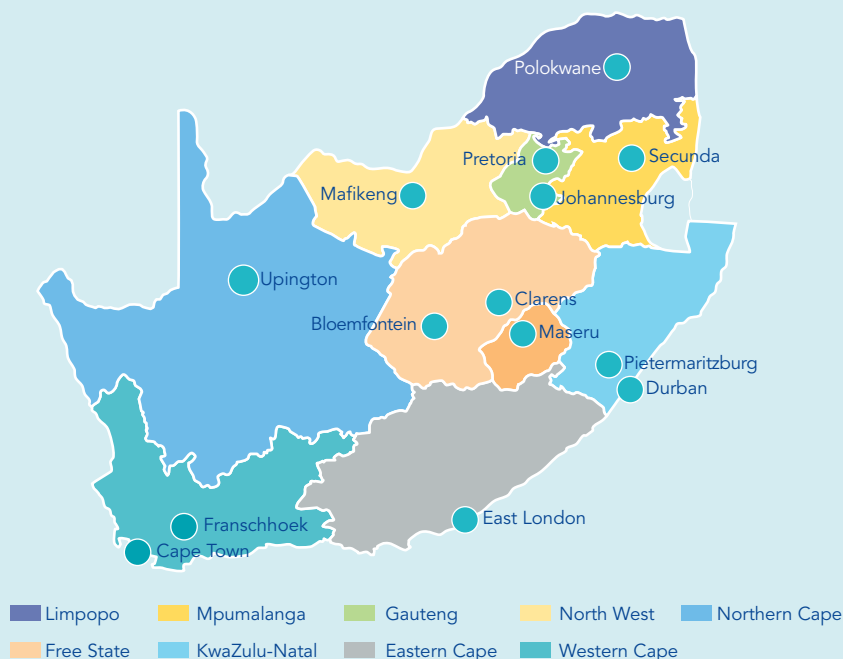


To the Minister of Water Affairs and Forestry
TCTA's 20th Annual Report
31 March 2007

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TCTA footprint



Role

- A: Implementing and funding
- B: Advisory Service
- C: Treasury Service

Gauteng (Centurion)

- B: Advisory role to DWAF on NWPS and participant in the institutional framework for NWIA
- B: Board participation at BESA
- A: Debt management of LHWP

Western Cape (Franschhoek)

- A: Implementation and funding of the BWP due in 2007

Limpopo (Olifants)

- B: Advisory role for the institutional framework and financing of Olifants River Water Resource Development Project

Mpumalanga (Secunda)

- B: The implementation and funding of VRESAP due in 2007

KwaZulu-Natal (Pietermaritzburg)

- C: Strategic advisory on treasury management to Umgeni Water
- B: Additional mandate to provide advisory services on the institutional framework for the Spring Grove Dam

Lesotho (Maseru)

- C: LHWC support services
- A: Funding and liability management

Eastern Free State (Clarens)

- A: Social responsibility initiatives
- A: Ash River management
- A: Operations and maintenance of LHWP assets

Defining TCTA

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

Our business

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

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

TCTA considers liability management to be a multi-disciplinary function that starts with funding and risk management at the one end of the spectrum, and ends with managing the engineering, construction and environmental components of a project (see figure 1).

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

Vision Delivery Future

Figure 1: TCTA liability management



Our mandates

TCTA operates in a multi-project environment (see figure 2), including project implementation (90%) and advisory services (10%) in the water sector.

Each project is governed by a directive from the Minister of Water Affairs and Forestry.

Project implementation

Lesotho Highlands Water Project

TCTA was established to manage the implementation, operation and maintenance of the Lesotho Highlands Water Project (LHWP) works within South Africa.

TCTA was later directed by the South African Government to take on the added

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

Berg Water Project

In April 2002, Cabinet approved the implementation of the Berg Water Project (BWP) in Franschhoek, Western Cape. In May of the same year, the Minister of Water Affairs and Forestry directed TCTA to fund and implement BWP.

BWP will increase the yield of the Western Cape Water System (WCWS), which supplies the City of Cape Town's water

users, by 81 million m³ (18%) to 523 million m³ a year from December 2007.

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

Vaal River Eastern Subsystem Augmentation Project

On 6 October 2004 Cabinet approved the Vaal River Eastern Subsystem Augmentation Project (VRESAP) as an emergency infrastructure project.

Two months later, on 26 November 2004, the Minister of Water Affairs and Forestry directed TCTA to fund and implement VRESAP.

The VRESAP, also known as the Vaal Pipeline Project, is being implemented to meet the growing water demands of Eskom and Sasol in the Mpumalanga Highveld region. The scheme will transfer water via a 115 km pipeline from the Vaal Dam to the Knoppiesfontein diversion structure near Secunda, which will direct water into either the Trichardtsfontein Dam near Eskom or Bosjesspruit Dam near Sasol.

VRESAP will augment the yield of the Vaal River Eastern Subsystem (VRESS) by 160 million m³ per year.

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

Advisory services

Umgeni Water

On 4 July 2001, the Minister of Water Affairs and Forestry directed TCTA to fulfil the treasury management services of Umgeni Water.

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

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

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

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

Olifants River Water Resource Development Project

TCTA was mandated by the Department of Water Affairs and Forestry (DWAF) to advise the department on proposed institutional arrangements and a funding strategy for the Olifants River Water Resource Development Project (ORWRDP) Phase 2 in the Limpopo province.

The main focus of the project is to facilitate economic development and social upliftment through providing basic water requirements. The ORWRDP Phase 2 will supply social (50%), commercial (3%) and mining (47%) users in the project area with water.

Spring Grove Dam Project

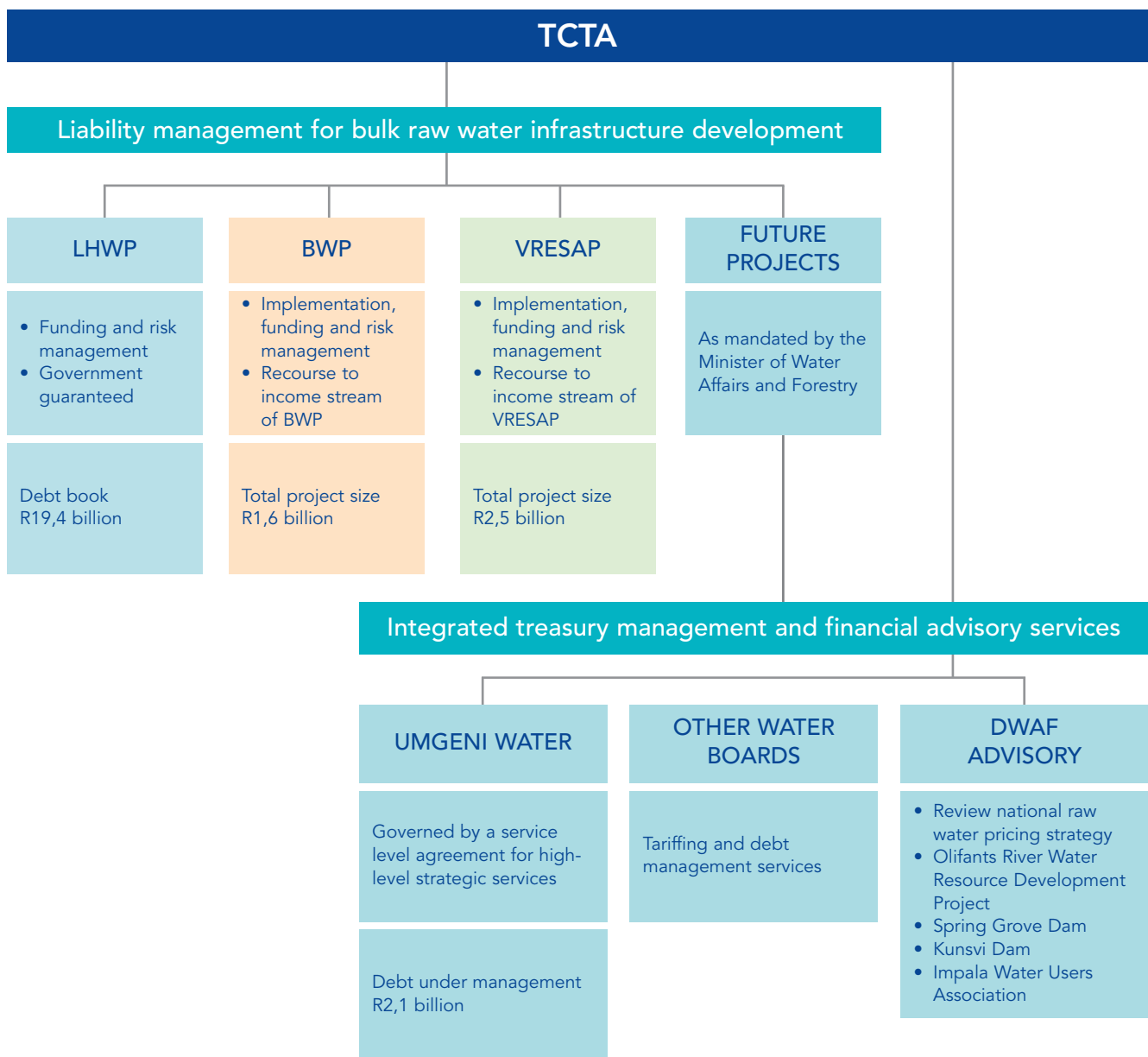
TCTA was requested by DWAF to assist with developing institutional arrangements and a funding proposal for the Mooi-Mgeni Phase 2 project.

The project entails the construction of a dam to supplement the Midmar Dam in KwaZulu-Natal as part of the Mooi-Mgeni system. The Spring Grove Dam will yield 59 million m³ of water per year.

Water boards

TCTA also provides tariffing and debt management assistance to various water boards and municipalities.

Figure 2: TCTA's multiproject business model



Chairman's report

A new architecture is in place and a **solid foundation** has been cast to drive the new vision and renewed transformation focus of TCTA.



It was more than 20 years ago that South Africa and Lesotho signed a historic agreement that gave birth to the Lesotho Highlands Water Project (LHWP), an unprecedented world-class bulk water supply initiative that would give rise to the Trans-Caledon Tunnel Authority (TCTA). On 12 December 2006, TCTA celebrated 20 years of the Authority's existence with much reflection on the challenges we have gallantly tackled over the years. We have had many achievements during the course of fulfilling our mandate and serving as a facilitating vehicle for major water infrastructure projects in South Africa. We strive to positively contribute to the development initiatives our country has robustly embarked on.

Our 20th anniversary ushers in a new phase in the life of TCTA. As part of our integral, evolving role into the National Water Resources Infrastructure Agency, we will draw from the reservoir of our experience. TCTA will play a catalyst role in our responsibility to fund, implement, administer, operate, maintain, manage and lead future development of our country's national water resources infrastructure. It is an exciting phase indeed for all of us. The country's foundations are strongly embedded in a culture of excellence, and have been reflected so clearly in our organisation's performance during the year under review.

Chairman's report (continued)

It was an honour and privilege for me to assume the chairmanship of TCTA in the same year the company celebrated its 20th anniversary and therefore reached a significant milestone. The confirmation of a national long-term AA+ (zaf) and short-term F1+ (zaf) Fitch ratings for both the Berg Water Project (BWP) and the Vaal River Eastern Subsystem Augmentation Project (VRESAP), further affirmed our unwavering resolve as a key national strategic institution to deliver on the expectations of the government of South Africa and its people, and the Southern African region in general.

The 2006/07 reporting period has been a strategic turning point for TCTA. The organisation adopted a shared vision of a renewed focus on our mission and mandate to be a leading change agent for socio-economic development in the water sector. We introspectively looked into a creative and more proactive role for TCTA and to execute the critical developmental task bestowed upon us by the government of South Africa. The two projects we are involved in, VRESAP and BWP, prove that we have been and are continuing to play this role through our contribution to address the eradication of poverty, skills development, economic growth, job creation, transformation and economic empowerment in our country and region. More specifically to us at TCTA, we view these projects in particular as a way to demonstrate our support to the Department of Water Affairs and Forestry.

We want to ensure that we contribute to its vision of provision of reliable and equitable supply of water for sustainable economic and social development.

Developmental role

Within TCTA and the water sector, we grew in areas of organisational enhancement of efficiency and effectiveness to play our rightful role. We accessed globally competitive resources to advance our programmes and we mobilised private sector capital and expertise within the sector.

We felt the broader economic impacts through attracting local and foreign direct investment in the development of the sector's much needed infrastructure. The impacts were felt in financing growth, fulfilling the requirements for industrial competitiveness, as well as in contributing positively to address the skills shortage the sector currently faces.

Through the execution of these projects, we play a critical role in the micro- and macro-economics of our country to ensure wider participation by those previously neglected. This includes the implementation of BEE policies as championed by our government, to mitigating possible negative social and environmental impacts arising from our project activities and to promote sustainable employment.

Governance

It is a significant milestone that a new Board of Directors was appointed on 1 July 2006 by the equally new Minister of Water Affairs and Forestry, Honourable Lindiwe Hendricks, MP. We regard ourselves as a transformation vehicle of government to deliver TCTA to the new National Water Resources Infrastructure Agency that Cabinet approved. As the Chairman of the Board, I am confident that the Board Committees we established are not only creating the necessary channel of communication between the Executive Committee and the Board, but also carry the mantle of transformation and change within the organisation. Our governance structures have been and will be reviewed on an ongoing basis to ensure best practice, while focusing on sound, unimpeachable enterprise-wide risk management. We continuously monitor issues relating to project funding, financial and non-financial processes to ensure healthy checks and balances.

It is equally a significant milestone for TCTA that a new architecture is in place through a new team of executives introduced during the year to drive the new vision and renewed transformation focus, without any displacements.

Partnerships and relationships

TCTA has cultivated strong relationships with its stakeholders in both the public and private sectors and explored the best ways to work with each other. We have been

witnesses to the fact that, through execution of our projects, we demonstrated promotion of partnerships and alliances between individuals and organisations from different fields and expertise. We have reviewed the implementation of actions, commitments and decisions in predetermined best practices and by different stakeholders responding to different challenges. We have learned that each and every stakeholder can and should play a constructive role in striving towards sustainability in a changing world, which presents both challenges and opportunities.

Strategy

The TCTA's strategic focus and imperatives for the future were reconfirmed by the Board at a strategic level. Our core role was reconfirmed in the sector(s) that we operate in. We remained convinced that TCTA has a distinguishable identity. There is obviously a lot of knowledge to be gained from a range of strategic engagements. The strategic perspectives to be adopted by our organisation in the future, recognise that our key priority for success lies in a refocused and accelerated drive directed at the transformation agenda of TCTA. Consequently, we resolved to enhance TCTA's readiness to be integrated into the future National Water Resources Infrastructure Agency.

Challenges

At a broad level we acknowledge that there are challenges that we face. Internally, equity and transformation issues

are amongst those challenges. Project-related challenges, more specifically with respect to VRESAP, have also been experienced. Delays encountered are linked to unforeseen circumstances and conditions which we are confidently able to deal with. The sustainability of our organisation's balance sheet and our investor partners is another challenge. By prudently managing the risks and ensuring sustainability, we will validate our mandate and demonstrate that TCTA's objectives are accomplishable.

Appreciation

All our achievements are shared explicitly and in part by our partners, the Department of Water Affairs and Forestry, without whose supportive efforts TCTA would not be where it is today. I would like to particularly recognise the outgoing Board for its leadership during a significant period in the life of TCTA since 2002. In welcoming all my Board colleagues appointed on 1 July 2006, a special word of appreciation goes to our erstwhile chairperson, Mr Leslie Maasdorp, as well as Ms Angie Makwetla and Mr Robert Mbwana for their leadership and willingness to continue serving on the Board.

To the Chief Executive Officer, Martie Janse van Rensburg, her Executive team and hard-working staff, I extend my gratitude to you for successfully steering the ship through rough and uncharted waters, with dedication, passion and

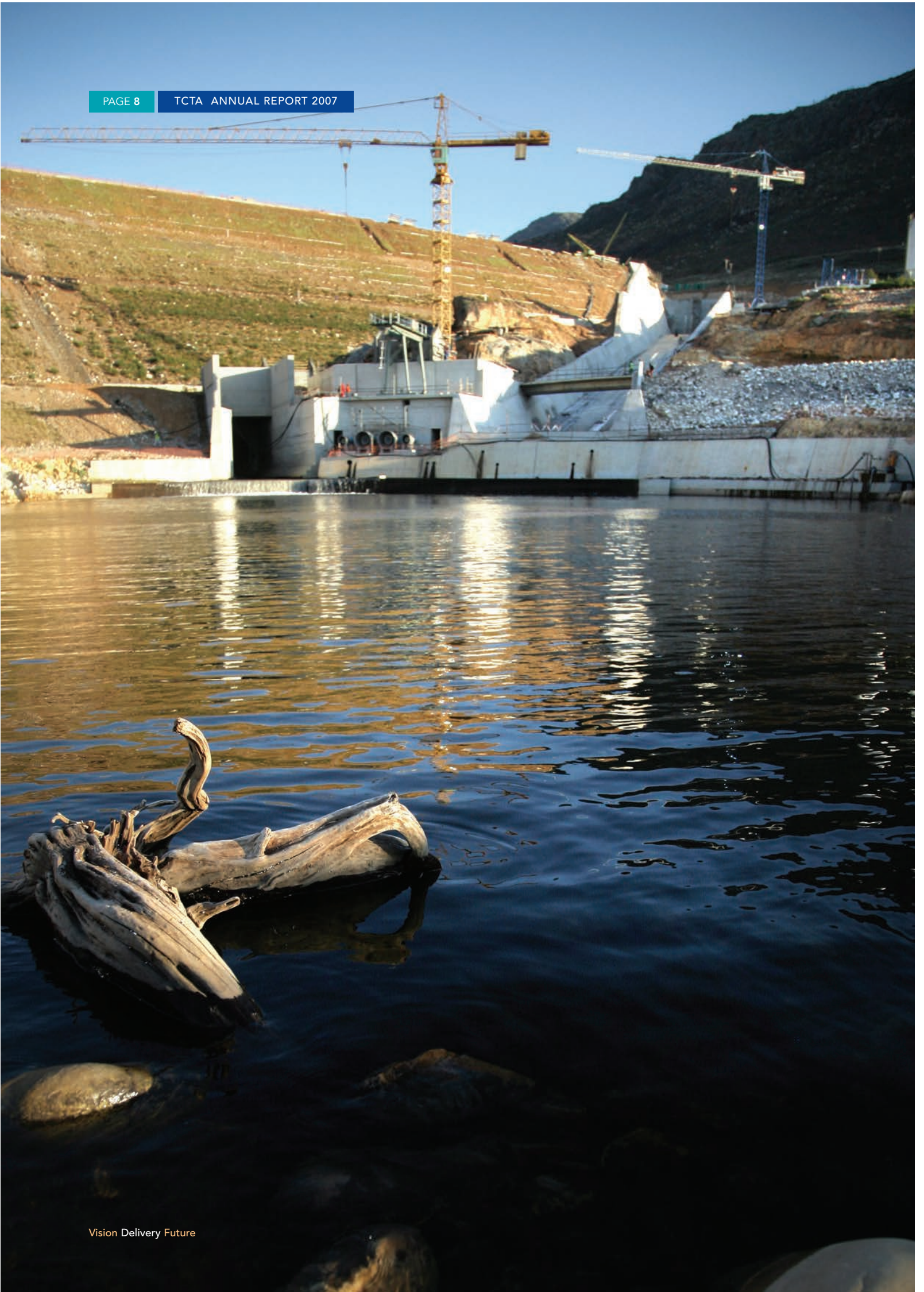
excellence displayed to achieve the results for the year under review.

In the year ahead, the team looks forward to building onto this platform during the coming year. The commitment, drive and energy from the Board, the Executive team and all our employees and shareholders in supporting TCTA initiatives will certainly contribute to achieving further successes.

Finally, and in the words of one of the seasoned water sector players ". . . the good news is that water is a patient teacher. Every season we get another chance to manage it better than in the year before. We certainly need to learn from the experiences we are gaining and to apply them by making the right choices. If we do, there is no reason why we cannot live within our means and prosper as a nation". Here's to another 20 fulfilling years!



Malixole Gantsho
Chairman



Chief Executive Officer's report

We believe we are constantly contributing **innovative solutions** to complex challenges in the water sector.



Vision, Delivery, Future

It gives me great pleasure to report on the achievements of TCTA in the past period as we embark on a new wave of transformation in TCTA and the water sector.

TCTA came into being on 12 December 1986 to implement and fund the Lesotho Highlands Water Project. Now, 20 years later, we can celebrate two decades of successfully delivering on government's bulk water supply agenda, and, in the process, becoming a multiproject developer.

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

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

Chief Executive Officer's report (continued)

TCTA's current projects entail the development and financing of bulk raw water resource infrastructure, as mandated by the Minister of Water Affairs and Forestry. The consumers carry this cost over a period of time in their raw water tariff, which enables government to spend "fiscus" money on other more critical programmes, such as social upliftment, the creation of social infrastructure and services to alleviate poverty. TCTA's role is thus to ensure that the required raw water supply (as planned and initiated by DWAF) is available to roll out water services and to provide water for industries that create economic benefit and growth in terms of Asgisa.

In President Mbeki's State of the Nation Address "check against delivery" in February 2007, there was a strong focus on reviewing delivery achieved since our last elections in 2004.

Therefore, in reviewing TCTA's contribution to government's agenda over the past two and a half years we are pleased to report on the following achievements:

- 3 356 jobs created on Berg Water Project and Vaal Pipeline Project (in equivalent person years):
 - 1 894 local jobs;
 - 2 742 HDI jobs; and
 - 810 jobs specifically for women.
- R2,4 billion spent directly on BEE procurement (97,75% out of total procurement).
- Indirect procurement by contractors in terms of the contractual targets set in the construction contracts:
 - R395 million spent on BEE procurement;
 - R31 million spent on procurement from local enterprises; and
 - R185 million spent on procurement from SMMEs.
- Contribution to skills development:
 - Within TCTA (own staff) – R5 million;
 - Training and interventions in the communities where projects are implemented – 889 people benefited from training.

Current mandates

80% – 90% of our core business is liability management with advisory services making up the rest.

Liability management projects

The projects covered under this category are ones with specific mandates:

- Lesotho Highlands Water Project;
- Berg Water Project; and the
- Vaal Pipeline Project.

Advisory services

Work executed under the general directive for Treasury, as well as financial advisory services, drew about 10% – 20% of our focus. The advisory work done was mainly in support of DWAF, and focused on the:

- Olifants River Water Resource Development Phase II; and the
- Spring Grove Dam (Mooi-Mgeni Phase II).

Furthermore, support was provided to DWAF in requests for technical assistance and dispute resolution, which included:

- Technical assistance relating to Kunzvi Dam in Zimbabwe; and
- Impala Water User Association unlocking of tariff disputes.

Implementation and funding mandates: Progress

Lesotho Highlands Water Project

Due to its size and development impact, the Lesotho Highlands Water Project (LHWP) remains a flagship project, and the management of the debt related to the LHWP remains TCTA's core treasury activity. TCTA performs an operations and maintenance function on the LHWP structures within South Africa and will also continue to manage the debt of the project until final repayment (which is envisaged to be 2025).

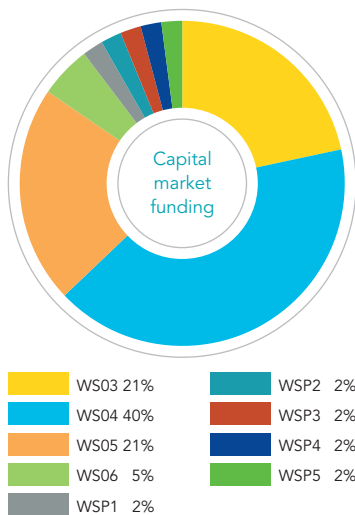
While the Lesotho project authorities are changing focus from implementation to operations and maintenance, both the Lesotho and South African governments have agreed to investigate the feasibility of further phases. The most appropriate technical alternative has been identified and it is envisaged that the two governments will be able to come to an agreement on further phases by the end of 2008. The completed first phase of the project has provided a steady stream of high-quality water to the Vaal River system. Current indications are that additional augmentation will, however, only be required after 2020.

Since completion of the LHWP, more emphasis is placed on sophisticated debt management within a conservative risk management framework. Currently, the LHWP stock of debt (WS bonds) under management is approximately R19,4 billion and is expected to grow to R21 billion by 2013. The total debt will be repaid by 2025. In the budgeting process, TCTA



clearly identifies those costs not directly under its control for the operations and maintenance of this project. These costs are approved by the Lesotho Highlands Water Commission and under the control of LHDA.

Figure 3: Capital market funding: R19,4 billion breakdown of bonds as at 31 March 2007



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

Berg Water Project

Progress on the Berg Water Project (BWP) has been excellent. It is the first major project to be implemented following changes to environmental legislation and the release of the World Commission on

Dams development guidelines. TCTA devised and is implementing innovative processes and structures to ensure compliance and project sustainability. It is expected that the project will be delivered on time and within budget. Also, all contractors have achieved targets set for employing local labour, training and procurement from local and BEE sources.

The Berg Water Project maintained its excellent Fitch credit rating (AA+) first awarded in 2004 and reaffirmed in November 2005 and again in 2006. The project debt will peak at R1,3 billion in 2008 and will be repaid by 2028 from revenue generated by the sale of water to the City of Cape Town.

Storing of water is expected to commence in the wet season of 2007 and water delivery on the project is expected to be achieved by December 2007. TCTA would then assume the role of debt management until final repayment (in 2028). Once construction is complete, DWAF will assume responsibility for the operations and maintenance of the infrastructure.

Vaal River Eastern Subsystem Augmentation Project

The Vaal River Eastern Subsystem Augmentation Project (VRESAP) is a high-priority project to increase water supply for the expansion of Sasol (Secunda) and the re-introduction of mothballed Eskom power stations on the Mpumalanga highveld. The scheme will transfer water through a pipeline of approximately 115 km from the Vaal Dam near Vaal Marina to the Knoppiesfontein diversion structure that

will discharge into either the Trichardtsfontein or Bosjesspruit dams near Secunda.

The estimated final cost of VRESAP is R2,5 billion and is funded on an off-government budget basis. The capital costs are to be recovered from the revenue generated from the sale of water to Eskom and Sasol with repayment of debt set for 2027. The project was awarded an excellent Fitch credit rating (ZAF AA+) reconfirmed in November 2006. During the past year bridging finance was repaid from the long-term funding sources secured.

The project, however, has not progressed at the rate envisaged during inception, due to unforeseen circumstances. TCTA and its project partners recognise that implementation of emergency projects such as VRESAP brings complexity and increased risk. Due to abnormally high rainfall and unforeseen geotechnical conditions experienced at the abstraction works, design changes had to be implemented. Furthermore, lack of skills in the engineering and construction industry also contributed to the slow progress. The project is 43% complete, with water delivery expected to commence in May 2008, seven months later than planned and construction completed by August 2008.

Advisory mandates

TCTA as a special-purpose vehicle, is unique in its specialist skills in liability management. The understanding of water demand management, tariffing, debt management, compliance and assurance functions, governance, funding, project

Chief Executive Officer's report (continued)

implementation management, sustainable development, public relations and risk management are finely integrated and developed to meet the challenges of different geographical areas within South Africa and providing assistance in the water sector.

Umgeni Water

TCTA's involvement continues on strategic treasury issues based on a commercial contract.

Olifants River Water Resource Development Project

The Olifants River Water Development Project Phase 2 (ORWRDP), situated in Limpopo, involves the construction of the De Hoop Dam situated on the Steelpoort River and a bulk raw water distribution system.

This water will not only boost supply to a number of municipalities in Limpopo province, but will provide the much-needed water required to support the proposed platinum mining development in the province.

Since July 2004, TCTA has assisted DWAF to develop appropriate financing and institutional models for the implementation of ORWRDP 2. We are committed to actively seeking the best possible solutions for the implementation and funding of the ORWRDP (which will stimulate economic development in Limpopo, but is not commercially viable during the early years of operation) and as such have consulted across spheres of government as well as interdepartmental on a national basis.

Initial indications are that the social funding required for the resource development is R3 billion and for the Water Services roll-out a further R3 billion would be required. The commercial portion of this R6 billion will be funded off-government budget once National Treasury approved the funding allocation required for the social portions.

A Memorandum of Agreement (MoA) was negotiated and agreed between DWAF and the mines under the Institutional and Finance Committee Task Team over a period of almost two years. It is confirmed that this landmark agreement will be signed in July 2007.

The off-take agreements, formalising the supply and payment for water from this project, are currently being negotiated between DWAF and the mines through the Institutional and Finance Committee Task Team.

National Treasury has committed funding for the project through the Exchequer for the social components, and funds have been committed to construct the dam to date. The overall funding strategy responding to both water services and water resources needs now to be finalised.

Spring Grove Dam (KwaZulu-Natal)

DWAF requested TCTA in August 2005 to advise on the institutional and funding arrangements and possibly undertaking the implementation and financing of this bulk raw water development. The indicative capital cost of this development

(MMTS 2) is approximately R409 million. eThekweni, Msunduzi and Umgungundlovu municipalities as well as Umgeni Water have all agreed that this is an off-government budget project.

TCTA finalised the required work under the advisory mandate in March 2006. This included a funding and implementation strategy as well as stakeholder consultation to approve the proposed strategies.

TCTA currently awaits a mandate from the Minister of Water Affairs and Forestry to implement and fund the Spring Grove Dam. Indications are that this development will also require fast-tracking. Once the mandate is received, TCTA will, during the 2007/08 financial year, negotiate the project agreements between DWAF and TCTA and between DWAF and the main off-takers, being the three municipalities mentioned above and Umgeni Water. A funding strategy will be formulated and project finance will be procured once the off-take agreements have been signed. Project preparation work will start on the construction side during the same year, especially obtaining a record of decision and other approvals. A due diligence review on the project design will also be performed.

Kunzvi Dam, Zimbabwe

On 26 January 2006, DWAF hosted a delegation from Zimbabwe. TCTA supported DWAF by reviewing the financial models prepared by the delegation's financial advisors and through a working group reported to DWAF regarding the technical viability of the

project. This assignment was completed during 2006/07.

Impala Water Users Association (IWUA)

TCTA was mandated by DWAF in March 2006 to assist in formulating a funding proposal to unlock a tariff dispute between the members of the IWUA and the IWUA management with regard to the funding of the Bivane Dam in Pongola. A R150 million government guarantee is linked to the funding, which Rand Merchant Bank wishes to call on should the tariff dispute not be resolved. TCTA finalised the proposed strategy and handed the report to DWAF in February 2007. No further work is required under this mandate.

Water pricing strategy

DWAF requested TCTA in 2005 to assist with the five-year water pricing strategy review. TCTA focused specifically on the pricing of raw water for the various categories of water users, being social or commercial users, or a combination of the two. TCTA finalised this assignment in June 2006. DWAF is still in the process of consulting with National Treasury on the revised pricing strategy. No further work is required under this assignment.

Water sector reform

TCTA continues to participate in the National Task Team for Water Services Institutional Reform. The Task Team is responsible for reviewing the national institutional arrangements necessary to facilitate the required infrastructure developments, skills and capacity in the water sector taking into account national policy, long-term integrated water resource

strategies and a sustainable long-term solution.

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

National Water Resource Infrastructure Agency (NWRIA)

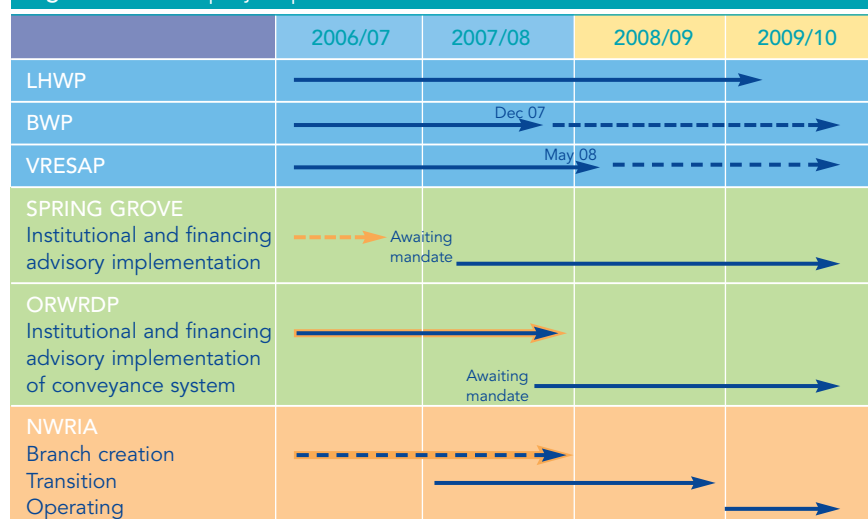
Cabinet announced the creation of a National Water Resource Infrastructure Agency in August 2005. This agency will see the integration of DWAF NWRI branch and TCTA, and will be responsible for the development, operation and funding of national water resource infrastructure. It is

anticipated that the agency will start operating as an entity in 2009.

We are confident that TCTA has gained valuable experience over the past 20 years and is now well-positioned to play a significant role in the water sector. Our role becomes even more critical given the changes in the sector, specifically the realisation of key national initiatives, the institutional alignment required in water resource development and the augmentation of liability management skills in the sector.

Our focus going forward will be to define this role for TCTA with DWAF and to ensure organisational readiness. It is our belief and that of our stakeholders within the water sector that TCTA is unique in its offering and plays a pivotal role in the water sector.

Figure 4: TCTA's project profile



-----> operations phase

Chief Executive Officer's report (continued)

Water sector contributions

TCTA participates in South African Association of Water Utilities (SAAWU) water sector initiatives as an observer member. TCTA currently chairs the Strategic Water Resources Management Committee of SAAWU, which focuses on strategic water resource matters.

Governance

Board of Directors

The Board has met its fiduciary responsibilities during the year under review. The reconstituted Board commenced with its activities in July 2006. The significant change in the composition of the Board called for various induction sessions to enable members to effectively discharge of their fiduciary responsibilities.

Risk management

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

monitored. The focus during the past year was to integrate risk management into an enterprise-wide risk management framework (EWRM).

In Q1 and Q2 of 2006, TCTA appointed PwC to review its risk management philosophy, framework, risk registers and risk culture in line with international best practice. The report indicated that TCTA risk management substantially operated within international best practice levels and proposed a few improvements. Apart from improving the risk management culture and procuring risk management software, all recommendations emanating from this report have been implemented.

Stakeholder management

We recognise the value of the contributions made by our stakeholders to our success, and therefore our approach is inclusive and transparent – it involves and informs stakeholders on the impacts of our projects, services and activities.

During the year under review, special briefing sessions were given to the Parliamentary Portfolio Committee on Water Affairs and Forestry and the National Council of Provinces. Site visits were provided for the TCTA Board, foreign and local financiers and other decision-makers. TCTA also held workshops with senior government officials; meetings with community leaders; and a variety of public events to engage affected communities.

Integrated management

TCTA has developed integrated management systems to ensure that all aspects of project implementation are addressed with equal vigour and

dedication. The introduction of this hybrid matrix structure means that project management teams are integrated both horizontally and vertically, to ensure that knowledge and learning are shared. This structure, coupled with the ringfencing of each project, obviates the need (and cost) to create a special implementing body for each project.

The filling of positions in the senior structure during the year under review was delayed to give the new Board the opportunity to participate in the selection and appointment process. This delay impacted on the roll-out of certain strategic business plans.

Operational highlights IFRS reporting

TCTA opted for the early adoption of reporting in terms of International Financial Reporting Standards (IFRS) for the year ended 31 March 2005. Reporting in terms of IFRS continued, as well as the disclosure in the notes to the annual financial statements, to provide project partners and stakeholders additional information on the full cost of the projects as the application of these standards does not allow for the capitalisation of overhead costs.

During the year under review the implementation of splitting of assets into components in terms IAS 16 *Property, Plant and Equipment* have been implemented. This change in the basis of estimates was fully recognised in the income statement, assets and non-distributable reserves in the current year.

LHWP cost allocation

As reported in 2005 and 2006, the cost allocation between hydro power and water transfer costs funded by water transfer funding, have been agreed to by the Lesotho Highlands Water Commission. During the year under review, an amount of R227 million was repaid by the government of Lesotho and a subsequent final amount of R186 million in May 2007 as final settlement of the amount due to South Africa. These payments are in accordance with the provision of protocol IV to the Treaty.

Transformation

The transformation journey for TCTA continued in 2006/07 as a result of the significant growth in staff numbers and our continued efforts to align our transformation agenda with government initiatives such as Nepad; Apgisa; Jipsa; and the new direction on BEE (inclusive of the Codes of Good Practice).

There is ongoing collaboration with stakeholders to ensure that we craft a new vision that will have the buy-in and ownership of everyone involved. All our projects are implemented in a manner that considers the upliftment of communities in which we operate, for example, the Franschoek first policy is one indication of our commitment to social upliftment. We conducted, during the period, diversity training for all our staff, thus ensuring a common platform from which we appreciate and understand diversity.

The TCTA Employment Equity Forum contributes significantly to the transformation agenda and to managing

diversity. In the recruitment of staff, preference is given to HDIs. Currently 60% (2005/06: 67%) of staff and 54% (2005/06: 56%) of management are black. Gender balance in the organisation remained at 60% women. Increased activity in the traditional male professional skilled areas of engineering and project management and the impact on gender balance is being addressed through a special women empowerment programme due for roll-out in 2007/08.

The diversity management programme instituted during the past year has had a positive effect, creating awareness of our shared strengths and common challenges. This ongoing process has been underpinned by our corporate DNA programme, designed to develop a shared value system and agreed principles for success. As part of the transformation agenda a leadership development programme was developed in partnership with a leading business school in 2006. A group of 30 staff members, including senior and middle managers as well as individuals with high potential, attended the programme. Altogether 25 staff members successfully completed the programme in October 2006.

Staff awards

Staff members were invited to nominate candidates that best exemplified the organisational "DNA principles" throughout the year.

Living the TCTA Values Award

Tente Tente (Projects)
Pritesh Lakha (Business Support)
Jabulani Sindane (Finance and Treasury)
Gina Kyriazis (Assurance, Business Development and Organisational Development)

Excellent Performance Award

Tente Tente (Projects)
Sunita Takhu (Business Support)
Lebogang Mokgalagadi (Finance and Treasury)
Alicia Keyser (Assurance, Business Development and Organisational Development)

Black economic empowerment

We embrace our responsibility to further government's economic empowerment agenda, including the Financial Services Charter and use of a balanced scorecard approach, to measure progress. The direct procurement spend on BEE for the year was R1 434 million (2006: R731 million), 96% of spend, and is reported on in the sustainability report. Spending by contractors, as directed by contractual agreements, exceeded the targets set.

Future

TCTA's mandate and strategic priorities over the next three years needs to be reviewed in terms of government's medium term policy objectives of:

- accelerating economic growth and job creation;
- modernising infrastructure and services; and
- reducing poverty and inequality.

At the beginning of 2007, the Minister of Water Affairs and Forestry outlined her flagship projects for the year. Those that directly impact on TCTA are:

- women empowerment;
- improved governance and the alignment of DWAF entities;
- the establishment of the agency; and

Chief Executive Officer's report (continued)

- water quality management and the management and maintenance of infrastructure.

TCTA's plays a supportive role to DWAF on the following flagship projects:

- Water conservation and demand management.
- Strategic engagement with other African countries, in particular the relationships within our region on water issues.
- Support to DWAF in meeting water and sanitation targets.

Scarce skills will become available from the Berg Water Project and on the Vaal Pipeline Project. It is important that a partnership approach with DWAF: National Water Resources Infrastructure Branch (DWAF: NWRI) prior to the formal creation of the agency is arranged so that these resources can be released to other projects that will form part of the agency.

Mandates should be received timeously in this transition period to ensure that we can play a productive role and minimise risks in the implementation of the projects that will be migrated to the agency.

A partnership agreement with DWAF: NWRI branch should be established to work across entity boundaries to:

- prepare TCTA for transition to the agency;
- share scarce resources and innovative methodology and systems and processes; and

- deliver on the infrastructure development and strategic asset management.

Besides facing the great challenge of meeting the current and future water needs of our arid country, we are also committed to deliver on the promises of the National Government, as stated by President Mbeki during his State of the Nation Address in February 2007:

"We are not there yet. But no one, except ourselves, shall ensure that this dream is realised. And so, let us roll up our sleeves and get down to work, fully understanding that the task to build the South Africa for which we yearn is a common responsibility we all share."

We are greatly excited by a landmark event that will take place by the end of 2007 – Berg River Dam, which is the first dam funded off government budget and delivered by the democratic government of South Africa, will be inaugurated!

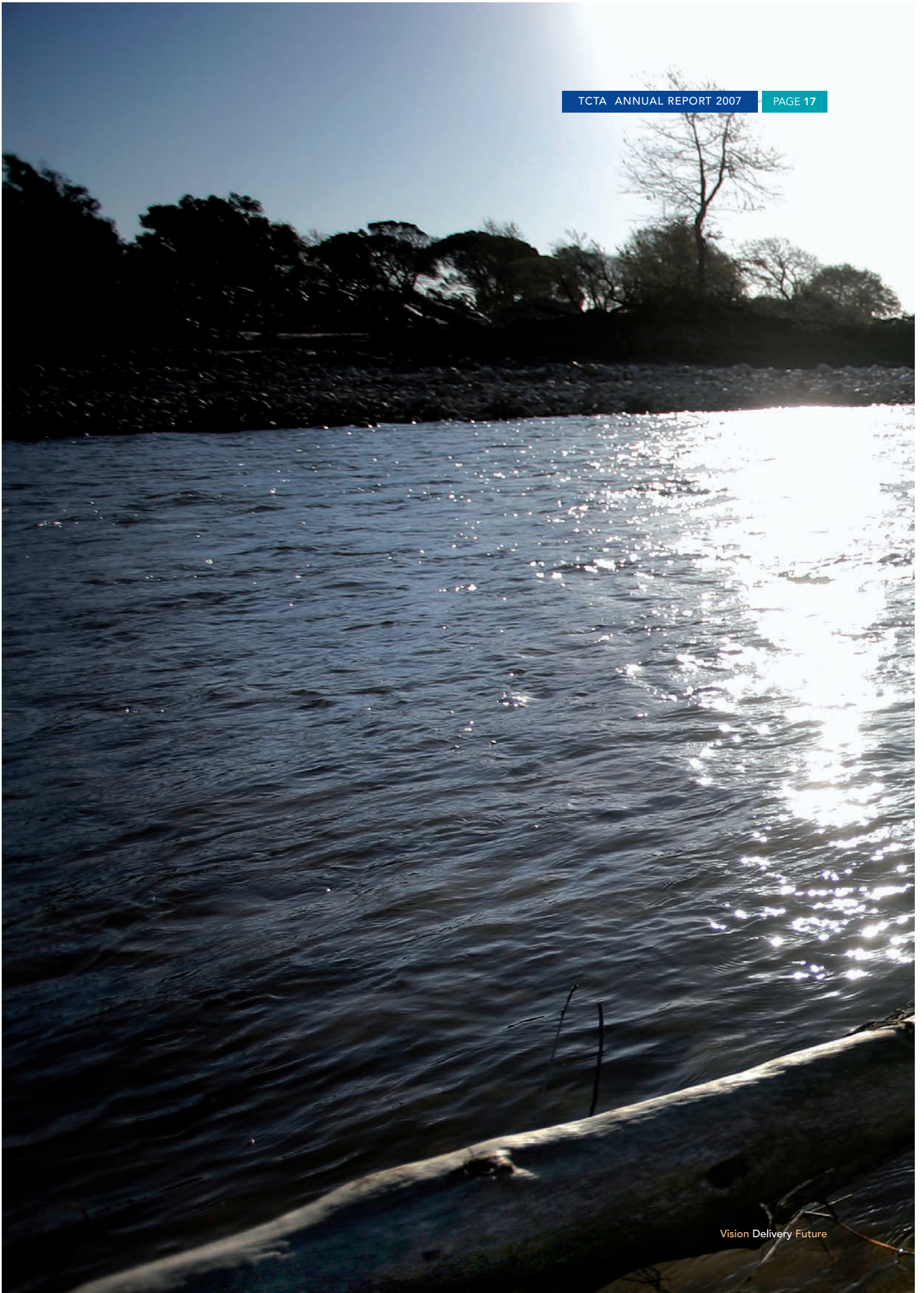
Lastly, I wish to thank:

- all the members of the Board for their guidance and support throughout the year;
- our stakeholders and partners in the public and private sectors for constructive relationships that paved the way for sustainable infrastructure development;
- all role players during the past 20 years who contributed to TCTA's success;

- my management team for their unwavering dedication in achieving TCTA's strategic objectives; and
- all my colleagues for their dedication, passion, energy and capacity to take on new mandates with enthusiasm – a team that plays to win.



Martie Janse van Rensburg
Chief Executive Officer



Board of Directors

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



Malixole M Gantsho
Chairman

BJuris (Fort Hare University)
LLB (Rhodes University)
Dip Executive Management Programme (Wits University – Harvard University)

Current position
MD of Gaming Footprints Investment Holdings (Pty) Ltd

Other directorships/memberships
Gaming for Future Enterprises (Pty) Ltd
Wels – Africa (Pty) Ltd
Ntinga Ntaka Farms (Pty) Ltd
TCTA
Chairman of BCC

Londiwe Mthembu
Deputy Chairman

BCompt (Hons) (Unisa)

Current position
Businesswoman
MD Ulwazi Consulting Associates

Other directorships/memberships
Foskor
Mhlatuze Water Board
Gijima AST
Foreign Affairs
Home Affairs
TCTA
Chairman of ARC
Member of ALCO
Member of BCC
Chairman of Transformation

The term of the Board that was in office at the beginning of the financial year ended on 30 June 2006 and membership at the time included the following:

- Mr L Maasdorp (Chairman)
- Prof O Latiff (Deputy Chairman)
- Ms A Makwetla
- Mr R Mbwana
- Ms M Janse van Rensburg (Chief Executive Officer)

With effect from 1 July 2006, the Minister approved the appointment of a new Board of Directors at TCTA, with their term of service ending on 30 June 2009 and the following comprise the reconstituted Board of Directors in TCTA:



Evodia M Malefane

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

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

TCTA
Member of ARC

Robert Mbwana; Pr Eng

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

Current position
MD Inhlakanipho Management Services CC

TCTA
Chairman of VRESAP Technical Committee
Member of BCC

Gerald Dumas appointed 1 July 2006, resigned 31 October 2006



Simphiwe Kondlo

MSc Eng Management (Pretoria University)
BSc Agric Eng (KZN University)
Dip Executive Education
Dip Civil Eng (ML Sultan-Durban Institute of Technology)
Cert Commercial Property Practitioner (Pretoria University)

Current position

CEO, East London Industrial Development Zone (Pty) Ltd

Other directorships/memberships

Mvula Trust
Amathole Economic Development Agency
Buffalo City FET College
TCTA
Chairman of BWP Technical Committee
Member of BCC



Leslie Maasdorp

MSc Econ (London University, UK)
BA Econ and Psychology (University of the Western Cape)

Current position

Vice Chairman: Absa Capital and Barclays Capital

Other directorships/memberships

Yard Capital
Fujitsu Services, SA
Coega Development Corp Governors, Hilton College
International Marketing Council of SA
Johnnic Holdings Limited
Robor
TCTA
Chairman of ALCO
Member of BCC



Patricia Makhsha

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

Current position

CEO Mthibi Multi Media Services

Other directorships/memberships

Inkomati Water Catchment Management Agency
Rand Water
Mpumalanga Economic Growth Agency
TCTA
Member of HR
Member of Transformation



Angie Makwetla

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

Current position

CEO, Makwetla & Associates Consultancy

Other directorships/memberships

Education Africa
Market Theatre Foundation
Business Women's Association
Concerned Professional Women's Forum
TCTA
Chairman of HR
Member of BCC
Member of Transformation



Andre Pillay

BSc Maths (Pretoria University)

Current position

Chief Director: Liability Management, National Treasury

Other directorships/memberships

Public Debt Management Committee, National Treasury
Primary Dealers in RSA Government Bonds Committee, National Treasury
Corporation for Public Deposits, South African Reserve Bank
TCTA
Member of ALCO



Martie Janse van Rensburg

Chief Executive Officer

CA(SA)
BComm (OFS University)
BCompt Hons (Unisa)

Current position

TCTA CEO

Other directorships/memberships

Bond Exchange of South Africa
ACSA
TCTA
Member of ARC, HR, ALCO, BWP, VRESAP, BCC and Transformation



Thami Sithole

MBA (GIBS)
MSc Econ (London University, UK)
B (Hons) Econ (Durban Westville)
B Admin (Durban Westville)
Project Management Dip (Pretoria)
Management Economic Planning and Policy Analysis (New School University, New York, USA)
Project Cycle Management; Centre for Integrated Rural Development (Stellenbosch)

Current position

Group Shared Services Executive; Rand Water Board

Other directorships/memberships

City of Joburg Buyers Council
Joburg Pension Fund
Ashleigh Erin Foundation
TCTA
Member of HR
Member of ARC



Lebohang Thotanyana

CA (Lesotho)
BCom (Hons) (University of Cape Town)
Capital Markets (Securities Institute, UK)

Current position

Executive Chairman and MD Mafube Investment Holdings (Pty) Ltd

Other directorships/memberships

Standard Bank of Lesotho
IFAC
SEED Consulting
TCTA
Member of BWP and VRESAP Tech
Member of ALCO

Corporate governance

The objectives and mandate of TCTA, the powers of the Board, as well as relationship between TCTA and its stakeholders, are set out in the Notice of Establishment as promulgated in terms of the National Water Act; the Board Charter; as well as the shareholder’s compact. TCTA is also subject to the provisions of the Public Finance Management Act 1 of 1999 (the PFMA).

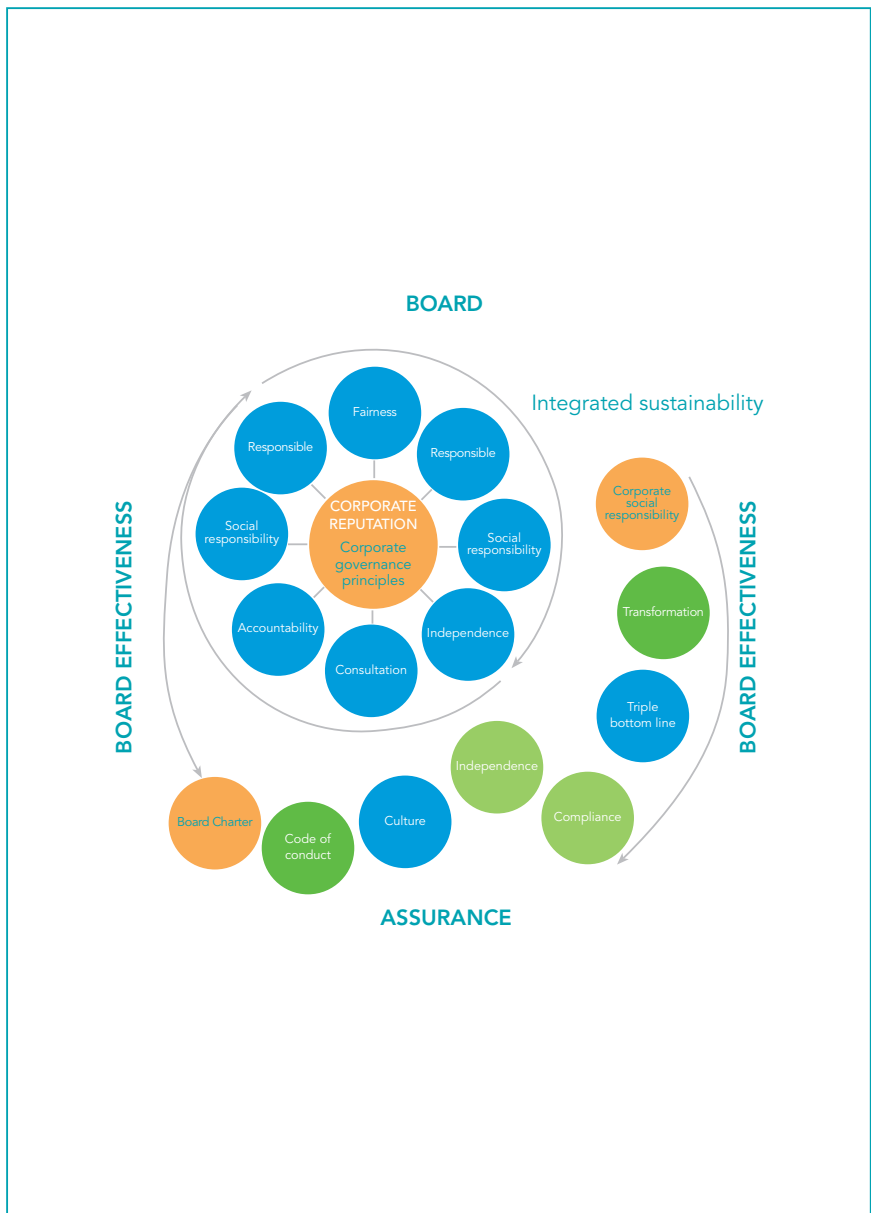
The Minister of Water Affairs and Forestry plays the oversight role to TCTA.

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

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

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

Figure 5: TCTA’s corporate governance framework



Role and functions of the Board

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

Directors' induction and orientation

The newly appointed Board members were taken through a strategic induction programme before commencing their duties as directors. This programme was designed to enhance the directors' understanding of:

- their fiduciary duties and responsibilities;
- TCTA's legislative framework, including its governance processes;
- the nature of TCTA's business, management structure and operations; and
- the developments on both the water and financial sector and impact to TCTA.

Independence of the Board

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

- The Minister appoints the members of the Board for a term of three years.
- The positions of Chairperson and Chief Executive Officer are kept separate.
- The Chairperson is an independent non-executive member of the Board.
- All Board committees are chaired by independent non-executive members

and specialist skills are provided to the committee by independent advisors who are members of the committees.

- The Chief Executive Officer is the only executive member of the Board and committees.
- All directors have access to TCTA's senior management.

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

Board Charter

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

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

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

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

Remuneration of the Board

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

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

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

Board effectiveness

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

No efficacy assessment took place during the year under review as the Board had not served a full 12-month period. The efficacy assessment will take place after June 2007 once the Board has completed its first year of service.

Board committees

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

- Board Chairs Committee (BCC);
- Audit and Risk Committee (A&RC);

Corporate governance (continued)

- Assets and Liabilities Committee (ALCO);
- Transformation Committee (TC);
- Human Resources Committee (HRC);
- BWP Technical Committee (BWP); and
- VRESAP Technical Committee (VRESAP).

The Board recognises that it is ultimately accountable for the performance and affairs of the organisation and that the use of Board committees in no way mitigates or dissipates the duties and responsibilities of the Board and its directors.

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

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

The Board has delegated authority to these committees as well as TCTA executive management, which is reviewed at least annually. These delegated authorities are intended to assist in the control of decisions and in the smooth and efficient functioning of the organisation. Notwithstanding these delegations, the Board has reserved for itself certain decisions to ensure that it retains proper

direction and control, in particular regarding significant strategic, financial, organisational and compliance matters. In this regard, recommendations are made by committees to the Board for consideration and approval.

Specialist committee members

Alison Beck**

Specialist Audit and Risk Committee member

Qualifications

BCom Edinburgh, Scotland
CA
CAIB (SA)

Current position

Partner in Financial Services Group, KPMG

Lumkile Mondli

Specialist Assets and Liabilities Committee member

Qualifications

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

Current position

Chief Economist: Industrial Development Corporation

Other directorship/membership

Mittal SA
Yard Capital
KVV Limited
Phetogo Investments

Paul Roberts

Specialist BWP and VRESAP Technical Committee member

Qualifications

DSc (Civ Eng) (MIT)

Current position

Pensioner

* Mr Gerald Dumas resigned on 31 October 2006.

** Ms Alison Beck resigned on 16 February 2007.

Board committees

Human Resources	Audit and Risk ARC	Board Chairs BCC	Technical VRESAP	Transformation	Asset and Liabilities	Technical BWP
Membership Three non-executive directors	Membership Three non-executive directors, chaired by non-executive	Membership Chaired by non-executive, two other non-executives	Membership Five non-executive directors chaired by non-executive	Membership Three non-executive directors, chaired by non-executive	Membership Four non-executive directors chaired by one.	Membership Five non-executive directors, chaired by non-executive
Independent specialist	Independent specialist	Independent specialist	Independent specialist		Independent specialist	Independent specialist
Chief Executive Officer	Chief Executive Officer	Chief Executive Officer	Chief Executive Officer Project Representative: Sasol, Eskom, DWAF	Chief Executive Officer	Chief Executive Officer	Chief Executive Officer Project Representative: City of Cape Town, DWAF
Objectives Ensure that: TCTA's remuneration is linked to performance based on achievement of goals; labour laws are adhered to; management and staff receive market-related remuneration; human resource policies are adhered to; and succession plans are in place and are periodically reviewed.	Objectives Ensure that: adequate internal, financing and operating controls are in place; significant risks are identified and managed appropriately; appropriate standards of governance, reporting and compliance are in place; and enterprise-wide risk management is applied and risks appropriately addressed.	Objectives Ensure that: specialist committee members are appointed; disputes and guidance for committees are provided; and matters not included in any of the committee's mandates are attended to.	Objectives Ensure that: terms of the mandate to implement VRESAP project are adhered to; appropriate policies and processes are in place in the award of tenders; policies for capital expenditure are adhered to; appropriate technical consideration is given on independent technical reviews; and project risks are appropriately monitored and mitigated.	Objectives Ensure that: Board is advised on emerging issues on transformation that could affect TCTA; transformation issues are coordinated; and operating guidelines are established in the monitoring of transformation issues.	Objectives Ensure that: financial risks are appropriately managed; appropriate funding and risk strategies are formulated to meet business requirements; financial policies are adhered to; and The financial performance of TCTA is measured and reported.	Objectives Ensure that: terms of the mandate to implement BWP project are adhered to; appropriate policies and processes are in place in the award of tenders; Policies for capital expenditure are adhered to; appropriate technical consideration is given on independent technical reviews; and project risks are appropriately monitored and mitigated.

Corporate governance (continued)

Human Resources	Audit and Risk ARC	Board Chairs BCC	Transformation	Asset and Liabilities
Invitees HoD: People Management and Organisational Development	Invitees HoD: Assurance, CFO, Head: Internal Audit, Risk Manager, External Auditors	Invitees No invitees	Invitees HoD: People Management and OD	Invitees CFO, HoD: Assurance, Financial Controller, Treasury Manager, Project Managers

The company secretariat function

The company secretariat function was established in terms of the King II towards the end of the period under review.

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

The Assurance Division is charged with the responsibility of monitoring TCTA's compliance with the requirements of the PFMA and other relevant legislation.

Meeting attendance

Table 3: TCTA Board committee members and attendance (1 April 2006 to 30 June 2006)

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

Meetings	Board	Audit and Risk	ALCO	HR	BWP	VRESAP
Meetings held	4	1	1	1	1	1
Board of Directors						
Leslie Maasdorp (Chairman)	4			1	1	1
Omar Latiff (Deputy Chairman)	4	1	1	1	1	1
Angie Makwetla	4			1	1	1
Robert Mbwana	3					
Phakamani Hadebe	1		1			
Martie Janse van Rensburg	4	1	1	1	1	1
Specialist members						
Paul Roberts ⁽¹⁾						2
Alison Beck ⁽²⁾		1				
Project implementation partners						
DWAF: Willie Croucamp	2				1	
CCT: Letlhogonolo Motlhodi (effective February 2006)					1	
CCT: Arne Singels (alternate member)					1	
Sasol: Loekie Pretorius						1
Trevor Courtney (alternate member)						1

Table 4: TCTA Board committee members and attendance (New Board: 1 July 2006 to 31 March 2007)

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

Meetings	Board	Board Chairs	Audit and Risk	ALCO	HR	Trans-formation	BWP	VRESAP
Meetings held	4	3	4	3	3	3	4	4
Board of Directors								
Malixole Gantsho (Chairman)	4	3	1	1				
Londiwe Mthembu (Deputy Chairman)	4	3	4	1	2	3		1 ⁽⁵⁾
Leslie Maasdorp	4	2		2	2			1 ⁽⁵⁾
Angie Makwetla	4	3			3	3		
Simphiwe Kondlo	3	1					4	2
Robert Mbwana	4	1					4	4
Thami Sithole	3		3					2
Patricia Makhesha	2				3	3		
Evodia Malefane	4		4				4	4
Lebohang Thotanyana	4			4			4	4
Andre Pillay	1			2				
Gerald Dumas ⁽³⁾	2		1		1	1		
Martie Janse van Rensburg	4	3	4	3	3	3	3	4
Specialist members								
Paul Roberts ⁽¹⁾							4	4
Alison Beck ⁽²⁾			3					
Lumkile Mondl ⁽⁴⁾				1				
Project implementation partners								
DWAF: Willie Croucamp							3	3
DWAF: Vusi Kubheka (alternate member)								1
CCT: Lethogonolo Motlhodi							3	
CCT: Arne Singels (alternate member)							4	
Sasol: Loekie Pretorius								3
Sasol: Fritz Weilbach (alternate member)								
Eskom: Nanda Govender								3
Ian Midgely (alternate member)								2

(1) Dr Paul Roberts is a specialist member of the BWP and VRESAP Technical committees.

(2) Ms Alison Beck was a specialist member for the Audit and Risk Committee. She resigned in February 2007.

(3) Mr Gerald Dumas resigned as a Board member with effect from 31 October 2006.

(4) Mr Lumkile Mondl is a specialist member for the Assets and Liabilities Committee.

(5) Members attended VRESAP as a joint special meeting with ALCO.

Corporate governance (continued)

Legal compliance

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

TCTA's internal control systems facilitate the effectiveness and efficiency of operations and help to ensure the reliability of internal and external reporting, as well as to assist with compliance to the various legislation and regulations. They help to ensure that TCTA is not exposed to avoidable legislative and financial risks, and that financial and non-financial information used internally and externally is reliable.

Nothing has come to the attention of the Board of Directors to indicate that any material non-compliance to the various laws and regulatory requirements has occurred during the year under review.

Public Finance Management Act

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

The organisation has an ongoing process of awareness, education and advice on the PFMA to the business. The directors have complied with their fiduciary duties as set out in the PFMA and no irregular, fruitless or wasteful expenditure are reported during the year under review.

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

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

Promotion of Access to Information Act

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

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

Code of Conduct

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

Internal audit

TCTA's internal audit function has a specific mandate from the Audit and Risk Committee (ARC) to independently appraise the appropriateness, adequacy and effectiveness of TCTA's systems, financial internal controls and accounting records, as well as to identify corrective actions and suggested enhancements to the controls and processes, reporting its

findings to management and ARC. The Head of Internal Audit reports to the Head of Assurance on administrative basis and has direct access to the CEO and the chairman of ARC.

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

In the period under review, nothing has come to the attention of the Board to indicate that any material breach of controls has occurred during the year under review.

TCTA's stakeholder engagement

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

We remain committed to a policy of effective communication and engagement with all our stakeholders and welcome dialogue with them. Ongoing interaction enables the organisation to satisfy stakeholder needs, meet regulatory requirements and play a more significant role in the development of water infrastructure resources.



Risk philosophy and framework

Enterprise-wide risk management within TCTA is a formal response to organisational-wide risks. The response is conducted in a structured, continuous and systematic manner, thereby embedding it into existing management structures and employee responsibilities at all levels within the organisation.

TCTA's philosophy to risk management is that of a conservative approach with a low appetite for risk as well as a low tolerance level in the interest of preventing the erosion of shareholder value. The philosophy incorporates funding and project implementation that look at both financial and non-financial risk management in a holistic manner, taking into account the risks identified and the mitigation measures at the early stages of decision-making.

The risk framework deals with how the risks are identified, quantified (rated and validated), controlled, monitored and reported, through the relevant structures, including the Risk Forum, Exco and the Board through the Board Audit and Risk Committee. The organisation is further refining risk reporting channels to other Board committees and technical committees as a form of further embedding the risk management and monitoring culture both within the organisation and among all structures of the Board.

Strategic changes during 2006/07

During 2007, TCTA overhauled the risk management function through the formulation of a policy, frameworks and

philosophy. The following are some of the key strategic milestones achievements:

- The benchmarking and refinement of the risk philosophy and framework.
- The validation and rating of organisational risks.
- Continuous monitoring of organisational risks and enhancement of mitigation strategies;
- Detailed quarterly reporting on risks.
- the refinement of risk reporting lines.

Functions and responsibilities

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

In the year under review, TCTA appointed a Risk Manager, who reports directly to the Head of Assurance and is charged with the specific responsibility of embedding a risk management culture into all facets of organisational operation.

Major risk categories and responses

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

Liquidity risks

The possibility that sufficient liquid instrument may not be available resulting in TCTA defaulting on financial obligations of the projects and failure to settle its debt at the agreed time. TCTA has managed the liquidity risk and ensured that there is sufficient liquid asset to effect settlement at the appropriate times for all the projects.

Foreign currency risk

The risk resulting from the impact of exchange rate fluctuations on the project's foreign currency liabilities on LHWP has been properly accounted for and mitigated through various hedging instruments and ensured that it remained within TCTA's approved policy frameworks. BWP and VRESAP are not currently exposed to any foreign exchange risks.

Project implementation: construction risks

The risk of delays in completion of the construction of the dams and pipelines might have an adverse impact on the reputation of the TCTA's ability to deliver water on time to the stakeholders and further result in the delay of revenue streams. This risk is managed through contractual agreements with contractors and consultants providing remedies for delays and incentives for early completion. The status of the project is closely monitored by the various technical committees where the various stakeholders are represented, and the progress report on each project is then communicated to the TCTA Board.

Other risks include:

- engineering risks;
- revenue risks;
- operation and maintenance risks; and
- social and environmental risks.

All these are mitigated and monitored constantly.

Executive Committee



Martie Janse van Rensburg
Chief Executive



Johann Claassens
HOD: Capital Investments



Evelyn Motsatsing
HOD: Business Support



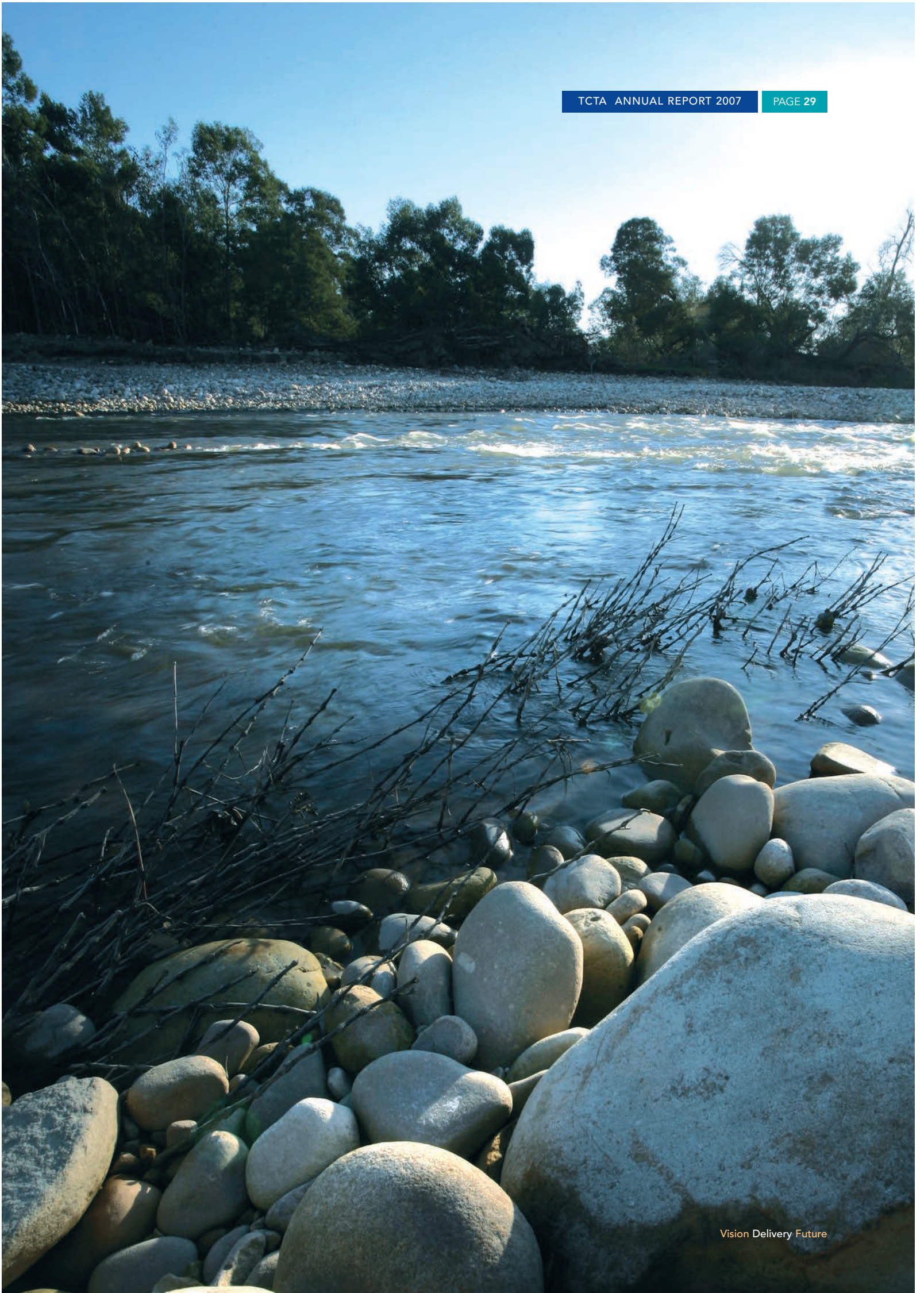
Rathata Matabane
*HOD: Organisational Development and
People Management*



Faizal Amod
Chief Financial Officer



Nomini Rapoo
HOD: Assurance



Performance measurement

The performance of TCTA is evaluated according to a balanced scorecard approach, that is developed to ensure that the corporate and project plans are adhered to and that an acceptable risk framework is maintained. Below is a summary of TCTA's performance during the year under review.

Financial and project implementation

To maximise shareholder value not only in financial terms, but also in building capacity in the wider water sector

Objectives	Measurement	Target	Performance against target
To manage liabilities optimally	Perform benchmarking	100%	LHWP: Benchmark 8,16%; Actual 7,95% BWP: Benchmark 8,39%; Actual 8,00% VRESAP: Benchmark 8,31%; Actual 8,29%
Project-based funding and financial health of bulk infrastructure on a proactive basis to achieve cost of funding within acceptable risk framework	Optimal capital structure (70/30 fixed: floating ratio)	Acceptable variance from 70/30	LHWP: Capital structure 71/29 BWP: Capital structure 42/58 (Under construction) VRESAP: Capital structure 62/38 (Under construction)
	Asset/liability matching applied in funding decisions	65% of funding	<ul style="list-style-type: none"> Long-term funding strategy and financing facilities managed on a portfolio funding approach LHWP <ul style="list-style-type: none"> Excellent rates below anticipated benchmark, minimum risk, 100% asset/liability matched Long-term funding accessed on a continuous basis and at all times oversubscribed for LHWP auctions BWP <ul style="list-style-type: none"> 100% of funding asset/liability matched VRESAP <ul style="list-style-type: none"> 100% of funding asset/liability matched
	Credit rating	AA+	BWP and VRESAP <ul style="list-style-type: none"> Maintained AA+ (zaf) long-term and F1+ short-term credit rating
To manage corporate governance	Clean audit report	Unqualified audit report	<ul style="list-style-type: none"> Audit report for 31 March 2006 and 31 March 2007 clean No significant findings on key compliance matters from internal audit

Financial and project implementation

To maximise shareholder value not only in financial terms, but also in building capacity in the wider water sector

Objectives	Measurement	Target	Performance against target
Current mandates delivery	Projects implemented on schedule, within budget and to acceptable specifications	100% against plan	<p>LHWP</p> <ul style="list-style-type: none"> TCTA's operations and maintenance function of ensuring uninterrupted water delivery to RSA performed in full compliance <p>BWP</p> <ul style="list-style-type: none"> Anticipated cost at completion within project budget One-month delay on the original impoundment date for the Berg River Dam (July 2007) Completion of the supplement scheme substantially on schedule for water delivery in December 2007 Compliance with the Environmental Management Plan at a 99% level. Environmental Monitoring Committee in place and functioning in accordance with DEAT and Records of Decisions (ROD) requirements Engineering components of the project constructed as per the technical specifications in the contracts, supervised by the engineer <p>VRESAP</p> <ul style="list-style-type: none"> Anticipated cost at completion within project budget Seven-month delay identified in water delivery (May 2008). Acceleration and risk mitigation options have been developed to complete the project Environmental monitoring structures in place and functioning in accordance with DEAT and ROD requirements Engineering components of the projects constructed as per the technical specifications in the contracts, supervised by the engineer. Areas of non-compliance are rectified

Performance measurement (continued)

Financial and project implementation

To maximise shareholder value not only in financial terms, but also in building capacity in the wider water sector

Objectives	Measurement	Target	Performance against target
	Borrowing requirements	100% against plan	<p>LHWP</p> <ul style="list-style-type: none"> Borrowing limit obtained to March 2010 from National Treasury. Tariff successfully adjusted for Vaal River System, including extensive stakeholder and major user consultation. Funded R1 146 million <p>BWP</p> <ul style="list-style-type: none"> Adjustments to agreements on volume denominator in progress. Tariff successfully adjusted for WCWS, including extensive stakeholder. Funded R373 million <p>VRESAP</p> <ul style="list-style-type: none"> Borrowing limit obtained to March 2010 from National Treasury. Conditions precedent met on long-term loans. Funded R1 230 million
New projects: Facilitation and support of sustainability within the water sector	Institutional and funding arrangements and water sector assistance	100% against plan	<ul style="list-style-type: none"> Executed DWAF advisory mandates to TCTA: <ul style="list-style-type: none"> Institutional and finance arrangements designed for Spring Grove Dam Institutional and finance arrangements designed for ORWRDP, including agreement negotiations Potential refinancing explored for IWUA Participated in the National Water Pricing Strategy review Assisted water sector with tariffing and debt management models (Joburg Water and Mhlathuze Water, Mogalakwena Municipality)

Customer and stakeholder relationships

To create, maintain and improve valuable, meaningful relationships with key individuals in our stakeholder community in a dynamic, differentiating and developing business in a multiple project culture

Objectives	Measurement	Target	Performance against target
<p>To deliver an efficient project implementation service to the satisfaction of our stakeholders</p> <p>To maintain regular, continued and effective communication with stakeholders</p>	<p>To undertake a stakeholder perception survey</p> <p>Development of relationship building strategy with:</p> <ul style="list-style-type: none"> • Shareholder – DWAF • Regulators: DWAF National Treasury DEAT • Project partners CCT Sasol Eskom DWAF • Financiers Financial markets Rating agency and Auditors 	<p>Average of "Excellent" survey to stakeholders</p> <p>100% executed</p>	<ul style="list-style-type: none"> • The process to undertake a stakeholder perception survey was started late into the 2006/07 financial year. The project will be implemented in the 2007/08 financial year • Regular strategic and operational engagement with the shareholder and stakeholders undertaken during the financial year • Cooperative project implementation philosophy adopted, where project governance structures provide for meaningful participation of project partners in the implementation of projects • Project partners generally satisfied with TCTA's performance • Participation on tariff/price setting and water demand management initiatives with the Department of Water Affairs and Forestry • Interactions with the financial market community continued. Positive feedback received from Market Makers in terms of our high degree of consistency, fairness and transparency

Performance measurement (continued)

Internal systems and processes

To continue to build a professional organisation where we choose to be employed

Objectives	Measurement	Target	Performance against target
To comply with relevant ethical and legal frameworks	Internal audit compliance and EWRM best practice	All significant internal audit proposals implemented	<ul style="list-style-type: none"> • Full implementation of EWRM best practice • Continued risk awareness training throughout the year and risks reported to the risk forum on a monthly basis • Internal audit programme and plan aligned with EWRM not approved at the Audit and Risk Committee due to the request by the committee to combine the legal compliance plan with the internal audit plan • Compliance audits have been performed according to plan and all significant audit proposals implemented
To improve business processes via continuous streamlining	Improvement of business processes	Improvements implemented with tangible results	<ul style="list-style-type: none"> • A strategic alignment and management process has been completed, where organisational goals were identified and a system implemented to ensure that performance can be measured more efficiently on a monthly basis • All policies and procedures were mapped and ten significant policies reviewed • The first phase of the business process analysis project has been concluded • Systems descriptions for all divisions have been concluded
To introduce and implement new systems that streamline internal functioning	Project Implementation Methodology	100% of project plan	<ul style="list-style-type: none"> • Delays experienced in the implementation of the project management methodology (PIM) • An open tender was successfully completed and the preferred tenderer identified for the implementation of PIM
	Financial reporting implementation	100% of project plan	<ul style="list-style-type: none"> • Financial reporting systems implemented • Treasury system upgrade done – 95% complete • The ACCPAC project to redefine accounting code structures and align them across projects was completed • Asset tracking system for movable assets successfully implemented • The backlog scanning project was initiated
	IT systems implementation	100% of project plan	<ul style="list-style-type: none"> • Business continuity plans were developed, implemented and tested. To be reviewed every two years • The finance system (ACCPAC) and the treasury system (front arena) upgrades were completed, with full integration of the systems • Video conferencing facilities implemented and intranet and internet sites reviewed • Project service provider approved by Board in June 2007 and programme will be rolled out during third quarter of 2007

Learning and growth – Improved credibility and innovation
To continue to develop a multi-skilled team that thrives on challenges

Objectives	Measurement	Target	Performance against target
<p>Through internal branding, to continually align staff to the TCTA way and to develop both strategic and operationally integrated skills and resources to respond innovatively to challenges the TCTA way. To implement TCTA's Transformation Framework:</p> <ul style="list-style-type: none"> through growth, exposure and development, align and empower resources to creatively and proactively participate in implementing strategy; develop effective systems to capture learning and knowledge; effectively manage implementation and people, expertise and knowledge in order to increase the projects' team capacity; to attract and retain excellent staff; and to manage the transformation of TCTA to comply with the EE plan, BEE plan, as well as the corporate social investment plan. 	Compliance with targets on employment equity	100% of plan	<ul style="list-style-type: none"> Met and exceeded the employment equity targets (black 60%; female 60%) Constituted an EE Forum Employment equity strategy fully integrated and aligned to TCTA's Transformation Framework Realigned the executive structure to reflect employment equity demographics Staff participated in training programmes, amongst others the GIBS leadership training Equivalent of 8% (R2 511 337) of payroll spent on training and study assistance Individual personal development plans were aligned to the training plan and implemented Workplace skills plan approved by FASSET. Compliance with training and skills development plans achieved All staff members participated in transformation workshops Internal training sessions offered to staff on new projects, tariffs, risk management and project finance <ul style="list-style-type: none"> BWP <ul style="list-style-type: none"> Procurement targets set for BEE, SMME and local enterprise were substantially exceeded by contractors engaged on the project (total spend of R296 million) Employment of local people targets set for contractors were exceeded (1 038 locals employed) Training initiatives to maximise local employment initiatives were included in all construction contracts Regular reporting to the Technical Committee and the Board was done on achievements against targets VRESAP <ul style="list-style-type: none"> Procurement targets set for BEE, SMME and local enterprise were substantially exceeded by contractors engaged on the project (total spend R404 million) Employment of local people targets set for contractors were exceeded (858 locals employed) Capacity building of women in construction undertaken Regular reporting to the Technical Committee and the Board was done on achievements against targets
	Compliance with training and skills development plan	80% of plan	
	Execution of social strategies for project achievement of targets set for BEE procurement, employment and training	100% of plan	

Performance measurement (continued)

Learning and growth – Improved credibility and innovation
To continue to develop a multi-skilled team that thrives on challenges

Objectives	Measurement	Target	Performance against target
			<ul style="list-style-type: none"> Direct procurement LHWP R19 million Actual Operations and maintenance 54,4% (target 50%) Running expenditure 40,5% (target 50%) BWP R344 million Engineering 99,1% (target 50%) Running expenditure 52,3% (target 50%) VRESAP R1 071 million Engineering 98,5% (target 50%) Running expenditure 25,1% (target 50%)
	Compliance with corporate social investment plans	100% of plan	<ul style="list-style-type: none"> Met and exceeded targets as set in project contracts Bursary strategy approved Internship strategy approved, that will align with the JIPSA programme TCTA regularly involved in community programmes, including amongst others Aids awareness initiatives and a schools outreach programme
To create an enabling culture	Staff ratings on comments	>1,25 on DNA index	<ul style="list-style-type: none"> A Grow Our Team (GOT) programme introduced to achieve team synergies Our business planning process included all staff to enhance divisional synergies and an enabling environment The Growing Our People (GOP) programme was aligned with our business cycle to ensure that we address talent management DNA process used for staff excellence voting and incentive review
To attract and retain excellent staff	Staff turnover lower than industry (target 15% to 18%)	<15%	<ul style="list-style-type: none"> Staff turnover for the reporting period is 8% (19% in 2006) Conducted performance reviews to focus on team and individual contributions Implemented a banking and rolling incentive programme Performed the annual benchmarking of our compensation programme Implemented a programme to address barriers in the workplace through the employment equity committee The Women Empowerment Framework approved by the Board to ensure that women are ably supported and developed for future leadership roles

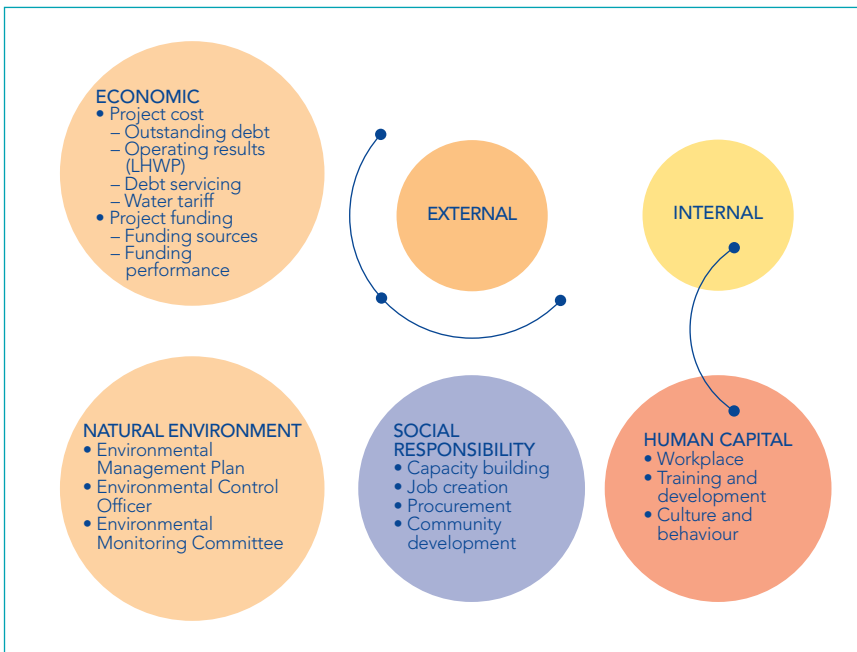


Sustainability report

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

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

Figure 6: The structure of the sustainability report is outlined below:



ECONOMIC PERFORMANCE

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

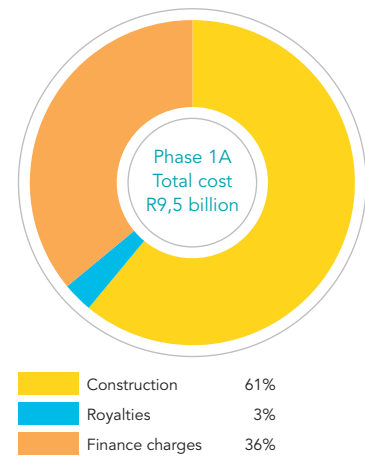
Lesotho Highlands Water Project

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

Figure 7: Total project cost – LHWP

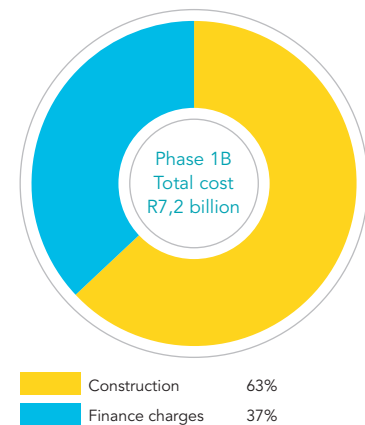
Phase 1A

As at 31 March 2007, the total cost of R9,5 billion, at completion of construction in 1998.



Phase 1B

As at 31 March 2007, the total cost of R7,2 billion, at completion of construction.



Project cost

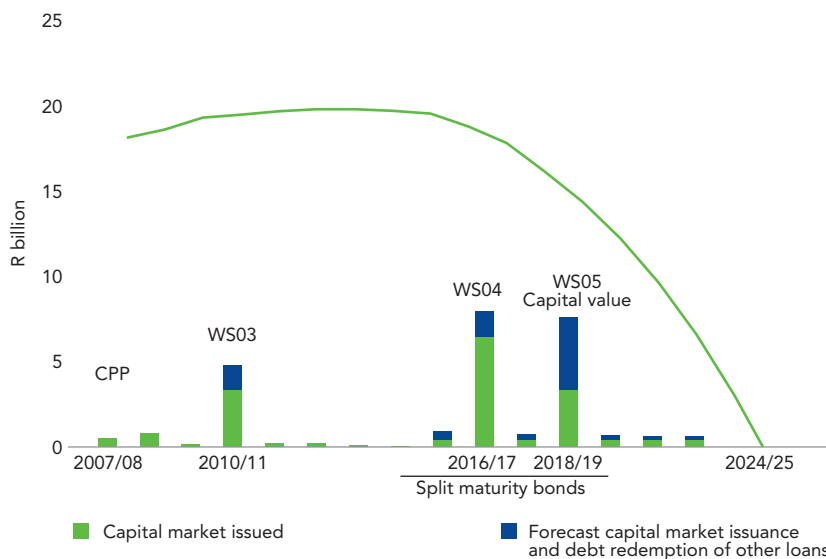
Since water delivery began in January 1998, water income and related operating costs for Phase 1A have been recognised in the income statement. Costs on Phase 1B were capitalised until 31 March 2004. The R16,7 billion total project cost of the two phases is split 57:43 (see figure 7).

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

Sensitivity analysis is continuously performed on the debt curve for changes in interest rates, inflation and water demand to determine the optimal capital structure. Based on these sensitivities, the

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

Figure 8: LHWP debt maturity profile and forecast cumulative net liability curve



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

Outstanding debt on the project

The project debt, after taking into account water tariff income and annual shortfalls due to interest after completion of construction, was R19,4 billion at 31 March 2007.

optimal capital structure is currently determined at 70% fixed rate debt versus 30% floating rate debt.

Operating results

TCTA reports an operating surplus of R1 794 million for the year under review (2006: R1 576 million). A net deficit for the year amounting to R106 million (2006: R588 million) has been realised, and reflects a shortfall in covering interest. Included in the net deficit for the year is a net profit of R80 million (2006: net loss R33 million) resulting from the accounting treatment as required by IAS 39 and IAS 21.

Debt servicing

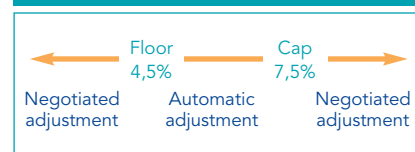
The revenue generated from the sale of water from the Vaal River system will be sufficient to repay the project debt.

Revenue generated by the sale of 1 385 million m³ (2006: 1 349 million m³) of raw water amounts to R1 951 million (2006: R1 775 million). This revenue is based on a bulk raw water tariff of 140,83 cents per cubic metre (2006: 131,60 cents per cubic metre) for the year under review. The higher revenue is due to a 7,03% increase in the water tariff and 2,7% increase in water volume.

Water tariff

TCTA entered into an income agreement with DWAF in August 2001 which determines the Vaal River raw water tariff for augmentation schemes. TCTA annually sets a constant tariff in real terms over a 30-year period based on agreed input assumptions. The income agreement allows for automatic and negotiated adjustments (see figure 9):

Figure 9: Water tariff adjustment mechanism



Sustainability report (continued)

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

Other tariff review triggers include:

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

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

During the tariff revision in 2006, the following updated data was received.

Water-related factors from the Vaal River study launched by DWAF in 2005:

- 5,5% increase in the yield of the Vaal River system.
- A slight upward revision in water demand to take account of mainly increased economic growth.

Economic input factors from the Bureau of Economic Research (BER):

- Slightly higher inflation over the repayment period.
- Lower average real interest rates.

The cumulative effect of these three factors, ie yield, demand and inflation/interest rate forecast, necessitated only a CPIX-related increase of 4,8% (June 2006 year-on-year).

The increase in the Vaal River raw water tariff to TCTA in 2007/08 of 4,8% is in line with the inflation rate parameters as set out in the income agreement between DWAF and TCTA of between 4,5% and 7,5% for an automatic adjustment. During 2005, a large tariff adjustment was required which

was agreed to be phased-in over a three-year period. Due to the beneficial outcome of the Vaal River study of 2006, the previously agreed phase-in portion of 2,53% over and above CPIX, which was carried over from the 2005 year, was waived.

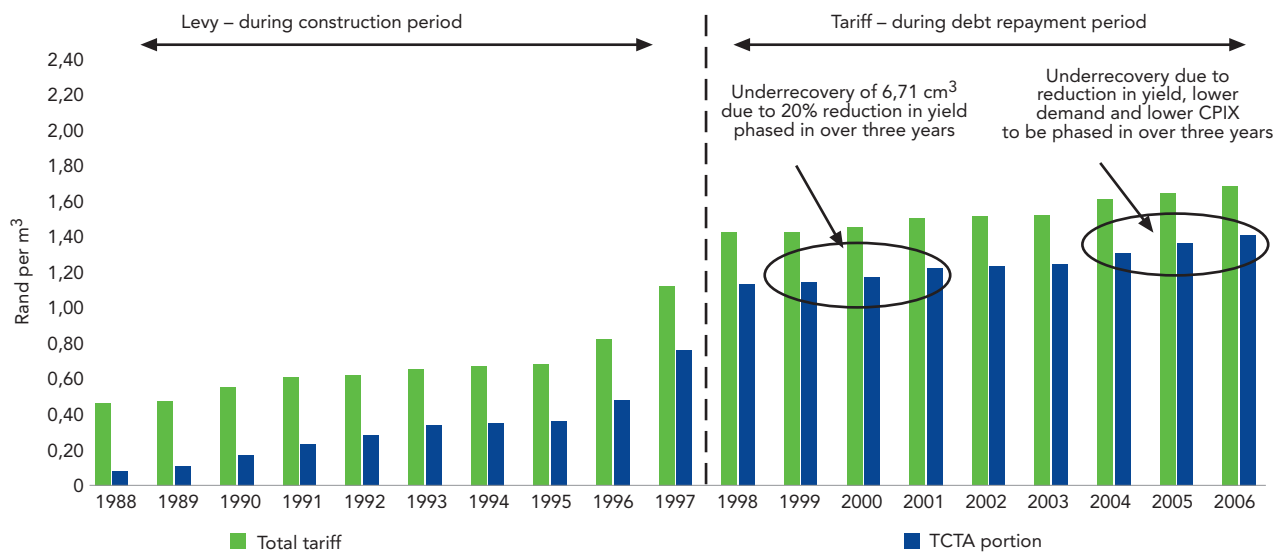
The tariff adjustments since the reassessed yield are indicated in table 7.

Table 7: Tariff adjustments

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



Figure 10 indicates the raw water tariff expressed in 2006 values.



In 1988, a levy was introduced to fund part of the development costs of LHWP until it started to deliver water in 1998. The levy partially financed costs during the initial construction period and started at two cents per cubic metre in 1988. The total revenue generated in levies was R1 688 million and in tariffs to date is R12 108 million (2006: R10 157 million).

Figure 11: Water levy/sales volume

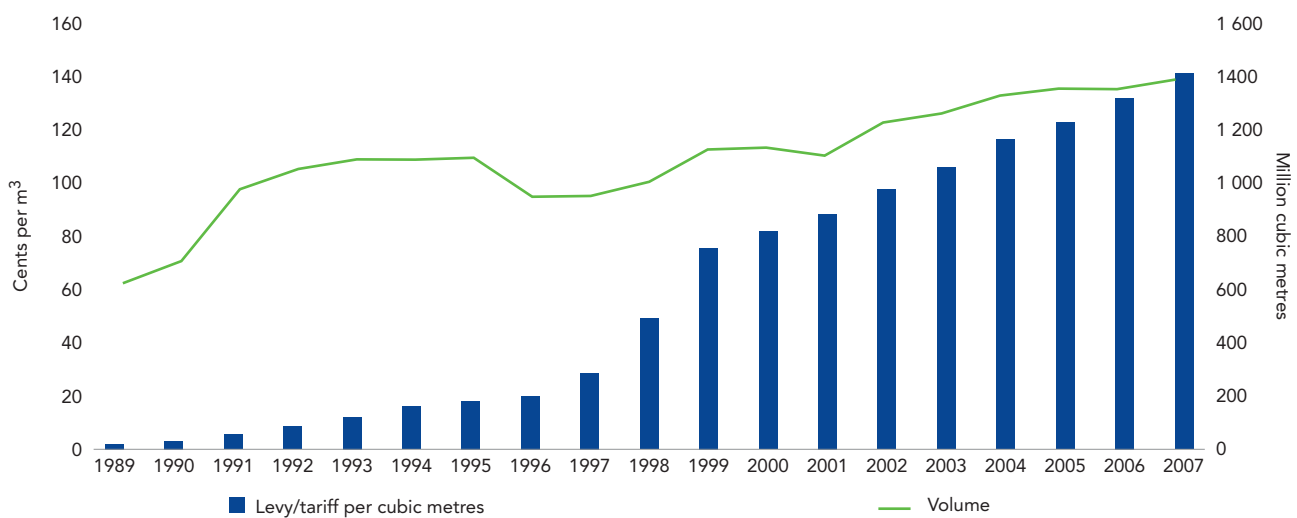
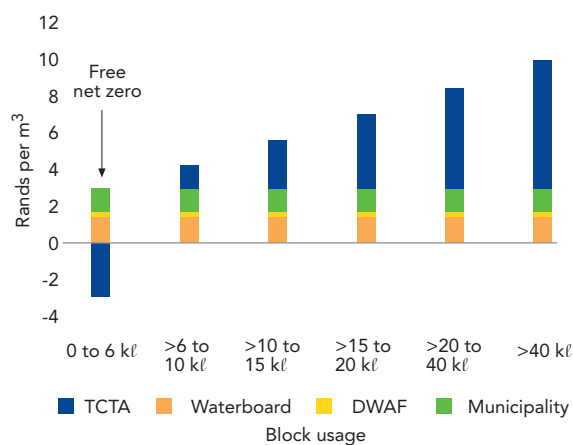


Figure 11 sets out the actual tariff charged each year for bulk water and the volume of sales on which the tariff was charged.

Sustainability report (continued)

Figure 12: Tariff composition for domestic usage 2006/07 financial year



Tariff composition in a typical urban environment is determined by volume usage per month, as illustrated in figure 12.

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

Royalties and water delivery

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

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

calculated operating cost savings). South Africa benefits from the reduced investment and operating costs.

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

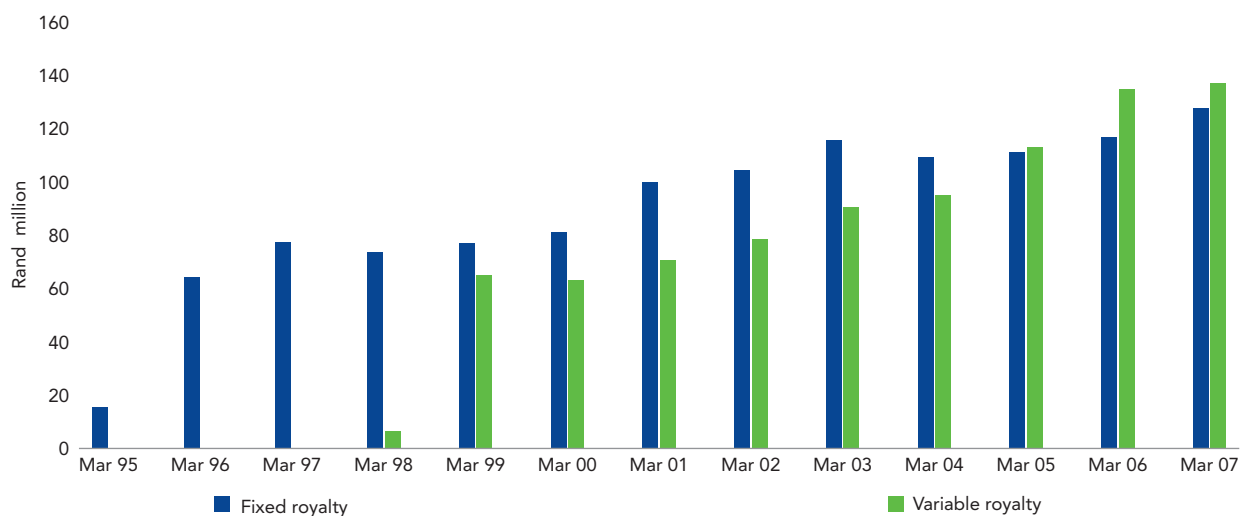
The variable royalty, based on the calculated operating cost saving of the LHWP measured against a pumped water scheme, is calculated monthly on the actual volume of water delivered.

The total amount of royalties paid to date to the government of Lesotho is R2 026 million (2006: R1 762 million). (Please refer to figure 13.)

The 2007 water delivery schedule, as approved by the Lesotho Highlands Water Commission, consists of an annual volume of water delivered not exceeding 780 million m³.

During this financial year, 755,6 million (2006: 788,1 million) m³ of water were transferred to South Africa. This meets the agreed volume for the year as set out in the treaty. To date, the total volume of water delivered by the project is 5 687 million m³.

Figure 13: Royalties paid



Project funding: LHWP

A net amount of R1,1 billion was borrowed during the year under review to meet funding requirements. The table below indicates the composition of funding.

Table 8: Composition of project funding

Funding requirement	R million
Incremental	175
Refinancing	271
Redemption (WS06 maturing 30 April 2008)	700
Total	1 146

TCTA funded the requirement through various financial markets as follows:

Table 9: Sources of project funding

Funding sources	Funding R million	Redemption R million	Total R million
Capital market	724	700	1 424
Money market	(278)	–	(278)
Foreign development financing			
Total	446	700	1 146

Capital market

TCTA successfully split the WSP1-5 bonds into five separate stand-alone bonds with an authorised amount of R1 000 million each. The bulk of the 2007/08 funding requirements will be met via the auction of the WSP1-5 bonds in order to create more liquidity in the instruments as well as achieve greater asset and liability matching.

The redemption portfolio for the WS06 (R800 million outstanding debt maturing in 2008) has enough financial assets to fully meet the refinancing at maturity. The redemption portfolio was achieved at a positive carry of approximately R7 million, mainly due to the shape of the yield curve.

Sustainability report (continued)

Table 10: Total capital market bonds in issue as at 31 March 2007

Nominal bond	Maturity date	Coupon %	Nominal R million 31 Mar 07	Authorised amount
WS03	15 Sept 2010	13,00	3 385	8 000
WS04	30 May 2016	12,50	6 476	7 000
WS05	1 Aug 2018	5,00	3 361 ⁽¹⁾	4 000
WS06	30 April 2008	8,00	800	2 500
Total			14 022	21 500

Split maturity bond	Maturity date	Coupon %	Nominal R million 31 Mar 07	Authorised amount
WSP1	28 May 2015	9,00	400	1 000
WSP2	28 May 2017	9,00	400	1 000
WSP3	28 May 2019	9,00	400	1 000
WSP4	28 May 2020	9,00	400	1 000
WSP5	28 May 2021	9,00	400	1 000
Total			2 000	5 000

(1) The WS05 bond issued amount is reflected at principle value.

TCTA is one of the largest issuers of bonds in the local capital market. R1,4 billion was raised using TCTA's locally registered bonds through our panel of market makers.

Commercial paper programme

Short- to medium-term funding in the domestic market is also accessed through a commercial paper programme and other local loans. At the end of March 2007, TCTA had issued R1 billion against an authorised amount of R4 billion.

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

commercial paper programme is actively traded in the market with a turnover of about R11 billion (2006: R22 billion) over the past year.

Foreign funding

Foreign funding has been on a steady decline and currently constitutes less than 3% of the entire project funding. With the completion of Phase 1B, no further drawdowns will be made on the foreign facilities.

Funding performance

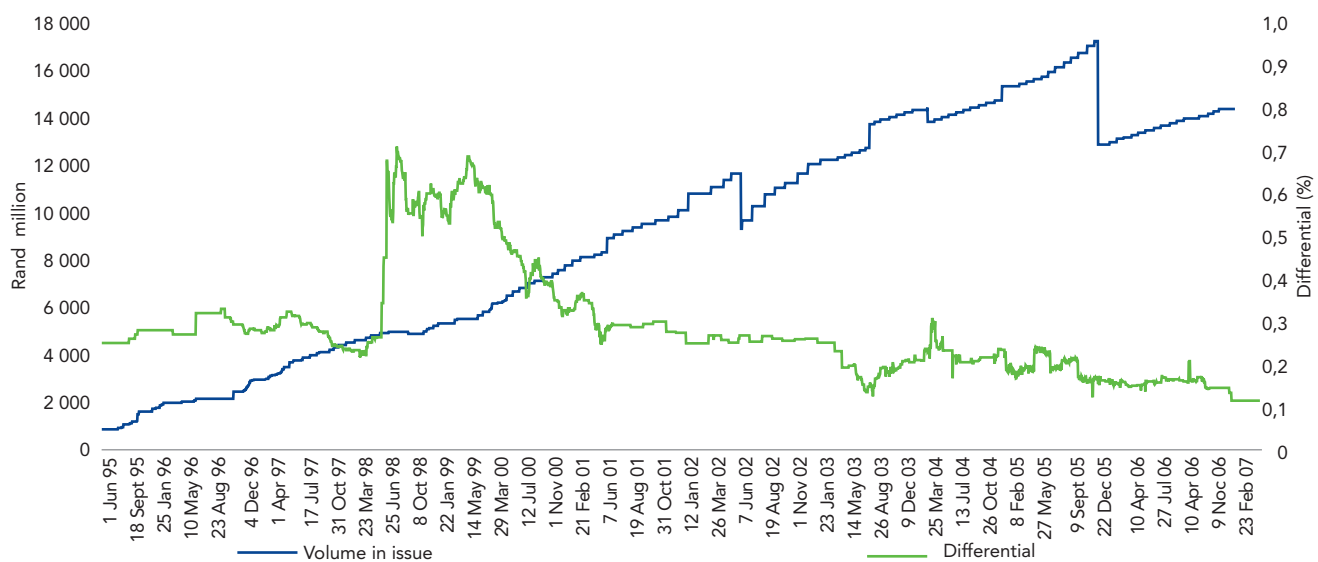
The average annual borrowing rate achieved during the year was 10,18% on

the stock of debt (2006: 10,65%) and 7,95% on incremental funding (2006: 7,40%). The project as a whole achieved a rate of 10,51% (2006: 10,80%) which includes LHDA's water transfer debt.

TCTA's domestic capital market performance and funding in figure 14 indicate:

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

Figure 14: Growth in capital market issue versus average daily trading differential



Medium-term funding

TCTA will raise R1,9 billion in 2007/08 under the portfolios as follows:

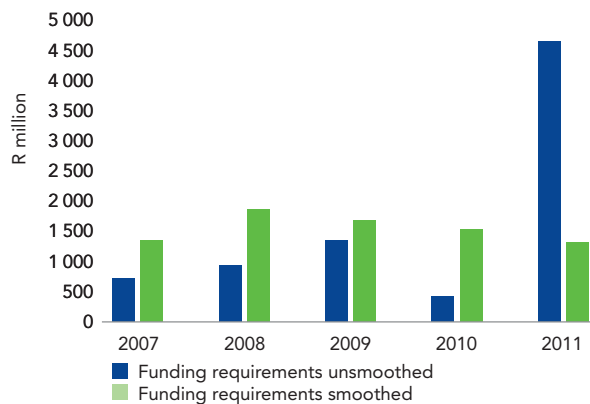
Table 11: Short-term funding requirements

Funding requirement	Funding portfolio R million	Redemption portfolio R million	Total funding R million
Incremental funding requirement	416	–	416
Refinancing requirement	514	–	514
Redemption		925	925
Total 2005/06 funding requirement	930	925	1 855

From the 2008/09 financial year to 2011 TCTA expects to raise on average R1,643 billion a year. This includes provision for the redemption of locally registered bonds on maturity. Funds are raised as required.

Sustainability report (continued)

Figure 15: Funding requirements for the next five years before and after smoothing of WS-redemptions



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

Berg Water Project (BWP)

Project cost

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

Table 12: Capital expenditure on BWP

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

Outstanding debt on the project

The project debt after taking into account water tariff income, was R837 million as at 31 March 2007.

Debt servicing

In terms of the national water policy (1997), water development projects should be funded by users, if possible. Water users in the City of Cape Town will repay this economically viable scheme through a Berg Water capital charge to be added to the tariff charged by DWAF on water supplied from the Western Cape Water System (WCWS).

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

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

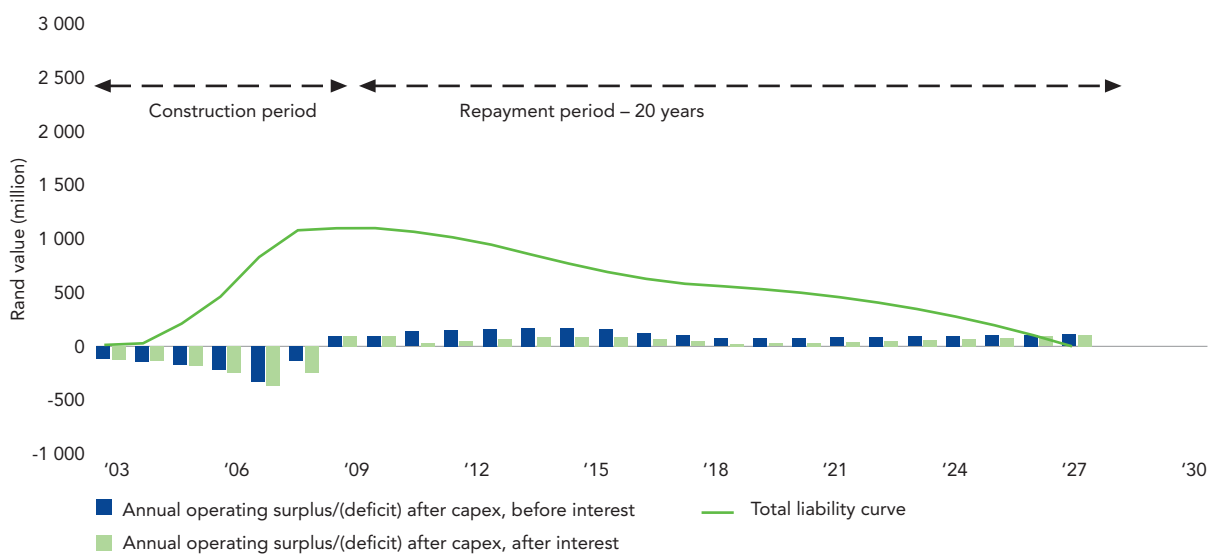
Water tariff

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

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



Figure 16: BWP annual surplus/(deficit) and liability curve



Project funding

Fitch Ratings credit rated the project as AA+ (zaf) long-term and F1+ (zaf) short-term. TCTA sourced, based on the strength of the income stream and the strong credit rating, long-term funding (24 years committed funds) of R1 600 million. The annual credit rating was reviewed by Fitch Ratings in March 2007, whereby the rates were re-affirmed.

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

Funding activities for the year

A net amount of R373 million was borrowed during the year under review to meet the project’s funding requirements. The funding activities are summarised in the tables below.

Table 13: Composition of project funding

Funding requirement	March 2007 R million
Incremental	373
Refinancing	–
Redemption	–
Total	373

Table 14: Sources of project funding

Funding source	R million	%
Money market	(1)	–
Local loans	374	100
Redemption	–	–
Total	373	100

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

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

Sustainability report (continued)

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

Funding performance

The project is funded at a weighted average rate of 8,91%.

Funding requirement

Short-term funding requirement – 2007/08

Below are the details of the project's forecast funding requirement for the 2007/08 financial year:

Table 15: Short-term funding requirement

Funding requirement	R million
Incremental	251
Refinancing	–
Total	251

Vaal River Eastern Subsystem Augmentation Project (VRESAP) Project cost

The current estimated construction cost of VRESAP is R2 491 million as of March 2007 (including Bosjesspruit).

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

Table 16: Capital expenditure on VRESAP

Year	Escalated value R million
2005	7,59
2006	273,95
2007	1 030,07
2008	843,86
2009	314,49
2010	21,24
Total	2 491,20

Outstanding debt

The project debt after taking into account interest capitalisation during construction was R1 275 million as at 31 March 2007.

Capital cost allocation

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

Debt servicing

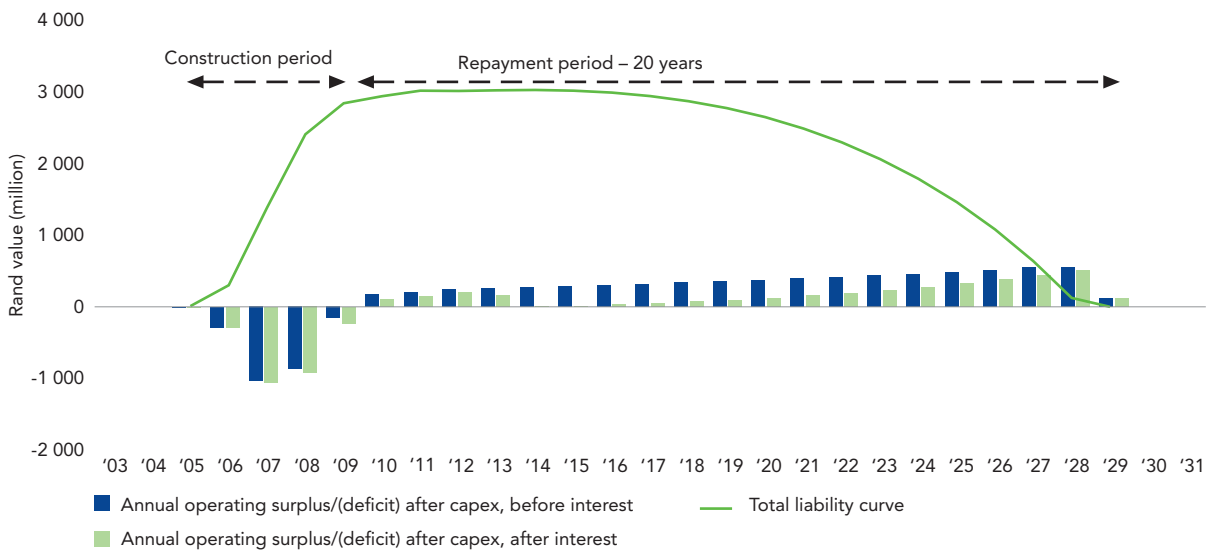
In terms of the national water pricing policy (1997), water development projects should be funded by users, if possible. The water users, Eskom and Sasol, will repay this economically viable scheme through a VRESAP user tariff to be added to the tariff charged by DWAF on water supplied from VRESS.

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

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

The debt curve is illustrated below.

Figure 17: VRESAP annual surplus/(deficit) and liability curve



Water tariff

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

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

Following these principles, the following are the basis for tariff determination:

- the tariff is based on water used by the consumers, not on water delivered into the system.
- the project cost will be repaid within a reasonable period, which should not be longer than the economic life of the asset, determined on the basis of:
 - the anticipated funding requirements of the augmentation of VRESS;
 - the debt profile and acceptable growth and level of debt of the project; and
 - within an affordable structure to the off-takers.

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

- The tariff payable by DWAF to TCTA is to redeem development costs and excludes operations and maintenance costs.
- The tariff applies from May 2008 to May 2028.
- The tariff is based on the projected water demand growth of Eskom and Sasol over a 20-year period.
- Annual adjustment to the charge will be made according to the CPIX, changes in water demand, changes in interest cost and allocation of water to

Sustainability report (continued)

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

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

Provision for other users

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

Project funding

Short-term funding

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

Long-term funding

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

Fitch Ratings credit rated the project as AA+ (zaf) long-term and F1+ (zaf) short-term. TCTA sourced, based on the strength

of the income stream and the strong credit rating, long-term funding (22 years committed funds) of R3 300 million. The annual credit rating was reviewed by Fitch Ratings in March 2007, whereby the rates were reaffirmed.

Table 17 indicates a summary of the long-term loans entered into with the various lenders.

Capital expenditure should be fully incurred by October 2008 and the tariff will be set so that the total outstanding debt by 2008 will be amortised over the period to 2028. This follows the TCTA principle of repaying the project debt 20 years after completion of construction.

Figure 18: VRESAP water tariff and supply chain

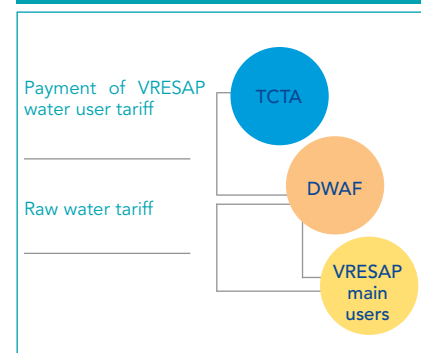


Table 17: Long-term loans for VRESAP

Bank	Funding amount R million	% of total funding
EIB (contract VO21 only)	500	15
Standard Bank: Term banking facility	1 000	30
Standard Bank: CPI-linked loan	350	11
ABSA: Multi-option facility	1 000	30
Investec: Inflation-linked loan	300	9
Nedbank: Amortising loan in conjunction with ADB	150	5
Total long-term funding	3 300	100
Commercial paper programme	300	

Funding performance

The project is funded at an average rate of 9,25%.

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

Table 18: Composition of project funding

Funding requirement	R million
Incremental	1 011
Refinancing	219
Total	1 230

Table 19: Sources of project funding

Funding source	R million	%
Money market	37	3
Local loans	1 193	97
Redemption	–	–
Total	1 230	100

Funding requirement

Table 20: The composition of VRESAP's 2007/08 projected funding activities

Funding requirement	R million
Incremental	931
Refinancing	–
Total	931

ENVIRONMENTAL PERFORMANCE

TCTA acknowledges that the implementation of its projects impacts on the natural environment.

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

- environmental management system (EMS) frameworks are implemented with the objective of achieving continuous improvement in environmental performance;
- operational procedures are implemented to control, reduce and avoid negative impacts;
- environmental impacts are internalised as part of the project controls and do not become a social cost;
- compliance with legal requirements is maintained;
- all project partners are regularly provided with accurate information on project impacts; and
- stakeholder engagement is an ongoing process.

Environmental management plan

The environmental management plan (EMP), as approved by the DEAT, provides the framework and scope for socio-economic strategies, environmental design guidelines, contractual specifications and monitoring of environmental impacts on the project area to ensure compliance to the Record of Decision (RoD).

LHWP

One of the requirements of the treaty between the two countries is to ensure the

protection of the environment and long-term sustainability of the river system. Within the borders of Lesotho the EMP is implemented by the LHDA, while elements located in South Africa are implemented by TCTA.

River management plan

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

BWP

Water quality monitoring

Results of the water quality monitoring show that in general the contractors are fully compliant with the contractual water quality standards.

Rehabilitation

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

VRESAP

The requirements of the EMP have been translated into detailed environmental specifications in the various contracts to ensure that construction impacts are contained and mitigated.

Sustainability report (continued)

Environmental approvals

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

Environmental Monitoring Committee

An independent Environmental Monitoring Committee is established for each project and facilitated by an independent chairperson. This committee encourages participative monitoring of the conditions specified in the RoD for project approval, and the performance against and implementation of the EMP.

The EMC comprises representatives from the project authorities (ie Department of Water Affairs and Forestry, Department of Environmental Affairs and Tourism, project partners and TCTA), mandated representatives from local communities, elected officials, interested and affected parties and local stakeholders.

BWP

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

Compliance monitoring

Six-monthly audits are undertaken by an independent environmental control officer (ECO) who reports to the Environmental Monitoring Committee (EMC). Significant incremental improvements have been achieved over the duration of the project, from the first audit in 2005 where overall compliance to the EMP was 82%, to the recent audit where EMP compliance was rated at 99,5% (table 23).

Table 21: EMP compliance performance of the BWP

Period	Project compliance %
Jan – June 2005	82
July – Dec 2005	94
Jan – June 2006	97
July – Dec 2006	99,5

VRESAP

The EMC has been constituted and held its inaugural meeting in March 2006. An independent chairperson from the local area, Mr Tsietsi Mokoena, was elected and assumed duty in April 2006. The EMC is functional and meets quarterly executing its role as environmental “watchdog” for the project.

Compliance monitoring

In line with the requirements of the RoD, TCTA procured the services of an independent Environmental Control Officer. By 31 March 2007, the first comprehensive environmental compliance audit was completed, for which VRESAP achieved 82% compliance.

SOCIAL PERFORMANCE

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

TCTA’s approach is to:

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

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

BLACK ECONOMIC EMPOWERMENT

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

Procurement at organisational level

TCTA’s direct procurement spend for the year was R1 465 million, of which R1 434 million was BEE spend.

Procurement at project level

To support BEE, the contractors appointed at each project are required to establish a joint venture with a black enterprise as a member to a predetermined level. The black enterprise equity ownership in the joint venture must continue for the duration of the contract period.

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

BWP

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

Job creation

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

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

Table 22: Achievement against preferential procurement targets at BWP

Contractor	Total person days worked on BWP	Cumulative employment Local employment		HDI (% target)	March 2007 Number of local people employed
		Percentage of total labour (% target)	Person days		
BRPJV – Dam construction	627 202	89 (75)	320 288	94 (80)	558
DWAF – Supplement scheme	173 524	64 (65)	111 405	93 (80)	253
Cycad – Pipelines	40 144	60 (40)	23 890	93 (50)	158
Working for Water	10 428	100	10 428		69
Other contracts (average)	93 832	71	75 104	97	–
Total	945 130		541 115		1 038

Table 23: Achievement against preferential procurement targets at VRESAP

Contractor	Total person days worked on VRESAP	Cumulative employment Local employment		HDI (% target)	March 2007 Number of local people employed
		Percentage of total labour (% target)	Person days		
MPC – Pipeline	341 754	61 (75)	188 073	84 (75)	969
Covec – Civil works	56 708	80 (75)	32 125	85,3 (75)	220
Total	398 462		220 198		1 089

Table 24: Value of preferential procurement by contractors

Contractors	BE ¹	BEE ²	LE ³	SMME ⁴
BWP procurement (R million)	104	99	23	70
VRESAP procurement (R million)	113	48	15	100

Note Procurement figures still to be verified by an external auditor.

(1) BE – Black enterprise.

(2) BEE – Black empowered enterprise.

(3) LE – Local enterprise.

(4) SMME – Small, medium and micro enterprises.

BWP

During the reporting period, employment peaked at over 1 200 jobs for local people. The working for water programme at BWP provided employment for 636 people. Table 24 is an illustration of the contractor's performance against targets.

Integrated employment and training committee

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

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

VRESAP

To date, 858 jobs have been created, of which 605 were recruited from the local project area (see table 26).

Sustainability report (continued)

Training

BWP

Construction skills

To date, the dam contract has provided construction-related skills training for 482 local people, amounting to 3 075 person days of training.

Training on the Working for Water Programme

TCTA awarded the Working for Water Programme, a R21 million contract to clear alien vegetation from the Assegaibos area,

which includes the Berg River Dam and surrounding land. The contract runs until 2012. To date, 1 430 people have been trained through the programme.

VRESAP

Induction training is being conducted for all new employees and visitors to the project sites. To date, 277 employees of MPC have undergone job-related training; 78 residents from the local community of Mameloo are undergoing training in steel fixing, concrete batching and land

surveying in preparation for work on the COVEC contract.

Community development

Social monitoring

The aim of social monitoring is to examine the impact of social changes experienced by local residents and to respond with appropriate measures, where required. The aim is to ensure that the project enhances, and does not undermine, social sustainability.

BWP

Social monitoring on the BWP is occurring in four distinct phases.

Between October 2004 and September 2005 a baseline assessment was conducted to provide an understanding of the constitution of the local social environment against which impact could be measured.

During the second phase (September 2005 – June 2006) in-depth research was done in all the local 'communities' that have been identified as constituting the local social environment. Areas were systematically covered over a period of twelve months and comprehensive narrative reports were written.

The following is a summary of specialist studies that were undertaken, as well as some results:

Table 25: Achievement against employment targets

Contractors	Target %	Local participation		HDI
		Achieved (2006/07) %	Total person hours	Achieved (2006/07)
BRPJV – Dam construction	75	89	5 017 614	94
DWAF – Supplement scheme	65	64	1 388 194	93
Cycad – Pipeline	40	60	321 149	93

Table 26: Status of the implementation of the preferential employment targets

Contractors	Total person days	Cumulative employment Percentage		HDI (%)	March 2007
		Local (45% target)	Total person hours		Number of local people (current contracts)
Pipeline					
Pipeline (V020)	341 754	16 922 000	211 531	84	1 047
Civil structures and MEIP (V021)	56 708	257 000	32 125	85,3	220
Total	347 130	17 179 000	215 815	85	858

Migration study

There is a perception among local residents that the BWP has resulted in the in-migration of work seekers from the Eastern Cape to Langrug, the informal settlement of Franschoek. During two separate surveys that were conducted, it was ascertained that while in-migration is a reality in Langrug, the number of migrants who came with the intention of finding work on the BWP was marginal (2,5%).

Training study

The aim of this study is to determine the socio-economic value of training gained from the training of local workers on the BWP. This comprehensive qualitative study indicated that although the duration of skills training done on the BWP has been short, it has facilitated the development of construction skills among local workers.

Women's participation study

This study analysed the value that local women gained from the BWP through procurement and employment. Employment of women on the project has been marginal, although DWAF and Working for Water have made a concerted effort to employ women. Research indicates that BWP employment has substantially improved the livelihood and security of women and their households, especially where these women are the sole income earners in extended families.

The BWP and local enterprise development

Interviews were conducted with the owners of local enterprises that had benefited from BWP procurement. Results indicated that, even where small businesses have

not financially benefited from BWP procurement, the experience gained through BWP contracts has been valuable. Small enterprises that have developed as a result of the BWP (such as bush clearing contractors) are more dependent on the BWP than those enterprises (eg caterers and plumbers) that had an existing business before the BWP.

Institutional impacts

BWP social monitoring continues to examine possible impacts that the BWP may have on local institutions. Impact has been negligible, mainly because the BWP has not resulted in a significant increase in the local population. A survey done in collaboration with the children of Dalubuhle Primary School indicated that 20% of the adults providing for learners here work on the BWP. TCTA thus decided to contribute towards the provision of an additional two classrooms for this school.

Core worker studies

Core workers are the skilled workers brought in by contractors to supplement skills that were not available in the local social environment. Studies were done in the main living quarters of core staff to determine the impact of these new social populations on established social populations.

The results from interviews indicate that core workers provide for extended households and families in KwaZulu-Natal, Gauteng, Mpumalanga, the Eastern Cape, Lesotho and the Northern Cape. In some cases, core workers have engaged in relationships with local women, with some social and health consequences. However,

the total impact of the presence of core workers has not been significant.

Livelihood studies

The purpose of the livelihood studies is to determine what the livelihood sources are for residents in Langrug and La Motte (two communities that may be left most vulnerable with BWP). Results indicate that livelihood security is impacted on by factors such as the number of household members; the number and types of income sources; the position of the household and its members in the community; and the security of tenure of the household. These findings are used to inform the exit strategy.

Exit strategy

The final phase of social monitoring is to contribute to the exit strategy. The aim of this strategy is to support the continuing sustainability of local livelihoods after the BWP. The exit strategy is currently being drafted and will be completed during the first quarter of the financial year.

Sustainable Utilisation Plan

In November 2004, TCTA initiated a planning process called the Sustainable Utilisation Plan (SUP).

The SUP is a planning framework that will guide the long-term management and use of the Berg River Dam water body and surrounding state land. The SUP process has been undertaken in a consultative and integrated planning approach involving key stakeholders.

Sustainability report (continued)

The SUP process is currently in the specialist study phase in which in-depth investigation and research is being conducted on:

- biodiversity assessment and potential for conservation;
- agricultural potential; and
- tourism potential.

The specialist studies will form the scientific and quantitative basis for the SUP.

Transfer of the houses at La Motte

Upon completion of the project, the 80 houses built in La Motte Extension to accommodate contractors will be transferred to the Stellenbosch Municipality. According to a memorandum of understanding, Stellenbosch Municipality will sell the houses with preference given to the local community of La Motte, and use the proceeds of the sale to benefit the community residing in the project area. TCTA is currently negotiating the principles of the final memorandum of agreement.

VRESAP

Women in construction initiative

Six women-owned companies have been appointed to instal air valve chambers on the Vaal pipeline project. The companies appointed are from Mpumalanga, Rustenburg, Pretoria and Johannesburg (East Rand and Soweto).

The South African Federation of Civil Engineering Contractors (SAFCEC) will provide business training in the form of a micro-MBA course. In addition, MPC will provide practical training and mentoring. Capitol Outsourcing Group has been

retained to assist the companies with labour-related issues.

Archaeology and heritage

BWP

The process of relocating the graves found on the site at Driefontein was completed with the opening of a crypt at the Dutch Reformed Church in Franschoek on 9 November 2006.

VRESAP

The VRESAP Heritage Impact Assessment identified various heritage and burial sites along the pipeline route. In some instances it was possible to realign the route so as to minimise the impact, however, six burial sites had to be removed. The largest burial site contained in excess of 80 graves, while the smallest one contained only two graves.

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

Land acquisition

BWP

All privately owned land required for the implementation of the BWP has been

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

State land required for the implementation of the BWP is in the process of being transferred to TCTA. As an interim arrangement, TCTA has obtained permission to occupy and construct from the Department of Public Works.

VRESAP

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

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

One of the major temporary land requirements for the project is access to 24 borrow areas situated at intervals along the pipeline route. TCTA acquired temporary rights to all the borrow pits for a period of three years, inclusive of a one-year rehabilitation period.

HUMAN CAPITAL PERFORMANCE

TCTA aims to be recognised as a high-performing organisation and acknowledged as an employer of choice. This will be achieved through effective leadership and innovative organisational development and people management practices that enable and motivate us to uphold professionalism and integrity.

Organisational development and effectiveness

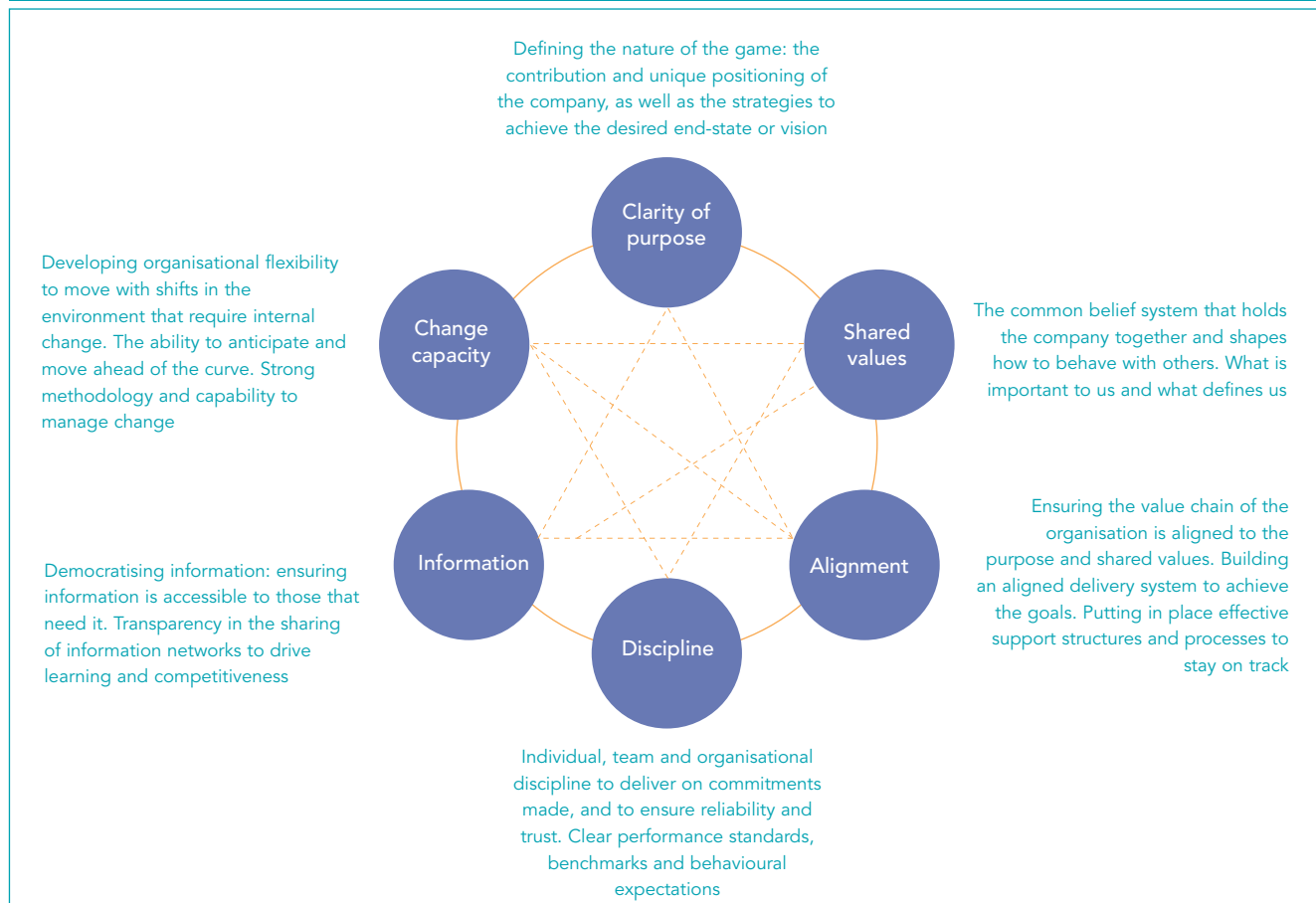
TCTA met its performance expectations according to the mandates set out by government. Our organisational development agenda is supported by effective people management strategies linked to leadership development and management. Effective policies and procedures, as well as systems and structures, support organisational change initiatives.

A comprehensive framework is used to guide commentary on the current organisational issues.

Clarity of purpose

Tools such as a balanced scorecard and strategic performance management are utilised to help us visualise, communicate and implement strategy. The ultimate value gained from a scorecard deployment is

Figure 19: Organisational effectiveness diagnostic framework



Sustainability report (continued)

when everyone in the organisation directly aligns themselves with it, and is energised and motivated to achieve the strategic business objectives.

We therefore recognise the importance of ensuring that objectives and measures are appropriately cascaded throughout the organisation.

Strategic alignment and management (SAM)

To ensure basic alignment of human resource management with overall strategy, TCTA also included human resource planning as part of organisational planning in the strategic alignment and management (SAM) process. SAM is instrumental in ensuring that:

- every employee, manager, and executive shares a common, clear understanding of the organisation's mission, vision, values and goals;
- every employee in a department clearly understands how his or her job contributes to the success of the department and the organisation; and
- each member of a work unit clearly understands the needs of their customers, and how they contribute to overall customer satisfaction.

Policies and procedures review project

As part of the HR policy review process, the TCTA consulted directly with staff on workplace relations and HR matters, providing access to draft documents and inviting comment and feedback on draft policies and procedures, where appropriate.

We also had to ensure that any changes in HR policies and procedures were consistent with TCTA's approach to:

- employ talented individuals whose creativity and imagination will support and contribute to achieving our mission;
- communicate our standards and expectations;
- value diversity;
- ensure transformation, employment equity and a workplace where relationships are based on mutual respect;
- treat all employees in a professional, non-discriminatory manner;
- provide safe, effective working conditions; and
- provide competitive salaries and benefits.

Shared values – TCTA's formula for success

The TCTA's formula of success is a unique model for organisational alignment. Its methodology aligns everyone within the organisation to a defined set of behaviours. It unlocks the DNA of an organisation, or those non-negotiable factors, behaviours, principles or practices that are critical to success.

Our DNA is the foundation of the organisation's formula for success. The formula moves employees away from discretionary commitment and towards emotional engagement and loyalty. This formula has become a living business tool which continuously engages all employees and stakeholders.

We have used TCTA values to ensure that:

- our employees demonstrate and model the values in action in their personal work behaviours, decision-making, contribution and interpersonal interaction;
- each person establishes priorities in their daily work life;
- every decision that is made in advancement of our organisational goals is guided by the values;
- rewards and recognition within the organisation are structured to recognise those people whose work embodies the values embraced by the organisation;
- organisational goals are grounded in the identified values;
- values and behaviours which result in recognised regular performance feedback are adopted; and
- individuals whose outlook and actions are congruent with the values are recruited and promoted.

Alignment: growing our people (GOP)

TCTA continues to vie with other organisations to attract and retain excellent employees. Organisations that use competency-based strategies are attractive to these individuals because they demonstrate a commitment to recognising and maximising employee capabilities.

Our model of people development, aptly called growing our people (GOP), is a key driver of our business strategy that gives us the ability to:

- identify and recognise the capabilities that will drive the business;
- manage performance more objectively and effectively;

- profile job roles and determine appropriate compensation;
- recruit, select and retain the right people;
- create succession plans and career development; and
- select training and learning opportunities strategically.

Skills development and training

A total of R2 116 337 (8% of payroll) was spent on internal and external training in 2006 to 2007. This training includes: technical training, induction courses, computer enhancement training, dealing

with people with disabilities, leadership training, formal degrees and certificates, and developing softer skills training.

A total of 115 staff members, of which 97 are HDI staff members, attended the training interventions. The following are the training measures indicative of the success and inclusion of the programmes.

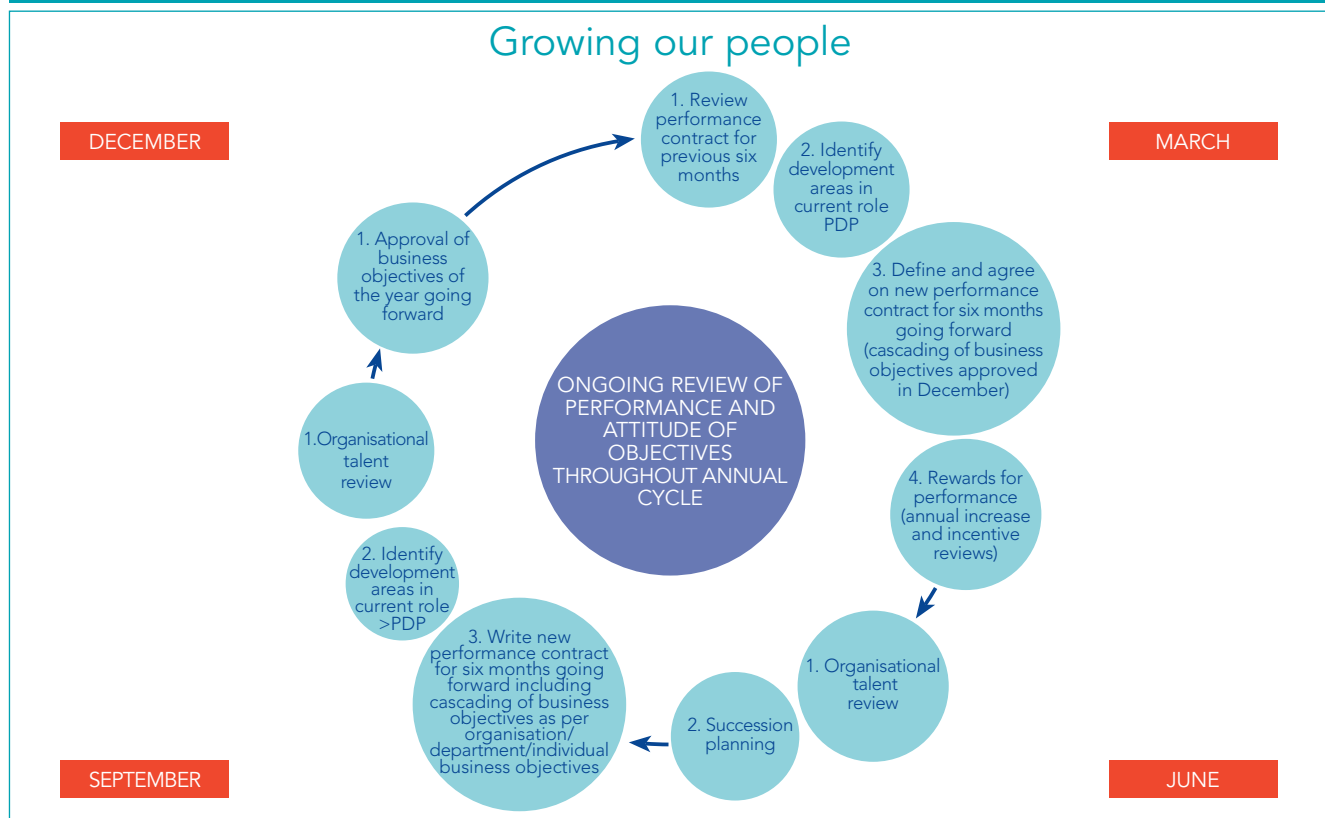
A total of 528 training days, equalling an average of R6 394, was spent on training per staff member in this financial year.

A total of 87 programmes, equalling an average of R24 326 per programme, was attended. It is important to point out that this number is reflective of the programme cost as opposed to individual cost.

Employment equity

Overall representation: The graphs overleaf illustrate TCTA’s current employment equity status.

Figure 20: TCTA’s people development model



Sustainability report (continued)

Occupational categories

The graphs below report the total number of employees (including employees with disabilities) in each of the following occupational categories:

Figure 21: Number of employees by gender

EE composition of TCTA (gender)

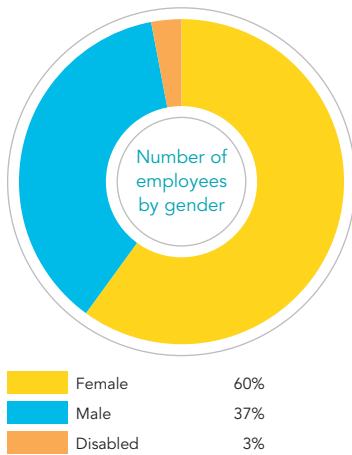
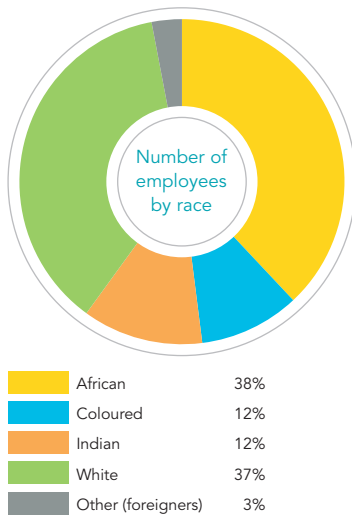


Figure 22: Number of employees by race

EE composition of TCTA staff



Black management – recruitment and resignations

There has been a significant growth in the number of black managers who were hired in 2006. The acid test for TCTA will be our ability to retain this talent pool.

Women – recruitment

In 2006, we recruited more men than women in the more senior occupational categories. Greater emphasis is needed to maintain and/or improve female representation at managerial levels.

There was an improvement in terms of racial representation at management levels, however, the picture is still significantly below the South African demographic profile.

Setting of numerical goals

Presently there are two different indicators in the South African business landscape. The Employment Equity Act is driving for representation according to the demographics of the country and the BBBEE codes of good practice.

The target setting principles address different levels of internal population especially around timelines as the needs differ at each level. The achievement of targets should become a consequence of everything else that we do in this space.

Table 27: Numerical goals for 2007/09

Occupational category	Period under review actual performance	Target 2007	Target 2009
Legislators, senior officials and managers	Black 49%; female 38%; disabled 0%	Black 52%; female 38%; disabled 0%	Black 55%; female 40%; disabled 5%
Professionals	Black 49%; female 35%; disabled 0%	Black 46%; female 60%; disabled 5%	Black 70%
Technicians and associate professionals	Black 68%; female 78%; disabled 3%	Black 65%; female 85%; disabled 0%	Black 70%; female 60%; disabled 5%
Clerical and administrative	Black 65%; female 81%; disabled 1%	Black 80%; female 85%; disabled 0%	Black 80%; female 70%; disabled 15%
Service and sales workers	Black 100%; female 100%; disabled 0%	No targets set	No targets set

In addition, the new employment equity plan (EEP) reflecting targets for 2008 has been submitted to the Department of Labour. Great success was achieved in terms of the recruitment of historically disadvantaged employees.

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

Table 28: Profile of staff

Number of persons	2007		
	2007	2006	2005
Full-time	81	73	44
Co-sourced	4	6	3
Seconded	5	1	1
Contracted	20	8	10
Part-time	5	3	1
Total	115	90	59

Location of staff			
	2007	2006	2005
Tshwane	101	79	51
Franschhoek	9	6	4
Vaal Marina	1	1	0
Maseru	4	4	4
Total	115	90	59

Staff turnover

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

Table 29: Turnover as a percentage of total staff complement

Year	Percentage turnover
2006/07	8
2005/06	18
2004/05	14
2003/04	17

Table 30: Turnover per occupational category

Occupational category	African		White		Total
	Female	Male	Female	Male	
Legislators, senior officials and managers			1		1
Professionals	1	1	1	1	4
Technicians and associate professionals		1			1
Clerical and administrative			3		3
Grand total	1	2	5	1	9

Table 31: Reasons for leaving

Occupational category	End of contract	Career growth	Working conditions	Personal reasons	Total
Legislators, senior officials and managers			1		1
Professionals	2	1		1	4
Technicians and associate professionals			1		1
Clerical and administrative	2	1			3
Grand total	4	3	1	1	9

Sustainability report (continued)

Performance management system

The organisational development and people management strategy focused on the further development of TCTA's existing performance management processes to ensure that they are applied effectively and consistently for all staff by the end of 2007. This formed the basis for further development of a common approach across the organisation, based on a combination of performance objectives (must win battles and behavioural competencies – must win behaviours).

A competency framework was in place to support performance reviews and to contribute towards the remuneration review process. This competency framework became fully integrated into the TCTA's wider range of HR policies and procedures, which include the recruitment, selection and career development of our staff.

Discipline: growing our teams (GOT)

Capability development activity within TCTA is based on the principle that the needs of individual staff members and teams are in line with organisational requirements, and with external professional developments. Building on our reputation of management development, our staff will increasingly be enabled to participate in internal and external programmes provided in conjunction with a wider network of professional and accredited service providers.

TCTA has also adopted the employment of the growing our teams (GOT) model to ensure consistent and sustainable superior performance.

More than 85% of TCTA's work teams (divisions, departments) underwent a team effectiveness programme to ensure alignment and discipline in executing allocated tasks.

Information

The essence of our strategy was to deliver a quality service to our stakeholders and ensure the integrity of our human resources information.

Change capability: transformation and employee wellness programme

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

We established a transformation blueprint to ensure focus and delivery for the upcoming 12 to 36 months. The outcome was:

- to define, with total clarity, the priorities for action and to establish a sense of alignment and trust amongst themselves;
- to ensure the implementation of transformation principles to achieve the broader government's transformation agenda; and
- to ensure effective implementation of the transformation agenda that is aligned with key government-directed initiatives and the Board's agenda.

The transformation scorecard (see diagram below) was developed and adopted to ensure implementation and monitoring by the organisation.

TCTA plays a central role in deepening empowerment both through education in the sector as a whole and through effective implementation of skills development and employment equity targeted at the large number of people that the province employs.

In addition, the new employment equity plan (EEP), reflecting targets for 2008, has been submitted to the Department of Labour. Great success was achieved as far as the recruitment of historically disadvantaged employees is concerned.

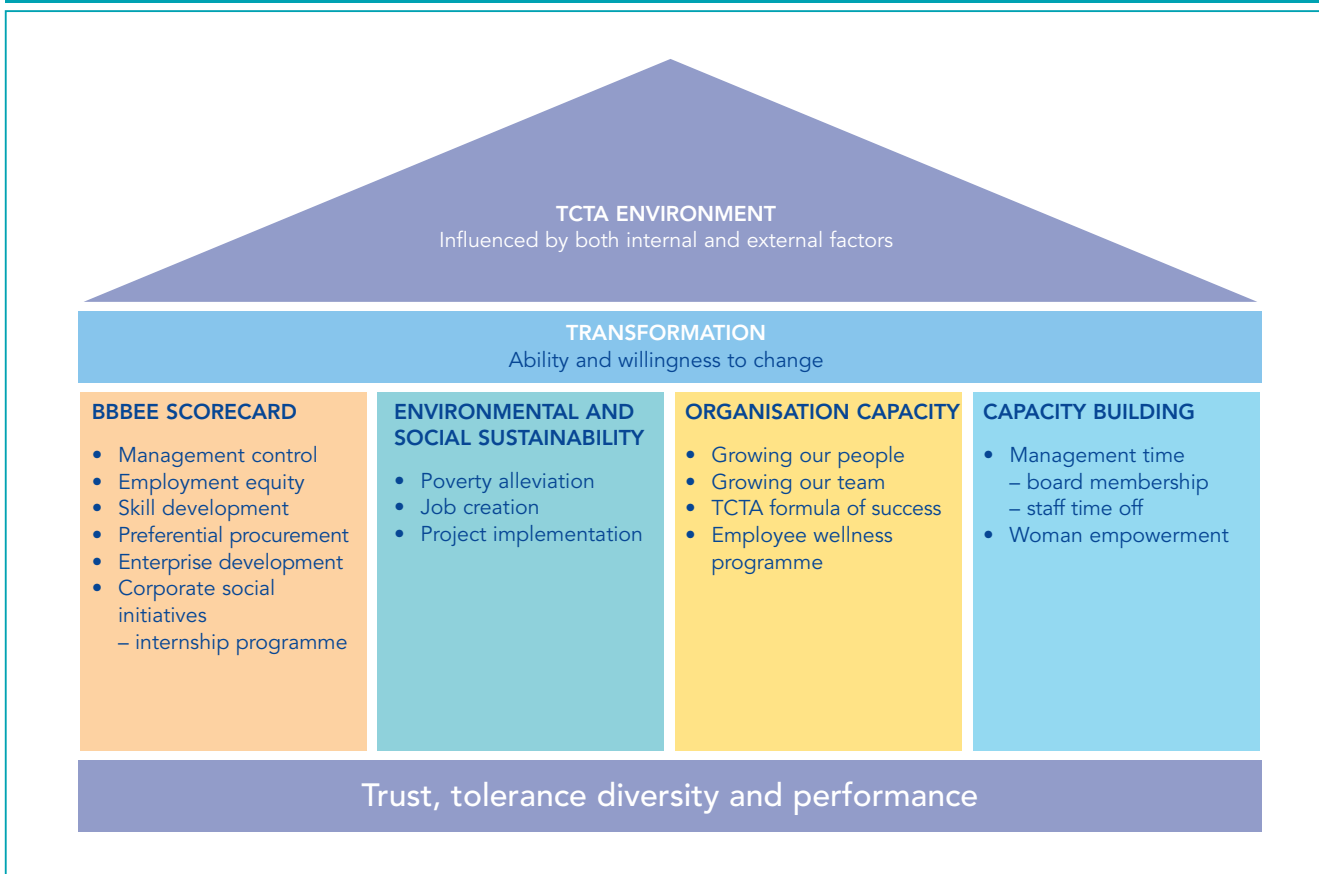
TCTA already has a robust preferential procurement process that influences both the purchasing behaviour of the contractor/suppliers, as well as the understanding of its suppliers from a transformation perspective. This existed prior to any formal broad-based BEE measure as recommended by the DTI's codes of good practice.

TCTA's Transformation Framework has been very quick to adapt to the newly gazetted codes of code practice, and stands in good stead to meet the challenges in the future.

Employee wellness programme

Our employee wellness programme (EWP) takes a holistic view on wellness and encourages staff to look at all aspects to improve their life. The aim of the programme is to lift morale and motivate

Figure 23: Elements of TCTA's Transformation Framework (inclusive of the BBBEE)



staff in the workplace, but also lead them and educate them to live a healthy and balanced life as this will lead to more productive staff members.

The EWC is chaired by TCTA's practising industrial psychologist, who dedicates four full days to ensuring that a holistic programme is embedded with substance and integrity. She is available to all staff at no cost and her services include:

- focus groups and one-on-one counselling. Bookings can be done

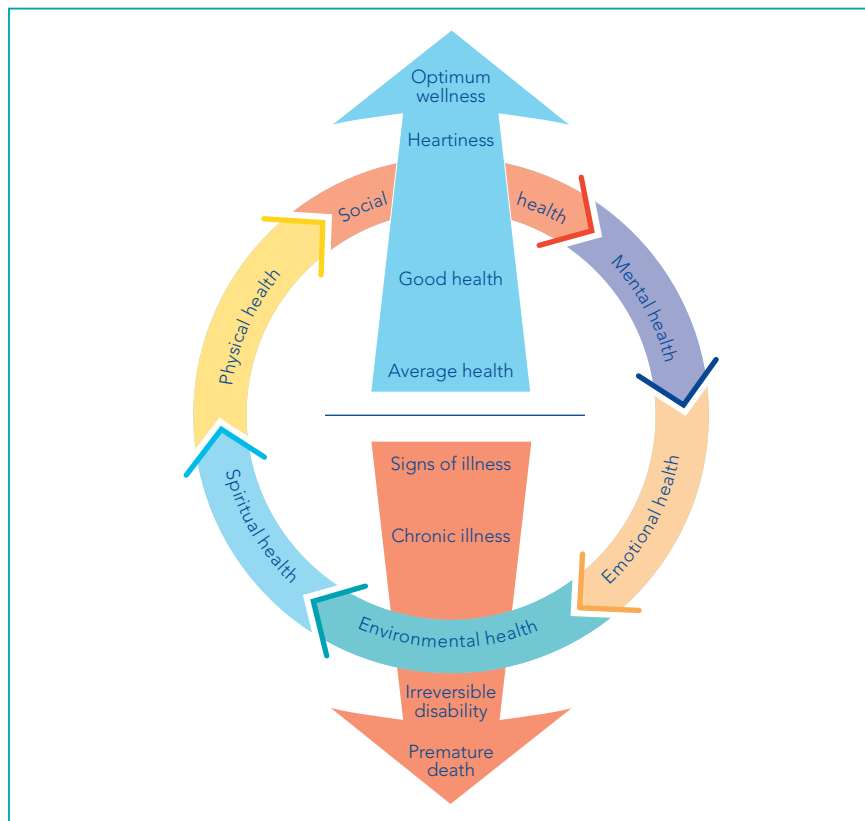
through the HR Department (these discussions are confidential);

- monthly articles on interesting topics;
- preparation of literature/material for focus groups; and
- creation of a referral network and the process of referrals.

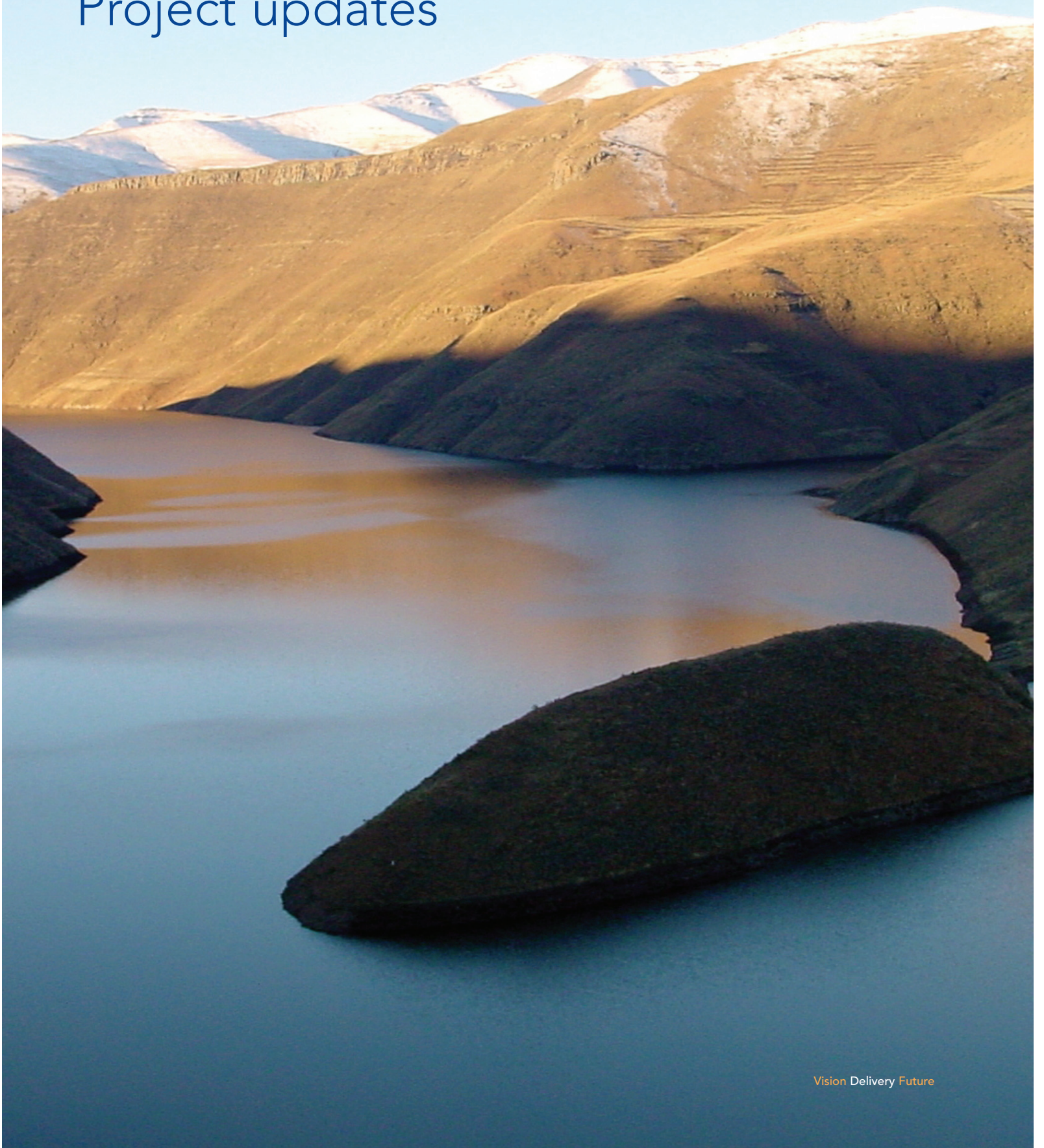
We were successful in implementing the programmes listed in table 31 during the year under review.

Sustainability report (continued)

Figure 24: TCTA's employee wellness model



Project updates



Project updates (continued)

Lesotho Highlands Water Project

Project profile

The LHWP includes four phases, of which Lesotho and South Africa undertook to implement the first phase.

Phase 1A

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

TCTA was responsible for the implementation of the 21 km Delivery Tunnel North on Phase 1A. The tunnel joins Delivery Tunnel South inside Lesotho to the Ash River Outfall structure in the eastern Free State.

Phase 1B

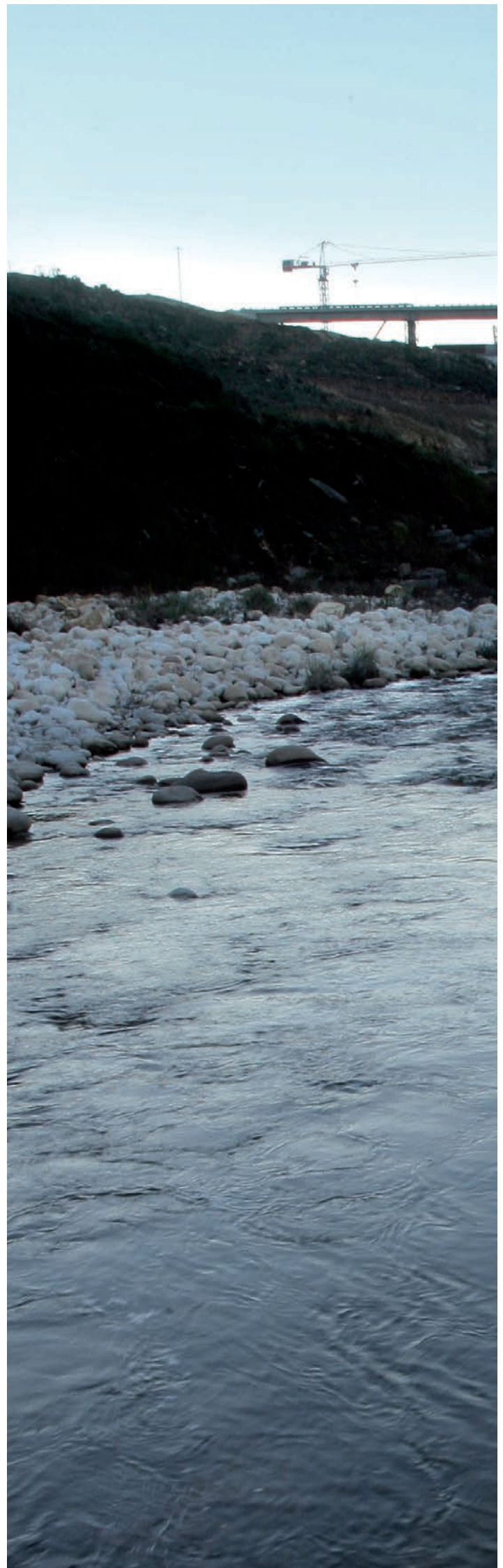
The Phase 1B physical works, comprising Mohale Dam, Matsoku Weir and a 31 km transfer tunnel from Mohale reservoir to Katse reservoir, started in 1998 and were completed in 2003, bringing engineering activities on the project to a close.

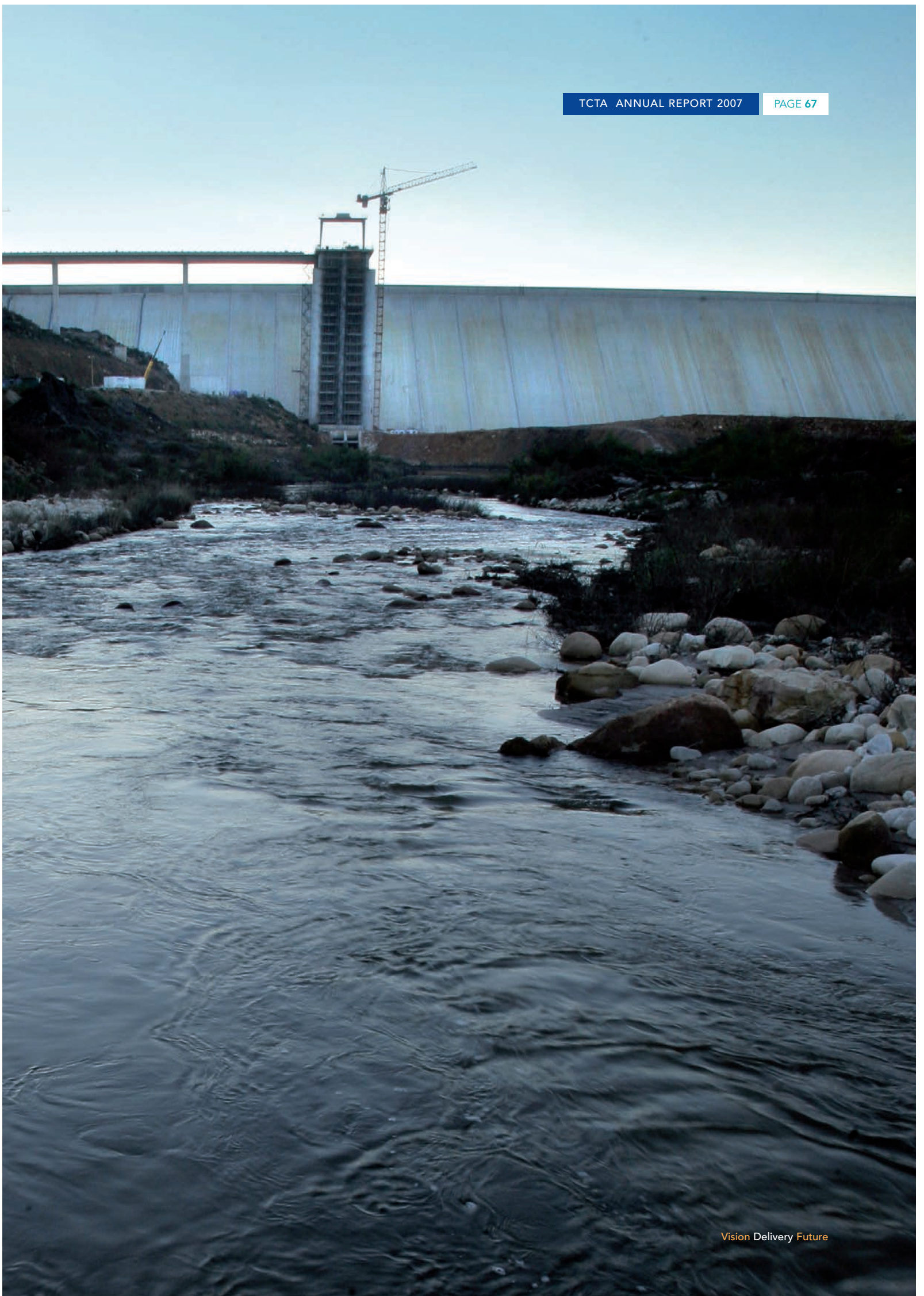
Figure 25: Map of Lesotho illustrating the location of the LHWP represented on the overlay

Possible future phases

Following the completion of Phase 1, the governments of South Africa and Lesotho committed to a joint feasibility study of further phases in terms of the Treaty. The study will be concluded by the end of 2007 with a final report expected from the consultants by December 2007.

Vision Delivery Future





Project updates (continued)

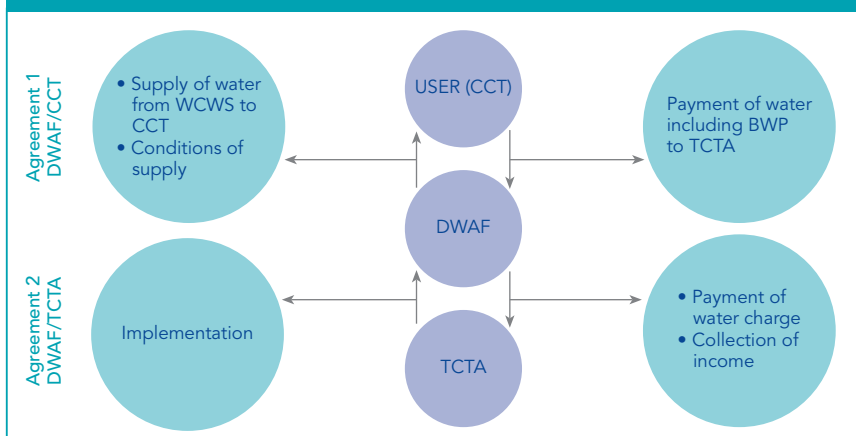
Berg Water Project

Project profile

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

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

Figure 26: Implementation agreements



Project components

Dam

- Full supply level 250 m above sea level
- Surface area 488 ha
- Type Concrete-face Rockfill Dam (CFRD)
- Gross storage capacity 130 million m³
- Net storage capacity 129,4 million m³
- Maximum dam height 63 m (67 m including foundation)
- Length of dam wall 929 m
- Spillway Side channel
- Volume rockfill 3,3 million m³
- Multi-level inlet tower 63 m

Supplement scheme

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

- Diversion weir across Berg River 1,36 m
- Balancing dam 4 ha
- Pump station 4 m³/second
- Pipelines 12 km

Infrastructure

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

Project update

Schedule

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

Budget

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

Table 32: Project status (31 March 2007)

Project component	% complete
Berg River Dam	complete
Overall completion	75
Rock-fill embankment	99
Concrete-face slab	72
Intake tower (concrete structure)	99
Intake tower (mechanical and electrical)	40
Spillway	68

Supplement scheme

Overall completion	70
Diversion weir	99
Abstraction works	70
Balancing dam	99
Drakenstein pump station – building	95
Drakenstein pump station – mechanical and engineering	65
Dasbos pump station – building	99
Dasbos pump station – mechanical and engineering	70

Pipelines

Pipeline (Drakenstein pump station to Berg River Dam)	60
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Project updates (continued)

Vaal River Eastern Subsystem Augmentation Project

Project profile

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

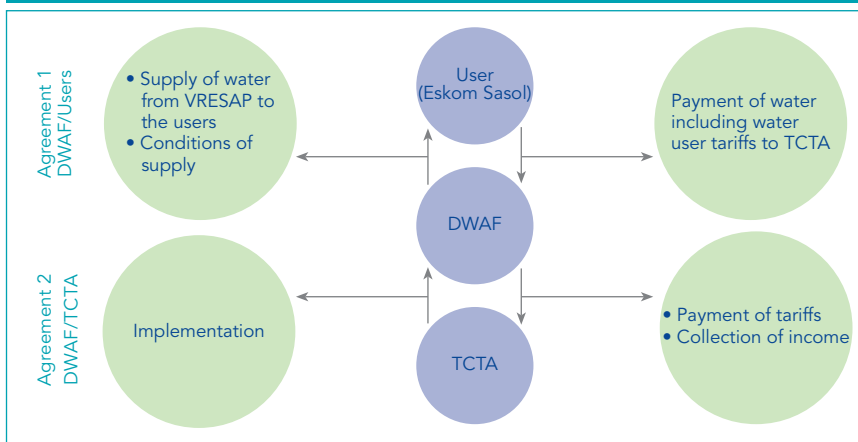
The VRESAP is governed by two agreements: an implementation agreement between DWAF and TCTA and a raw water supply agreement between DWAF, Eskom and Sasol.

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

Budget

VRESAP project costs are expected to be within the approved project budget of R2,5 billion.

Figure 27: Implementation agreements



Progress update

Table 33: Project status (31 March 2007)

Project component	% complete
Pipeline supply and installation (total 121 km pipeline)	
Site establishment	100
Manufacture of pipes	96
Pipes delivered to site	79
Trench excavation	69
Pipes aligned in the trench and welded	55

Project components

The components of the project include:

- abstraction works, including a low-lift pump station
- dual-purpose balancing dam-cum-desilting works
- high-lift pump station 5,4 m³/s
- upgraded diversion structure
- surge tank at the highest point along the pipeline route 10 000 m³
- central control room at Grootdraai Dam
- Pipeline 1 900 mm nominal diameter 115 km
1 200 mm nominal diameter 6 km
- air ventilation valves and scour chambers

Project update

Schedule

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

Due to unforeseen delays, the completion date for this contract has moved to September 2008. The redesign of the cofferdam due to the unexpected high water level in the Vaal Dam during the early construction period and the worse than expected geotechnical conditions at the abstraction works were the main reasons for the delay in the completion date.

Construction of civil structures and mechanical, electrical instrumentation and piping components

Site establishment	100
Manufacture of pumps and motors	Ordered in December 2005
Abstraction works including the low-lift rising main	15
High-lift pump station	35
Balancing dam/desilting works	30
Surge tank	12
Diversion structure at Knoppiesfontein	10

Advisory services

Umgeni Water

TCTA's advisory and oversight role is fulfilled through its participation on the Umgeni Water Audit and Risk Committee in accordance with the Service Level Agreement.

Olifants River Water Resource Development Project

Water resources

The water resources portion of the project will be implemented in seven phases, each phase requiring sufficient off-take agreements before implementation will commence (subject to the approval of the Minister of Water Affairs and Forestry).

Initial government funding has been obtained for Phase 2A (De Hoop Dam) and construction started in 2007.

Currently the Memorandum of Agreement (MoA) is to be concluded between DWAF and various mines for the funding and implementation of water infrastructure for the needs of the mining, commercial and social users located in the project area. While TCTA awaits the signing of the MoA, an Off-take Agreement (based on the MoA principles) is being drafted and due to be signed in Q3 2007.

Water services

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

Detailed funding and implementation strategies are being drafted.

Impala Water Users Association

Towards the end of March 2006, DWAF requested TCTA to propose a funding structure that will assist the Impala Water Users Association (IWUA) in a tariff dispute between the management of the association and its members. The tariff is to repay the capital cost of the Bivane Dam at Pongola which was implemented by the members of the IWUA.

TCTA was mandated by the Department of Water Affairs and Forestry to:

- review and perform a high level assessment of the current financial arrangements;
- meet with the relevant parties to validate findings and agree on broad modelling assumptions;
- run tariff models to assess whether the tariff could be made more affordable;
- consult with RMB, NT, DWAF and the farmers through IWUA; and
- prepare a report as to whether the refinancing is feasible.

TCTA concluded that refinancing of the debt was not feasible, and as a result had no further involvement with the project. TCTA proposed alternative strategies in dealing with the outstanding debt and non-payment by farmers.

Spring Grove Project

TCTA successfully executed its advisory mandate to advise DWAF on the institutional and funding arrangements for

the project. This project will be funded off-budget and repaid by end-users from mainly eThekweni, Msunduzi and Umgungundlovu Municipalities.

Water boards

TCTA also provided assistance to various water boards and municipalities with tariffing and debt management including Rand Water, Joburg Water and Mogalakwena Municipality.

