pay TCTA an advance in order for TCTA to act on the directive received from the Minister.

Notes to the annual financial statements continued

for the year ended 31 March 2011

27. Prior period errors (continued)

In the prior period, the invoices relating to the DWA advance payments had been raised and were due and payable by DWA in terms of the agreement, but they were not recognised. This correction recognises the receivable (loans and receivables) that was due to TCTA as well as the deferred income (trade and other payables).

The prior period error resulted in:
Understatement of trade and other payables
Understatement of non-contractual amounts
Understatement of loans and receivables

Accounts affected	Balance reported in prior period R million	Prior period error adjustment R million	Adjusted balance R million
Statement of financial position			
Trade and other payables	(92)	(32)	(124)
Loans and other receivables	40	36	76
Non-contractual amounts	1	(4)	(3)

28. Compliance with the Public Finance Management Act (PFMA) and Treasury Regulations Irregular, fruitless and wasteful expenditure

Section 55(1)(d)(i) of the PFMA requires that a public entity discloses any material losses through criminal conduct. The following irregular expenditure was incurred in the year under review. No fruitless or wasteful expenditure was reported for the financial year in question in terms of section 51(b)(ii) of the Act.

Irregular expenditure

Other operating expenses in the aggregated statement of comprehensive income includes irregular expenditure that was incurred during the year under review.

Full economic value was derived for the irregular expenditure, and appropriate penal action was taken against the employees responsible for the non-compliance.

Reconciliation of irregular expenditure

	2011 Rand	2010 Rand
Opening balance	–	–
Irregular expenditure current year	469 835	–
Less: amounts condoned	(452 216)	–
Irregular expenditure awaiting condonation	17 619	–

Details of irregular expenditure (condoned)

	2011 Rand
Competitive procurement process followed incorrectly ⁽¹⁾	50 100
Competitive procurement process not followed ⁽²⁾	402 116
Total	452 216

(1) Supplier for procurement of IT hardware products recommended based on incorrect interpretation of information received from Supply Chain Management.

(2) Supply chain procedures not followed in procuring software service providers.

Details of irregular expenditure (not condoned)

	2011 Rand
Exceeded quotation amount disclosed in competitive bid process ⁽³⁾	17 619
Total	17 619

(3) Expenditure exceeded quoted/authorised amount. This amount was discovered in May 2011 and is awaiting condonation.

29. 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:

29.1 Value in use and impairment of enduring benefit and works in SA

TCTA previously revalued its works in SA 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 SA. The estimated useful life of the enduring benefit is 45 years; which is also based on the National Water Pricing Strategy.

In the 2008 financial year, it was decided that full technical revaluations will 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 assets will be adjusted to account for the revalued amounts at the five-year revaluation. The remaining useful lives of assets and the depreciable portion will also be reassessed during the revaluations.

In assessing impairment indications, the recoverable amount for the works in SA is determined annually by management and every three years by an appropriately qualified independent expert. As there is no active market for the water infrastructure assets, the recoverable amount is deemed to be the value in use.

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

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

In 2011, an independent valuator, Rakoma and Associates Inc., performed an independent value-in-use calculation for BWP and LHWP using the discounted cash flow method. The following assumptions formed the basis of their valuation calculation:

Notes to the annual financial statements continued

for the year ended 31 March 2011

29. Critical accounting estimates and judgements (continued)

29.1 Value in use and impairment of enduring benefit and works in SA (continued)

LHWP

Water income

Water volume was based on the annual water demand statistics issued by the DWA for the 2012 financial year, and then adjusted in future periods by the year-on-year increases based on the annual water demand statistics contained in the letter from the DWA. The tariff for the 2012 financial year approved by the DWA was escalated annually using CPI as published by the Bureau for Economic Research. The projected water income was computed by applying the tariff to the water volume. The water income was discounted to present value utilising the BondsPf curve.

Expenditure

Expenditure includes royalties paid to the Lesotho Government and operating expenses. Royalties paid in the prior year were used to project future royalty payments by escalating with CPI in future years. Budgeted operating expenses as per the approved budget for the years 2011/12 to 2014/15 were used, thereafter projecting 2014/15 by CPI. Total expenditure was then discounted using the BondsPf curve adjusted for TCTA's liquidity premium.

Value in use

The discounted projected water income was then deducted from the discounted expenditure to determine value in use.

BWP

Water income

Water volume was based on the projected demand as outlined in a letter dated 13 August 2010 from DWA stating revised volume projections from 2010/11 financial year, with projections in future years being based on 3% growth of these volumes. The tariff for the 2012 financial year approved by the DWA was escalated annually using CPI as published by the Bureau for Economic Research, and the step-down of the tariff applied as per the implementation agreement. The projected water income was computed by applying the tariff to the water volume. The water income was discounted to present value utilising the JIBAR/swap curve.

Expenditure

To compute projected expenditure, budgeted operating expenses as per the approved budget for the years 2011/12 to 2014/15 were used, thereafter projecting 2014/15 by CPI. Total expenditure was then discounted using the JIBAR/swap curve adjusted for TCTA's liquidity premium.

Value in use

The discounted projected water income was then deducted from the discounted expenditure to determine value in use.

29.2 Incentive provision

The estimation of the incentive for the 2010/11 financial year, is based on observed and measured staff turnover and performance and is subject to various variables that cannot be determined with absolute certainty at the reporting date.

29.3 Provision for compensation

This provision relates to compensation payments being paid on the LHWP over a fifty-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 16 are based on the latest available information.

TCTA is reliant on the LHDA for the calculation of this provision. For the 2011 provision, TCTA obtained the detailed calculations for the 2010 provision. This was used as the basis for the calculation of the 2011 provision after taking the changes in inputs into consideration. The remaining number of years for compensation payment was reduced by one year and the 2010/11 compensation rates were used.

29.4 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.

29.5 Transfer of La Motte Village Extension

TCTA established and developed the La Motte Village Extension to provide 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, granted TCTA permission to occupy and build on the land. TCTA 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 was 7 January 2009. The municipality accepted the management and control of the village as from the effective date.

The agreement stipulated that the municipality would 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 will pay TCTA a total sum of R5 526 236,60 in three instalments, commencing in the 2010 financial year. IAS 16.23 states that the "cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit." TCTA's loans and receivables are normally current – thus being paid within 12 months. The terms of the recovery from the municipality are therefore beyond TCTA's normal credit terms, and the deferred receivable is accounted for at amortised cost using the effective interest rate method. First payment was received in April 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 187 bps NACS above the government curve. TCTA obtained the 2011 zero curve report for 31 March 2011 from the Bond Exchange of the JSE Limited and used the perfect-fit bonds curve, adjusted by 187 bps for Stellenbosch Municipality's rating. This resulted in a present value for the receivable of R3 684 158 for 2011 (2010: R5 050 157).

29.6 Government grants

TCTA receives government grants as social funding on its new projects (MCWAP, ORWRDP2 and Borehole) that include either both social and commercial users, or merely social users. Pending the finalisation of the contribution ratio, and/or the conclusion of all agreements necessary to proceed with the projects, TCTA entered into memorandum of understanding agreements with DWA in order to contractually allow DWA to make advance payments to TCTA for working capital to defray internal and external costs relating to these projects. These advances have been recognised as deferred income and presented in the statement of financial position as part of trade and other payables.

In future periods, once uncertainties around contribution ratios and/or the conclusion of agreements necessary to proceed with the projects have been resolved, the government grants received will be recognised in surplus or deficit in terms of TCTA's policy on government grants.

Notes to the annual financial statements continued

for the year ended 31 March 2011

30. Contingent liabilities

30.1 Mohale Dam remedial works

The latest review is dated 20 August 2010 and, issued by the LHDA Panel of Experts, reported:

- 1 The dam is 100% safe and no changes have been observed in the leakage pattern (as the water level goes down the leakage reduces due to the reduced pressure). A change in the pattern would indicate changes occurring in the dam wall and warrant further investigation.
- 2 The seepage is less than the Instream Flow Requirement (ie the water that must be released from the dam for environmental and other purposes) and, when they have quantified the amounts more accurately, they will reduce what is currently released.
- 3 The leak has no impact on the amount of water that can be drawn out of the Vaal River System. The operating rules of the system are to:
 - a. run LHWP continuously since it is a gravity system and SA pays royalties whether or not South Africa requires the water; and
 - b. run down Vaal Dam to its lower operating level before releasing water from the Tugela Vaal System.

Releasing water out of Mohale Dam to repair the crack would reduce the capacity of the system, and if Southern Africa went into an immediate dry period it would have a detrimental impact.

The crack poses no risk to reduced water deliveries.

30.2 Litigation and claims against TCTA

Pursuant to the termination of a construction contract in 2010, it is anticipated that the defaulting contractor will in due course initiate dispute resolution proceedings against TCTA. Pending the initiation of such proceedings, TCTA and its legal advisers are unable to assess any contingent liability in monetary terms, but remain confident of TCTA's position on having lawfully terminated the affected contractor's appointment.

31. 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

	2011 R'000	2010 R'000
Revenue	983	899
Operating costs	(983)	(899)
Total	–	–

32. Employee benefits

32.1 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 post-retirement funding. The emoluments paid to individuals include a sum for the provision of their own medical aid and pension benefits.

33. Events after the reporting period

33.1 Acid mine drainage

TCTA received a directive from the Minister of Water and Environmental Affairs in terms of section 103(2) of the National Water Act, 1998 (Act 36 of 1998), on 6 April 2011. The directive was issued for the emergency works water management on the Witwatersrand gold fields with special emphasis on acid mine drainage (AMD). The emergency works will be funded via funds allocated by the National Treasury and made available to TCTA via the DWA.

33.2 Incentives

The incentive for employees for the 2010/11 financial year was approved by the Board of Directors on 30 June 2011.

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 surplus/(deficit). The analysis below shows capitalised and expensed costs related to the projects:

	BWP 2011 R million	VRESAP 2011 R million	MCWAP 2011 R million	MMTS2 2011 R million	ORWRDP2 2011 R million	KWSAP 2011 R million	Total 2011 R million
Capitalised							
Engineering and construction	1 507	2 448	91	91	48	87	4 272
Water income	(441)	–	–	–	–	–	(441)
Finance and other income	(2)	(4)	–	(2)	–	–	(8)
Depreciation	(28)	(154)	–	–	–	–	(182)
Berg Water capital charge adjustment	(46)	–	–	–	–	–	(46)
Finance costs	199	542	6	14	(1)	11	771
Directly attributable costs	41	17	1	2	–	1	62
	1 230	2 849	98	105	47	99	4 428
Expensed to date							
Operating expenditure	159	266	51	52	63	45	636
Finance costs	347	616	–	–	–	–	963
	506	882	51	52	63	45	1 599
	1 736	3 731	149	157	110	144	6 027

Notes to the annual financial statements

for the year ended 31 March 2011

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

Total cost of the project	BWP 2010 R million	VRESAP 2010 R million	MCWAP 2010 R million	MMTS2 2010 R million	ORWRDP2 2010 R million	KWSAP 2010 R million	Total 2010 R million
Capitalised							
Engineering and construction	1 493	2 379	21	22	7	21	3 943
Water income	(441)	–	–	–	–	–	(441)
Finance and other income	(2)	(4)	–	–	–	–	(6)
Depreciation	(19)	(81)	–	–	–	–	(100)
Berg Water capital charge adjustment	(46)	–	–	–	–	–	(46)
Finance costs	199	542	2	3	1	2	749
Directly attributable costs	41	17	–	1	–	–	59
	1 225	2 853	23	26	8	23	4 158
Expensed to date							
Operating expenditure	142	170	25	35	37	28	437
Finance costs	240	299	–	–	–	–	539
	382	469	25	35	37	28	976
	1 607	3 322	48	61	45	51	5 134

36. World Cup expenditure

	2010/11		2009/10	
	Quantity	R'000	Quantity	R'000
Tickets acquired	-	-	-	-

	2010/11		2009/10	
	Quantity	R'000	Quantity	R'000
Distribution of tickets				
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

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

Bafana T-shirts for employees and stakeholders	-	-	300	128
World Cup decor	-	4	-	-
Diski Dance training	-	-	-	15
Catering and events	-	14	-	-
Total	-	18	300	143

	2011	2010
	R'000	R'000
Total World Cup expenditure		
Tickets acquired	-	-
Distribution of tickets	-	-
Travel costs	-	-
Purchase of other World Cup apparel	18	143
Total	18	143

Annexure A

Segmental statement of cash flows

for the year ended 31 March 2011

	Notes	LHWP 2011 R million	BWP 2011 R million	VRESAP 2011 R million	MCWAP 2011 R million	MMTS2 2011 R million	ORWRDP2 2011 R million	KWSAP 2011 R million
Cash flow from operating activities								
Cash receipts from customers		2 880	136	200	–	–	–	–
Cash paid to suppliers and employees		(476)	10	28	71	(2)	58	(161)
Cash generated from/(utilised in) project activities	A	2 404	146	228	71	(2)	58	(161)
Interest paid	C	(2 043)	(107)	(104)	(5)	(2)	(1)	(7)
Net cash inflow/(outflow) from operating activities		361	39	124	66	(4)	57	(168)
Cash flow from investing activities								
Payments to acquire financial assets		(1 375)	(16)	–	–	(28)	(18)	–
Proceeds on the sale of financial assets		2 019	–	28	–	–	–	–
Interest received	B	730	2	7	–	2	–	–
Capitalised to works in SA		–	(14)	(69)	(70)	(70)	(38)	(67)
Addition of other assets		(6)	–	–	–	–	–	–
Net cash inflow/(ouflow) from investing activities		1 368	(28)	(34)	(70)	(96)	(56)	(67)
Cash flow from financing activities								
Proceeds from long-term borrowings		1 140	224	200	–	–	–	–
Repayments on long-term borrowings		(2 902)	(113)	(290)	–	–	–	–
Proceeds from short-term borrowings		1 715	–	–	5	100	8	235
Repayments on short-term borrowings		(1 682)	(122)	–	–	–	(9)	–
Net cash inflow from financing activities		(1 729)	(11)	(90)	5	100	(1)	235
Net increase/(decrease) in cash and cash equivalents		–	–	–	1	–	–	–
Cash and cash equivalents at beginning of period		–	–	–	–	–	–	–
Cash and cash equivalents at end of period	D	–	–	–	1	–	–	–

Borehole 2011 R million	Total 2011 R million	LHWP 2010 R million	BWP 2010 R million	VRESAP 2010 R million	MCWAP 2010 R million	MMTS2 2010 R million	ORWRDP2 2010 R million	KWSAP 2010 R million	Total 2010 R million
-	3 216	2 390	186	146	-	-	-	-	2 722
-	(472)	(521)	(127)	27	23	(39)	7	23	(607)
-	2 744	1 869	59	173	23	(39)	7	23	2 115
-	(2 269)	(2 142)	(110)	(108)	(2)	(3)	(1)	(2)	(2 368)
-	475	(273)	(51)	65	21	(42)	6	21	(253)
-	(1 437)	(106)	-	(72)	-	(38)	-	-	(216)
-	2 047	1	63	-	-	-	-	-	64
-	741	180	6	12	-	-	-	-	198
-	(328)	-	(27)	(185)	(21)	(20)	(6)	(21)	(280)
-	(6)	(4)	-	-	-	-	-	-	(4)
-	1 017	71	42	(245)	(21)	(58)	(6)	(21)	(238)
-	1 564	1 184	161	1 205	-	-	-	-	2 550
-	(3 305)	(195)	(89)	(830)	-	-	-	-	(1 114)
-	2 063	876	63	-	-	100	-	-	1 039
-	(1 813)	(1 657)	(142)	(195)	-	-	-	-	(1 994)
-	(1 491)	208	(7)	180	-	100	-	-	481
-	1	6	(16)	-	-	-	-	-	(10)
-	-	(6)	16	-	-	-	-	-	10
-	1	-	-	-	-	-	-	-	-

Notes to the segmental statement of cash flows

for the year ended 31 March 2011

	LHWP 2011 R million	BWP 2011 R million	VRESAP 2011 R million	MCWAP 2011 R million	MMTS2 2011 R million	ORWRDP2 2011 R million	KWSAP 2011 R million
A. Cash generated from project activities							
Net surplus/(deficit) for the year	262	50	(192)	(30)	(19)	(28)	(19)
Adjustments for non-cash flow items and amounts separately disclosed:							
Depreciation on non-current assets	29	9	73	–	–	–	–
Finance costs recognised in surplus/(deficit)	1 856	105	311	–	–	–	–
Foreign exchange gains	(83)	–	–	–	–	–	–
Foreign exchange losses	95	–	–	–	–	–	–
Higher than actual O&M costs	(21)	–	–	–	–	–	–
Rental income – RSA account	(2)	–	–	–	–	–	–
Changes in working capital:							
Movement in loans and other receivables	286	18	(20)	(38)	(15)	61	(3)
Movement in other assets	–	–	–	–	–	–	–
Movement in prepaid expenditure	(44)	–	35	5	(1)	5	(120)
Movement in trade and other payables and provisions (excluding interest payable)	(2)	(36)	21	134	33	20	(19)
Non-cash flow item in loans and other receivables	43	–	–	–	–	–	–
Non-cash flow item in trade and other payables	(15)	–	–	–	–	–	–
Cash generated from/(utilised in) project activities	2 404	146	228	71	(2)	58	(161)

Borehole 2011 R million	Total 2011 R million	LHWP 2010 R million	BWP 2010 R million	VRESAP 2010 R million	MCWAP 2010 R million	MMTS2 2010 R million	ORWRDP2 2010 R million	KWSAP 2010 R million	Total 2010 R million
-	24	100	48	(237)	(19)	(17)	(23)	(20)	(168)
-	111	36	13	81	-	-	-	-	130
-	2 272	1 760	105	328	-	-	-	-	2 193
-	(83)	(62)	-	-	-	-	-	-	(62)
-	95	88	-	-	-	-	-	-	88
-	(21)	28	-	-	-	-	-	-	28
-	(2)	(2)	-	-	-	-	-	-	(2)
(14)	275	(30)	13	(1)	(16)	(28)	(77)	(4)	(143)
-	-	(101)	-	-	-	-	-	-	(101)
-	(120)	41	1	4	(7)	1	(5)	(1)	34
14	165	23	(121)	(2)	65	5	112	48	130
-	43	(22)	-	-	-	-	-	-	(22)
-	(15)	10	-	-	-	-	-	-	10
-	2 744	1 869	59	173	23	(39)	7	23	2 115

Notes to the segmental statement of cash flows continued

for the year ended 31 March 2011

	LHWP 2011 R million	BWP 2011 R million	VRESAP 2011 R million	MCWAP 2011 R million	MMTS2 2011 R million	ORWRDP2 2011 R million	KWSAP 2011 R million
B. Interest received							
Amount due at beginning of year	457	–	1	–	–	–	–
Income during the year adjusted for non-cash items	286	2	6	–	2	–	–
Amount received	592	2	6	–	2	–	–
Profit on switch auction	(11)	–	–	–	–	–	–
Loan premium amortised	(180)	–	–	–	–	–	–
Transfer to funding portfolio	(110)	–	–	–	–	–	–
Interest on RSA account	(5)	–	–	–	–	–	–
Profit on sale of financial asset	–	–	–	–	–	–	–
Amount due at end of year	(13)	–	–	–	–	–	–
Interest received	730	2	7	–	2	–	–
C. Interest paid							
Amount not paid at beginning of year	(526)	(3)	(24)	–	–	–	–
Expensed during the year adjusted for non-cash items	(2 098)	(107)	(104)	(5)	(2)	(1)	(7)
Amount expensed	(2 448)	(107)	(317)	(5)	(11)	(1)	(9)
Loan discount amortised	19	–	–	–	–	–	–
Foreign loan payments	(8)	–	–	–	–	–	–
Transfer to redemption portfolio	110	–	–	–	–	–	–
Loss on switch auction	77	–	–	–	–	–	–
Capital adjustment to inflation-linked liability	172	–	–	–	–	–	–
Concessionary portion – on EIB loan	3	–	–	–	–	–	–
Interest capitalised	–	–	213	–	9	–	2
Cash flow in cum/ex div reflected under cash flow from financing activities	(23)	–	–	–	–	–	–
Amount not paid at end of year	581	3	24	–	–	–	–
Interest paid	(2 043)	(107)	(104)	(5)	(2)	(1)	(7)
D. Cash and cash equivalents at end of period							
Cash and cash equivalents consist of cash on hand and balances with banks	–	–	–	1	–	–	–

Borehole 2011 R million	Total 2011 R million	LHWP 2010 R million	BWP 2010 R million	VRESAP 2010 R million	MCWAP 2010 R million	MMTS2 2010 R million	ORWRDP2 2010 R million	KWSAP 2010 R million	Total 2010 R million
-	458	232	2	-	-	-	-	-	234
	296	405	4	13	-	-	-	-	422
-	602	771	4	13	-	-	-	-	788
-	(11)	(1)	-	-	-	-	-	-	(1)
-	(180)	(152)	-	-	-	-	-	-	(152)
-	(110)	(209)	-	-	-	-	-	-	(209)
-	(5)	(3)	-	-	-	-	-	-	(3)
-	-	(1)	-	-	-	-	-	-	(1)
-	(13)	(457)	-	(1)	-	-	-	-	(458)
-	741	180	6	12	-	-	-	-	198
-	(553)	(491)	(4)	(15)	-	-	-	-	(510)
-	(2 324)	(2 177)	(109)	(117)	(2)	(3)	(1)	(2)	(2 411)
-	(2 898)	(2 531)	(109)	(341)	(2)	(3)	(1)	(2)	(2 989)
-	19	30	-	-	-	-	-	-	30
-	(8)	(7)	-	-	-	-	-	-	(7)
-	110	209	-	-	-	-	-	-	209
-	77	-	-	-	-	-	-	-	-
-	172	143	-	-	-	-	-	-	143
-	3	3	-	-	-	-	-	-	3
-	224	-	-	224	-	-	-	-	224
-	(23)	(24)	-	-	-	-	-	-	(24)
-	608	526	3	24	-	-	-	-	553
-	(2 269)	(2 142)	(110)	(108)	(2)	(3)	(1)	(2)	(2 368)
-	1	-	-	-	-	-	-	-	-

Glossary of terms and definitions

AFD	Agence Française de Développement	KZN	KwaZulu-Natal
ALBI	All Bond Index	LHDA	Lesotho Highlands Development Agency
AMD	Acid Mine Drainage	LHWC	Lesotho Highlands Water Commission
ASGISA	Shared Growth Initiative for South Africa	LHWP	Lesotho Highlands Water Project
BBBEE	Broad-based black economic empowerment	m ³	Cubic metres
BBCBE	Black Business Council for the Built Environment	MBBH	Metsi Bophelo Borehole Project
BE	Black enterprise	MCWAP	Mokolo-Crocodile Water Augmentation Project
BEE	Black economic empowerment	MMTS2	Mooi-Mgeni Transfer Scheme Phase 2
BESA	Bond Exchange of South Africa	MoA	Memorandum of Agreement
BRC	Berg River Consultant	MWB	Must Win Battles
BRPJV	Berg River Project Joint Venture	NWRI	National Water Resource Infrastructure
BSC	Balanced Scorecard	NWRIA	National Water Resource Infrastructure Agency
BWCC	Berg Water Capital Charge	OD	Organisational Development
BWP	Berg Water Project	O&M	Operations and Maintenance
CBBO	Confederation of Black Business Organisation	ORWRDP	Olifants River Water Resource Development Project
CCT	City of Cape Town	PAIA	Public Access to Information Act
CEO	Chief Executive Officer	PDP	Personal Development Plan
CFO	Chief Financial Officer	PFMA	Public Finance Management Act
CFRD	Concrete-faced rockfill dam	PIM	Project Implementation Methodology
COO	Chief Operating Officer	PM	People Management
COSO	Committee of Sponsoring Organisations of the Treadway Commission	PPI	Producer price index
CPI	Consumer Price Index	PPP	Public Participation Programme
CPIX	Consumer price index (excluding home loans)	PPPFA	Preferential Procurement Policy Framework Act
CTC	Cost to Company	PRC	Policy Review Committee
DEAT	Department of Environmental Affairs and Tourism	Q1	Quarter number 1
DMTN	Domestic Medium Term Note	RoD	Record of Decision
DPE	Department of Public Enterprises	RSA	Republic of South Africa
DPW	Department of Public Works	SAAWU	South African Association of Water Utilities
DWA	Department of Water Affairs	SAM	Strategic Alignment Management
ECO	Environmental Control Officer	SARB	South African Reserve Bank
EIA	Environmental Impact Assessment	SARS	South African Revenue Service
EIB	European Investment Bank	SASAWU	South African State and Allied Workers Union
EIR	Environmental Impact Report	SAICE	South African Institute of Civil Engineering
EMC	Environmental Monitoring Committee	SAWiC	South African Women in Construction
EMP	Environmental Management Plan	SED	Socio-economic development
EMPR	Environmental Management Plan Report	SEMP	Standard Environmental Management Plan
ERM	Enterprise Risk Management	SLA	Service Level Agreement
EWRM	Enterprise-wide Risk Management	SMME	Small, medium, micro-enterprise
FFP	Franschhoek First Policy	SoE	State-owned Enterprise
GAAP	Generally Accepted Accounting Practice	SONA	State of the Nation Address
GBP	Pound sterling	SUP	Sustainable Utilisation Plan
GOL	Government of Lesotho	TCTA	Trans-Caledon Tunnel Authority
GOP	Growing Our People	TPCC	Third-party capital charge
GOT	Growing Our Teams	USD	United States dollar
HDIs	Historically disadvantaged individuals	UW	Umgeni Water
HIV	Human Immunodeficiency Virus	VRESAP	Vaal River Eastern Subsystem Augmentation Project
ICM	Integrated Catchment Management	VRESS	Vaal River Eastern Subsystem
IETC	Integrated Employment and Training Committee	WCD	World Commission on Dams
IFRS	International Financial Reporting Standards	WCDM	Water Conservation and Demand Management
IIA	Institute of Internal Auditors	WCWS	Western Cape Water System
IWUA	Impala Water Users Association	WEA	Water and Environmental Affairs (Department of)
JIPSA	Joint Initiative on Priority Skills Acquisition	WS03	Water stock number 3
JPY	Japanese yen	WS04	Water stock number 4
KfW	German Development Bank	WS05	Water stock number 5
KWSAP	Komati Water Scheme Augmentation Project	WS06	Water stock number 6
		WSP	Water stock (private placement 1-5)

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