
To the Minister of Water Affairs & Forestry
TCTA's 18th Annual Report, 31 March 2005

Established in terms of Government Notice 277 of 24 March 2000, promulgated in terms of Chapter 10 of the National Water Act, 1998.

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“Drawing on ancient wisdom and cutting edge know-how to the benefit of all.”

Throughout Africa there are many divisions that traditionally separate the different people. However, within each of these groups lie large similarities.

Each culture is deeply rooted in the stories and legends of their ancestors.

Legends of great skill and endurance with daring stories of compassion, family bonds and brotherhood. ”

them down before. Each passing day was more difficult as the elderly and the very young suffered in the unbearable heat, depending on mere sips of water from the dwindling supply in the ostrich eggshells.

Xai!ghap was saddened by the death of many elders, including //Kamm and he felt that his burden was becoming unbearable. There was no water and no food anywhere! //Xama saved the clan from starvation when he managed to track and kill two gemsbok and an emaciated giraffe. The food changed the mood of the clan, which was lifted further by the sight of herd of elephants. Xai!ghap knew that elephants would know where the water was, because they had ancient wisdom and could remember more than man.

After four days of following the elephants, the clan crossed some mountains into a valley which they called !Xi//Khagob because of its beauty. As they started down the slopes, they saw the shimmer of a crystal clear river, snaking away to the horizon. Xai!ghap cried out “tcl-ta” (clear water) and the clan shuffled down to the riverbank to drink from the sparkling stream; thankful that they were saved, but saddened by the loss of so many in the Nama-Karoo.

Today, TCTA is building a dam in the same valley of !Xi//Khagob, near the town of Franschhoek. tcl-ta, a new word for water.

The legend of “T!T!T!” (teak-taa)

Many moons ago, Xai!ghap was a great Khoi leader in the Nama-Karoo (now known as the Great Karoo). The kukummi (stories, tales, legends and myths) about him could touch the blue above us, if we could pack them like twigs for a fire. The kukummi are like the wind, floating, moving invisibly from place to place, creating a bond between scatterlings who hear them.

Xai!ghap led his people across the vast expanses of shrubland as they hunted the great herds of prancing springbok that shimmered like mirages from one end of the horizon to the other. //Xama, the best hunter in the clan, kept them all happy with an abundance of fresh meat. He did not hunt alone, but rather ‘conducted’ the hunt, guiding his protégés by means of a series of signals and signs. Often, the women sang his praises and many men tried to emulate him, although they all knew that his skill was unequalled. Xai!ghap’s clan were very happy, because life was good.

Then, suddenly, as if by some fury of the gods, the Nama-Karoo shrivelled up under the sun. The

great herds disappeared, the earth became barren and unkind and Xai!ghap knew he had to save his people. They moved to the great Gariep, the golden river that snaked its way through the parched desert landscape. But /Kaggen, the Mantis, the trickster, was up to no good. When they reached the Gariep, their expectations were shattered! The river was dry!

//Kamm, the sage and eldest member of the clan, was utterly dismayed. “How can this be? This thing has never been before!” he cried. They scavenged what they could from the desolate riverbed strewn with carcasses; kudu horns, warthog teeth and a few ostrich eggs. Xai!ghap called the elders together and they agreed that the best option was to head back across the Nama-Karoo, because they had no knowledge of the land beyond the Gariep.

The red, dust-filled sky drained the elixir of life from the members of the clan as they crossed the desolate wasteland, trekking south in search of water, passing all the springs that had never let

Defining TCTA!

Who we are

TCTA is a state-owned specialised liability management entity established in terms of Government Notice No 2631 in Government Gazette No 10545 dated 12 December 1986, replaced by the National Water Act, 1998 (Chapter 10), and Government Notice No 277 in Government Gazette No 21017 dated 24 March 2000.

Our mission

TCTA is a specialised liability management entity responsible for bulk raw water infrastructure development in the most cost-effective manner for the benefit of the water consumer.

Our business

TCTA is responsible for the funding and implementation of bulk raw water projects:

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

TCTA was established to implement the South African portion of the Lesotho Highlands Water Project (LHWP), taking on the government's responsibility for the project implementation, the long-term funding and concomitant risk management. This mandate was executed with professionalism and diligence. Subsequently, the Minister of Water Affairs and Forestry extended the mandate of the organisation to drive and oversee the treasury management of Umgeni Water, as well as to undertake the implementation and funding of the Berg Water Project (BWP) and the Vaal River Eastern Sub-system Augmentation Project (VRESAP).

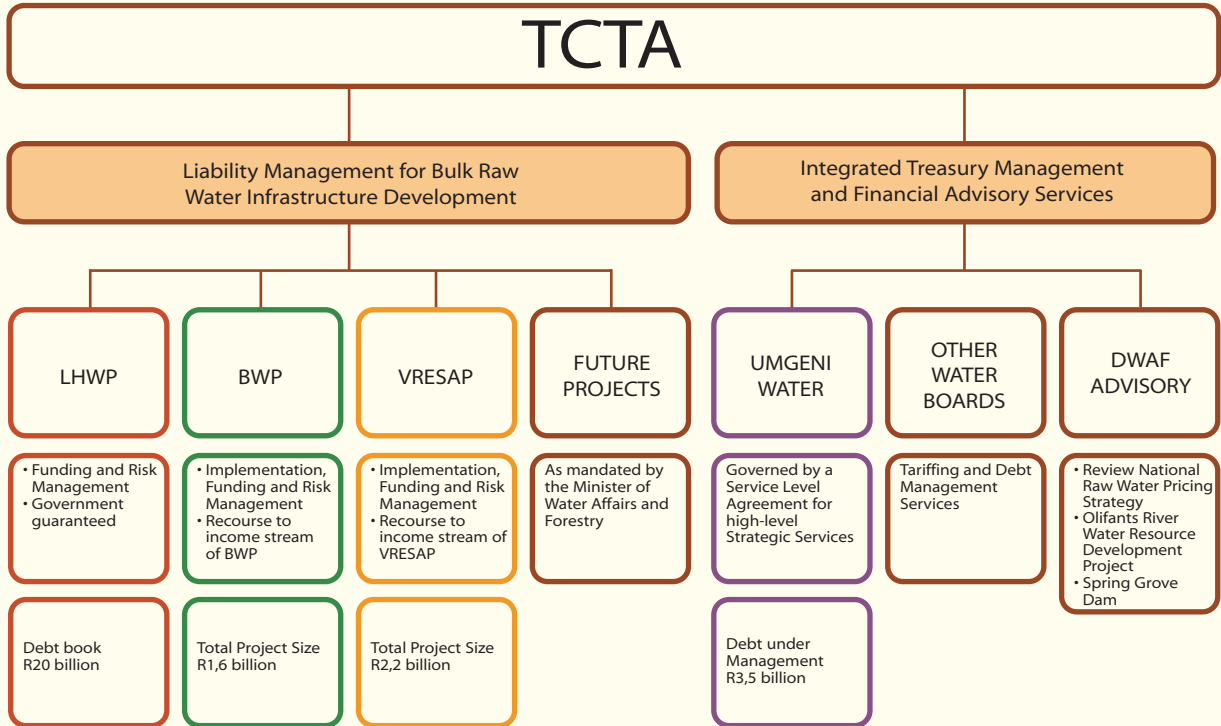
TCTA views liability management as a multi-disciplinary function covering funding and risk management at the one end of the spectrum, to construction and environmental management at the other end. (Figure 1).

Figure 1: TCTA liability management



TCTA is currently responsible for funding and implementing a number of projects in several provinces of South Africa and also offers integrated treasury management and financial advisory services as outlined in the Figure 2.

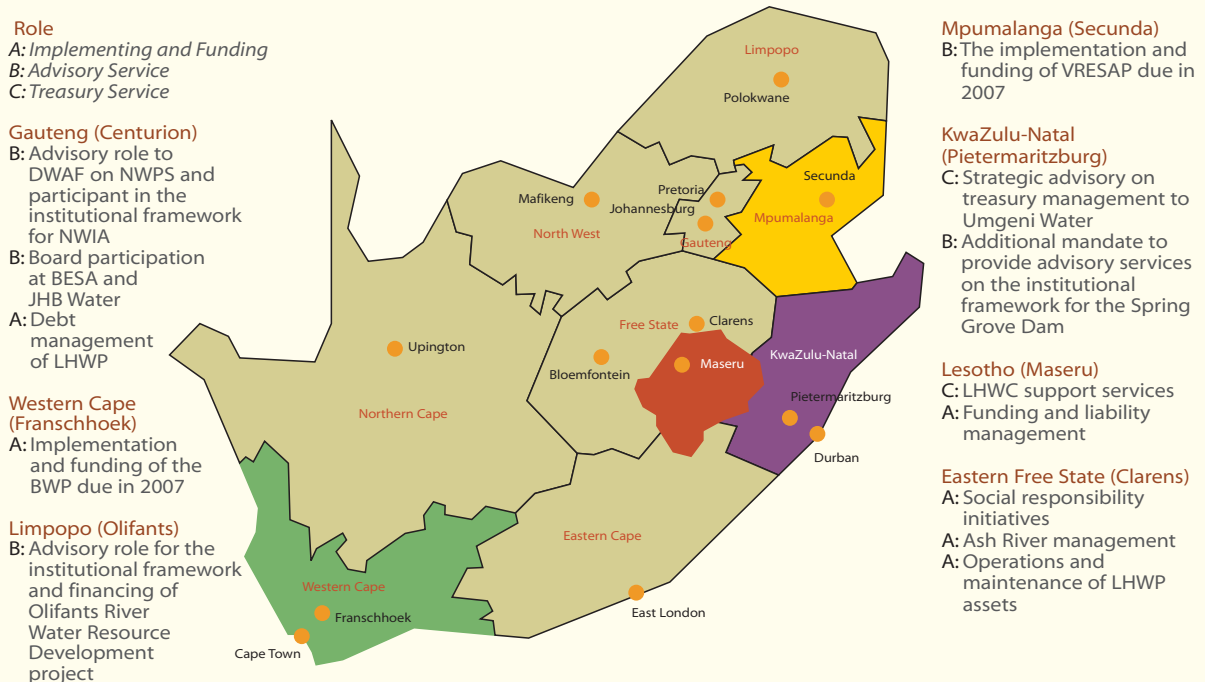
Figure 2: TCTA's multiproject environment



Footprints in SA

The map indicates TCTA's footprints in the country in terms of its roles in the water sector.

Figure 3: TCTA footprints in SA



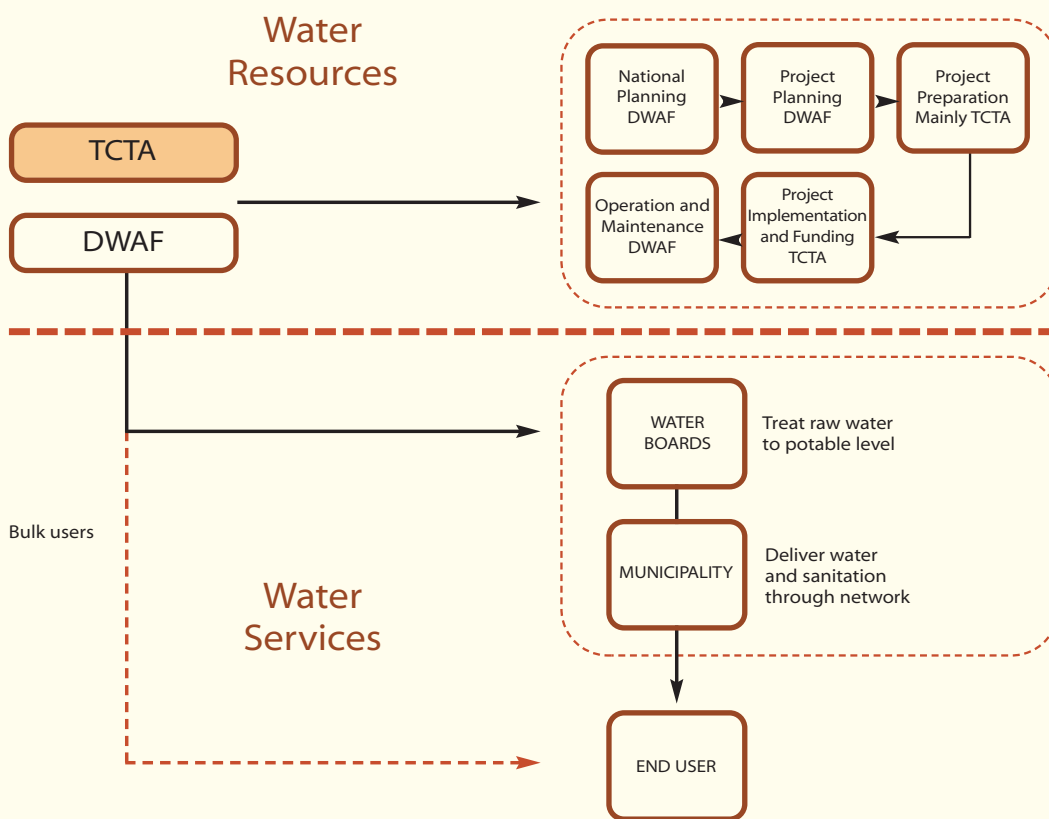
Water supply chain

A water supply chain is shown in Figure 4. It also depicts the national water resource infrastructure development cycle, setting out in broad terms the current responsibilities between the Department of Water Affairs and Forestry (DWAF) and TCTA.

In implementing and funding these large projects, TCTA offers its stakeholders and partners:

- Integrated project implementation and funding
- Appropriate risk allocation and management in an integrated manner
- Solutions that offer co-operative governance and participation of major users.

Figure 4: Water supply chain



Chairperson's Report



Leslie Maasdorp – Chairperson

*Water – gathered and stored . . .
in the embrace of dams . . . will one
day . . . flow out to every South
African who turns a tap. (Antjie Krog)*

I have the pleasure to report on the activities of TCTA over the past year. We view TCTA as a prime national asset that is instrumental in developing and funding bulk water sources to drive industrial development and feed domestic needs in eight provinces of South Africa, while providing specialised treasury services and capacity development in the ninth!

Water tops the National and, indeed, the African agenda. While we celebrated the first decade of our new democracy, the 10 millionth new water user was given access to potable water. This is in line with the Millennium Development Goals to halve the proportion of people without access to safe drinking water. At the same time, NEPAD (through its Water and

Sanitation Sector Policy) aims to ensure sustainable access to safe and adequate clean water supply, especially for the poor. The NEPAD vision is that through planning and management, water resources could become a basis for national and regional co-operation and development.

Regional co-operation and development in the water sector has been the lifeblood of TCTA for almost two decades. The development of the South African part of the mammoth Lesotho Highlands Water Project (LHWP) gave birth to TCTA. Soon thereafter we were tasked with the funding and risk management of the entire project. The award-winning structures; ongoing social development programmes; successful environmental rehabilitation; and the constant delivery of high quality water are funded in a cost-effective manner by TCTA. This is repaid over 20 years through the use of water tariffs. In this way we alleviate the burden on the fiscus and free more funds for programmes to eradicate poverty.

The successful completion of the construction of Phase 1 of the LHWP is a truly African triumph that ensures water security for South Africa. As TCTA we have benefited from our intimate involvement in a major international development project through the

constant evolution of cooperative governance, the development of integrated risk management structures, the application of world-class project implementation methodologies, the practical compliance with state-of-the-art socio-environmental guidelines (World Commission on Dams Report) as well as hands-on staff development and capacity building. It was, therefore, no surprise that the government chose to expand TCTA's mandate beyond the Lesotho project.

All the skills and knowledge gained on the LHWP are now brought to bear on the funding and implementation of the Berg Water Project and will also be applied on the new VRESAP (Vaal River Eastern Sub-system Augmentation Project) pipeline from the Vaal Dam to the Highveld of Mpumalanga. Both these projects are strategically important to the future of South Africa and have been included in TCTA's mandate for completion within limited timeframes. Both rely on the ability of TCTA to provide the structures and skills to maximise socio-environmental development and to address the challenges of poverty eradication.

Infrastructure development projects create jobs, enhance health services, provide skills and training, and offer opportunities for the development of SMMEs in construction, transport, services, hospitality, tourism and environmental rehabilitation. The approach we follow on the Berg Water Project (BWP) embraces the Franschhoek First policy aimed at maximising job and business opportunities for the local communities. The engagement of local communities through the use of ward structures and public events is building trust and ensuring that the project authorities are constantly abreast of community sentiments and aspirations.

Free basic water underpins the eradication of poverty, but cannot be realised without guaranteed service delivery and infrastructure development. The principle of "users pay" to fund the development of infrastructure and adequate, secure water service delivery mechanisms is already applied on all TCTA projects. Key to this principle is the development of flexible, yet sustainable, funding and repayment models that make the resource affordable and subsidises the free basic water.

The government has adopted the principle of "users pay" because it simply cannot fund the entire bulk water infrastructure development programme required to keep the first economy on track while ensuring the growth of the second economy and its socio-economic challenges. In this regard, TCTA has vast experience that can be applied in an even wider context.

We have to extend our ingenuity and apply our wisdom ever more creatively to ensure the productive use of water in our economy, to keep it vibrant and to achieve the government's growth and development goals. The success of the groundbreaking public-public

partnerships on the BWP and VRESAP provides a framework for similar future projects.

TCTA's skills developed in the evaluation of risks on project implementation and financing is further honed on a current assignment to create a sustainable model for the implementation and funding of the Olifants River Water Resource Development Project Phase II. This project will create a platform for economic development in Limpopo province and the challenge is to ensure that both the commercial and social components of the project are appropriately funded in a manner that does not tie up State resources indefinitely.

In the current debate regarding the possible creation of a National Water Resources Infrastructure Agency, we are committed to leverage the specialised skills and sectoral knowledge of TCTA in the realisation of the government's goals in the water sector.

TCTA has developed a strong reputation in foreign and local financial markets, which enables us to negotiate excellent rates and design adaptable, matched debt repayment models. I believe, therefore, that the optimal utilisation of the organisation – in whichever form – is crucial to the continued success of water infrastructure development and capacity building in the water sector.

I would like to thank the members of the Board who have all contributed significantly to the success of TCTA through their functions on the Board and in the committees. I am pleased to welcome Mr Phakamani Radebe to the Board as nominee from the National Treasury.

I am proud of the role of the Board in guiding and supporting the untiring efforts of TCTA to design customised solutions and to craft workable plans to meet ongoing challenges in the water sector. They truly draw on ancient wisdoms and combine them with cutting-edge know-how for the benefit of all.

I believe that the Chief Executive Officer and TCTA staff should be commended for their commitment, vigour and resilience in their constant quest for success at the highest levels.

The announcement by the Minister of Water Affairs and Forestry regarding the phased integration of TCTA into a new national water resource infrastructure agency is welcomed. It is in the national interest and will bring the reputation skills and expertise of TCTA to bear in a more substantial manner.



Leslie Maasdorp
Chairperson

Board of Directors

1 **Leslie Maasdorp (Chairperson)**

MSc (Economics)

Leslie is an international advisor with Goldman Sachs International, based in South Africa, and a director of Absa Group Limited. Prior to his appointment at Goldman Sachs, he was Deputy Director-General in the Department of Public Enterprises, responsible for restructuring and privatisation of state assets. He played a central role in economic policy making in the early 1990s when he worked for the ANC. In 1994, he was appointed special advisor to the Minister of Labour, Mr Tito Mboweni.

2 **Omar Latiff (Vice Chairperson)**

BCompt (Hons), CA(SA), HDip Tax

Associate professor at University of KwaZulu-Natal. Areas of specialist interest are tax and estate planning and managerial accounting and finance. Director of LMD Africa Chartered Accountants Inc, a professional firm in public practice. Extensive experience in the water services industry.

3 **Mike Muller**

MSc (Civil Engineering)

Director-General, Department of Water Affairs and Forestry. Extensive development policy and development finance experience with, inter alia, the Development Bank of Southern Africa, as well as experience in the implementation of water supply and sanitation programmes in Mozambique and South Africa.

4 **Angie Makwetla**

BA (Social Work)

Chief Executive, Makwetla & Associates, a South African company specialising in event management, public relations, disability equity and community development. Angie has extensive experience in community development and manages, on a national basis, the *Sowetan's* Nation Building projects. She serves on a voluntary basis on boards of various development agencies.



5 Martie Janse van Rensburg (Chief Executive Officer)

CA(SA)

Martie has extensive experience in funding and liability management. She is a member of the governing and audit and risk committees of the Bond Exchange of South Africa, a non-executive director and chairperson of the audit committee of Johannesburg Water (Pty) Limited and a specialist member of the Audit Committee for the Airports Company of South Africa. She is also a member of the national task team on institutional reform in water services.

6 Phakamani S Hadebe

MA Economics, Sussex (UK) and University of Durban Westville

He joined the National Treasury in 1996 where he is currently the Deputy Director-General, asset and liability management. He is responsible for the financial operations of the SA government, liability, strategy and risk management. He also serves on the boards of the Corporation for Public Deposit and South African Special Risk Insurance Association.

7 Carmen Maynard

MCom (Wits)

Carmen retired in 2001 as Executive Director: Strategy, for the Liberty Group. She is a member of the policy board for financial services and regulation, and a director of Sanlam Limited, Sanlam Life and Sanlam Investment Management.

8 Robert S Mbwana

BSc (Civil Engineering), Pr Eng

Robert is a private consultant and project manager. He has extensive experience in managing design and implementation of water and sanitation projects in Malawi, Botswana and South Africa. His experience is mostly in the management of operations and maintenance of municipal water supply systems gained as water manager of the City of Cape Town water branch between 1998 and 2000. He is also a consultant and project manager of donor-funded water and sanitation programmes.

9 Dr Simo Lushaba

BSc (Hons), MBA, DBA

Simo is Chief Executive Officer of Rand Water. He has extensive experience in management positions, ranging from the breweries industry to Spoornet, where he was General Manager: Rail and Terminals Services.



Chief Executive Officer's Report



Martie Janse van Rensburg – CEO

We were literally born and raised to implement and fund bulk water infrastructure projects pushing the boundaries for innovative solutions, utilising best practice within an acceptable risk framework.

I am pleased to report on another exciting year for TCTA.

In his address to the European Parliament in November 2004, President Thabo Mbeki quoted the correct version of the well-known words of Pliny the Elder, Semper aliquid novi Africa affert (Africa always brings forth something new). This age-old wisdom still rings

true today in the corporate citizenship of TCTA where we develop innovative solutions to challenges in sustainable water resource development that could chart the course for others, too – even beyond our borders.

TCTA shares the vision of a new Africa and a transformed South Africa. We believe we are constantly contributing innovative solutions to complex challenges in the water sector.

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 in neglected rural areas. TCTA is extremely suited to respond to this agenda; we were literally born and raised to implement and fund bulk water infrastructure projects, utilising best practice within an acceptable risk framework. Now it's our lifeblood – as this report shows. We are committed to play a significant role in developing the second economy, while providing impetus in the first as well.

“*Matimba ya ngwenya i mati*”

Tsonga – A crocodile gets its strength from water.

Meaning: Excellence is born by maximising natural strengths.

TCTA excels at what it has become: a niched liability management organisation in the water sector.”

This is what we do:

80%

20%

Liability managers for raw bulk water	Integrated treasury management and financial advisory services
<p>LHWP</p> <ul style="list-style-type: none"> • Funding and risk management on behalf of government • Debt is explicitly government guaranteed <p>BWP</p> <ul style="list-style-type: none"> • Funding, risk management and implementation on behalf of government • No explicit government guarantee <p>VRESAP</p> <ul style="list-style-type: none"> • Funding, risk management and implementation on behalf of government • No explicit government guarantee 	<p>Umgeni Water</p> <ul style="list-style-type: none"> • Strategic advice on treasury management governed by service level agreement <p>ORWRDP II</p> <ul style="list-style-type: none"> • Advisory services to create appropriate institutional and funding arrangements <p>Spring Grove Dam</p> <ul style="list-style-type: none"> • Advisory services to create appropriate institutional and funding arrangements <p>Other</p> <ul style="list-style-type: none"> • Tariffing and debt management services to water boards • Review of national water pricing strategy

I would like to report on:

New mandates

TCTA is a dynamic liability management and project development organisation in the water sector that thrives on challenges. In addition to activities reported on in the previous annual report, the following were added in the year under review:

VRESAP

TCTA was given a new mandate in November 2004 to implement and finance Vaal River Eastern Sub-system Augmentation Project (VRESAP) – a high-priority project to increase water supply for the planned expansion of

Sasol (Secunda) and the re-introduction of mothballed Eskom power stations on the Mpumalanga highveld. The scheme will transfer water through a ±120km long pipeline 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 engineering consultancy contract was awarded on 1 December 2004 and it is anticipated that the first construction contract will be awarded in the third quarter of 2005. Good progress has been made in obtaining environmental approvals which should be granted by the third quarter of 2005. The agreements formalising the relationships between TCTA, DWAF, Sasol and Eskom should be signed by the second quarter of 2005.

The estimated final cost of VRESAP is R2,5 billion and the project is due to be completed by July 2007. The Minister of Water Affairs and Forestry mandated TCTA on 26 November 2004 to implement and finance this project. It will be funded on an off-budget basis; the capital costs are to be recovered from the revenue generated from the sale of water to Eskom and Sasol. Although funding mechanisms for VRESAP have not yet been concluded, repayment is set for 2027.

Advisory services

TCTA has also been mandated by the Minister of Water Affairs and Forestry to broaden its role in the water sector by providing additional capacity-building services. TCTA's role in **Mhlatuze Water** changed from developing funding and tariff models to capacity building, on a cost-recovery basis. The water board will now be able to develop the necessary models in-house.

In a similar vein, we were asked to review and advise on the development of water resource infrastructure projects for social purposes. The **Olifants River Water Resource Development Project Phase II (ORWRDPII)** will require inter-departmental co-operation within the government, as well as a combination of social development (fiscus) and commercial funding (off-budget).

The Olifants River project, which straddles the borders of Limpopo and Mpumalanga, 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 but will provide much-needed water to support the proposed platinum mining development in the province.

The estimated cost of the project is R3,7 billion, which will be incurred over the implementation period to 2010. Discussions have been taking place with National Treasury to finance the large social component of infrastructure development and to provide (interim) finance for the mining component. The latter is conditional on the finalisation and signing of a memorandum of agreement between the mines and DWAF on the offtake of water, which will secure future repayment of the project by the mines. It is also recommended that the project be implemented in phases to avoid placing undue pressure on the fiscus.

TCTA is also required to advise on the institutional and funding arrangements of the **Spring Grove Dam** bulk raw water development in KwaZulu-Natal. DWAF will

implement this project. Indications are that it will require fast tracking. The indicative cost of the development is R250 million.

TCTA also participated with **DWAF** in the review of the National Water Pricing Strategy and the definition of the institutional arrangements for the proposed National Water Resources Infrastructure Agency.

Previously-mandated projects

The ongoing projects that form the current mainstay of TCTA's activities have matured at different levels.

Core to our existence are our proven skills in liability management. The process of carefully determining the viability of each project, matching assets and liabilities and careful risk allocation in the design and construction of the project, provides a framework within which the best-suited and most cost-effective funding mechanisms can be developed. One of the key determinants in designing income streams to repay the loans is the affordability of water to the end user. For this reason, repayment periods are normally 20 years, while allowing flexibility to adjust the period and rates, if external factors demand revision. To enable water supply agencies to plan effectively, tariff charges included in the sale of water are pegged to increase with inflation.

The long-term solvency of TCTA is determined by its tariff methodology, income agreements and guarantees (explicit or implicit). TCTA's tariffing methodology seeks to provide a stable planning platform for the future by smoothing the tariff over the period of repayment which is significantly less than the project life and results in end-user affordability. TCTA will thus show a deficit, after interest, in the first number of years after completion of an infrastructure project. However, when matched to the income stream, underwritten by government guarantees, both explicit and implicit, and the useful life of the project, it is clear that the organisation is a going concern.

LHWP

The sheer size and development impact of the Lesotho Highlands Water Project make it TCTA's flagship. It remains TCTA's core business that defines our position in the market. The completed first phase of the project has provided a steady stream of high-quality water to the Vaal River system. 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. Additional augmentation will, however, only be required after 2020.

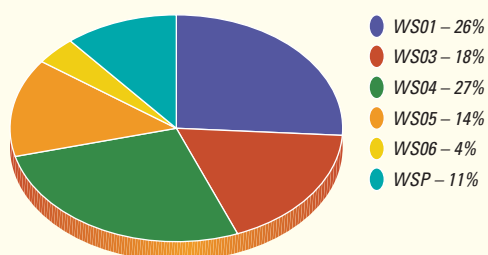


Since completion of the LHWP, more emphasis is placed on sophisticated debt management within a conservative risk management framework. Currently, the LHWP stock of debt under management is ±R20 billion, and this will grow to R21 billion by 2013. The total debt will be repaid by 2025. In the budgeting process, TCTA clearly identifies the costs that are not directly under its control. These costs are controlled and approved by either the Lesotho Highlands Water Commission or the Department of Water Affairs and Forestry.

We believe the wider application of the liability and risk management best practice developed on this project is crucial to deliver the cost-effective infrastructure solutions required to drive consistent economic growth and development in South Africa. The LHWP provides a firm foundation for similar projects in the African region as we seek to realise the dream of an African renaissance.

During November 2004, we launched a short-dated bond (WS06) as part of our redemption strategy for the maturing WS01 bond. The South African Reserve Bank issued a public policy document that sought to reclassify TCTA bonds as liquid assets. The benefit of this is that as banks are required to hold certain reserves as liquid cash, holding TCTA bonds would prove prudent as they consistently trade at a higher yield than government bonds. However, for this to be effective, the corresponding banking legislation has to be amended.

Figure 5: Capital Market Funding: R17 billion
Breakdown of Bonds



BWP

Progress on the Berg Water Project 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 had to devise innovative processes and structures to ensure compliance and project sustainability. The past year has been particularly challenging for the Western Cape region. After the second winter of poor rainfall, DWAF imposed a 20% curtailment on water consumption in the province. The introduction of restrictions re-emphasised the requirement for this project. Construction is progressing well and it is expected that the project will be delivered on time, within budget. Good progress has been made by the construction contractor in achieving targets set for employing local labour, training and procurement from local and BEE sources.

The Berg Water Project was awarded an excellent Fitch credit rating (AA+); the best ever for a project of this nature. The R1,5 billion funding for construction has been negotiated successfully with three major financial institutions. The long-term loans will be repaid over a 20-year period from revenue generated by the sale of water to the City of Cape Town. The project debt will peak at R1,3 billion in 2008 and will be repaid by 2028.

Umgeni Water

TCTA fulfilled its mandate to manage the treasury function of Umgeni Water, following the completion of the second term of its formal service level agreement. All objectives defined by the Minister of Water Affairs and Forestry in the initial directive were successfully met, as were the deliverables outlined in the service level agreement. Subsequently, the operational aspects and treasury activities were handed back to Umgeni Water. TCTA's involvement will continue on strategic issues based on the commercial contract.

Sectoral reform

TCTA continues to participate in the national task team for **water services** institutional reform. The task team is responsible for reviewing the institutional arrange-

ments necessary to facilitate the required infrastructure developments, skills and capacity in the water services sector.

The ongoing restructuring of the Department of Water Affairs and Forestry will culminate in further reform. In the water sector, TCTA will continue to play a part in the deliberations. The organisation is ready and prepared to play an even greater role, should the need arise. We will continuously assess and adopt the most appropriate role for TCTA in the best national interest for the water sector.

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.

Governance

Board of directors

The Board has met its fiduciary responsibilities with excellence during the year in dealing with TCTA matters in a responsible and transparent manner. Frequent meetings were held to discharge these responsibilities.

The Board successfully conducted a self-efficacy assessment during the past year. The outcome showed that a high degree of effectiveness was achieved. No material aspects were highlighted, except that there was a need to strengthen the Board's skills base in the financial and engineering areas. The Minister extended the term of the current Board to December 2005, which will enable the review of the Board in view of the proposed restructuring in the water sector.

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, while mitigation strategies are identified. 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). The benefit of applying the EWRM approach and performing regular risk reporting is the appreciation gained by employees of the entire spectrum of risks to which the enterprise is exposed.

Credit rating

TCTA obtained a zaAAA (long term) and zaAA+ (short term) corporate credit rating from CA Ratings, with and without an explicit government guarantee. The credit rating did not factor in the activities of the ring-fenced BWP. A separate project credit rating was sought for the BWP and an AA+ credit rating was awarded by the Fitch Rating Agency.

Project management structures

We have introduced a hybrid matrix structure to multiply the high skill levels of our core team across a variety of projects, to the benefit of our stakeholders. This structure, coupled with the rigorous ring-fencing of each project, obviates the need (and cost) to create a special implementing body for each one. The knowledge and experience harnessed with the implementation of the LHWP and BWP are applied in the implementation of new projects such as VRESAP. The scale, diversity and pace of our activities dictate that we interact constantly with our stakeholders to keep them abreast of developments and obtain their feedback. We recognise the value of the contributions made by our stakeholders to our success.

Stakeholder management

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, these actions included special briefing sessions for the Parliamentary Portfolio Committee on Water Affairs and Forestry and the National Council of Provinces; site visits for the Minister of Water Affairs and Forestry, the TCTA Board, foreign and local financiers and other decision-makers; 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. This means that the project management teams are integrated both horizontally and vertically, to ensure that knowledge and learning are shared. The inclusion of stakeholders and end users in structures like the Board technical



sub-committee provides co-operative management that addresses shared concerns coherently.

Operational highlights

Other highlights from the past year include:

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. To ensure full compliance, TCTA has held discussions with the external auditors on the process followed to determine the gaps between Generally Accepted Accounting Practice (GAAP) and IFRS and the process followed to ensure full compliance. The annual financial statements for this year fully comply with IFRS, and amounts for 2004 have been fully restated on this basis to ensure comparability.

After consideration and consultation, TCTA decided to reclassify the right to receive water from Lesotho (termed the enduring benefit) in terms of the treaty from property, plant and equipment to an intangible asset. This is a reclassification in terms of GAAP.

LHWP cost allocation

A TCTA task team met with representatives of the LHDA, the LHWC and representatives from both TCTA and LHDA's auditors to discuss the cost allocation between hydro power and water transfer costs that have been funded by water transfer funding. Rough estimates pointed to an amount of R261,8 million that had to be repaid by the government of Lesotho to TCTA, acting on behalf of the government of South Africa. Protocol IV to the treaty makes provision for such arrangements. Meanwhile TCTA has decided to correct the figure as at 31 March 1996 to a total of R193 million including R136 million in interest. This is reflected in the balance sheet as an amount due by the government of Lesotho. We anticipate that the cost allocation review and approval by the two countries will be completed in the 2006 financial year, and further adjustments are expected.

Transformation

Transformation is fundamental to the management of water resources infrastructural development. TCTA is committed to drive improved service delivery in terms of effectiveness, transparency and equity to achieve the transformation targets set in our employment equity plan.

The Board and management of TCTA have declared transformation a priority. The process led to the development of a transformation committee, which reports to the HR committee of the Board. To ensure simplicity in application and monitoring, transformation outcomes are aligned to all relevant business plans and follow the TCTA strategy formulation and implementation methodology.

The transformation programme of action rests on mutually-selected focus areas, which are monitored for progress by the TCTA executive and HR committee of the Board. We continue to focus on achieving transformation targets. Currently, 61% (2004: 50%) of staff and 50% (2004: 40%) of management are black. Gender balance in the organisation has improved to 40% male (2004: 35%).

In a 2004 survey of South African companies and parastatals, TCTA was listed among the top ten for having a female CEO and several women in senior management.

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.

The diversity management programme instituted during the past year has had a marked positive effect on creating an 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. A successful team-building weekend fused our staff into an even more formidable

force. We recently expanded our staff wellness programme to empower individuals to manage their own well being, stress and possible disorders.

Broad-Based Black Economic Empowerment

We embrace our responsibility to further the government's economic empowerment agenda, including the Financial Services Charter and the use of a balanced scorecard approach to measure progress.

Our commitment to empowerment has been demonstrated to date by the requirement of minimum levels of black ownership in the joint ventures bidding for major contracts on projects entrusted to TCTA and also by setting minimum targets for the procurement of goods and services for local, black-empowered and woman-owned enterprises.

Special training programmes have been introduced to assist black SMMEs to compete for tenders with excellent results.

Awards

Staff members were invited to nominate candidates that best exemplified the organisational "DNA principles" throughout the year. Halima Nazeer and Grant Anderson respectively won the professional and support services awards of Employee of the Year 2004.

Expropriation of land

TCTA expropriated two private properties and a business (conducted on one of the properties) to

secure the land required for the construction of the Berg Water Project in 2003.

TCTA paid these entities compensation in terms of the Expropriation Act in 2004. They have disputed the compensation and submitted final claims for additional compensation in terms of the Act. The compensation amounts are at present subject to negotiation and due legal process. In January 2005, they requested that TCTA explore the possibility of reaching a settlement on these claims. TCTA is willing to entertain such a proposal, provided it is submitted in writing. To date, no written submission has been made by the entities to TCTA. Consequently, at this stage, we cannot discount the possibility of future litigation in this regard.

Future

To date, TCTA has developed excellent treasury and financial management skills and capacity, as well as market credibility for accessing off-budget funding at excellent rates, thereby relieving the fiscus of the burden. Income streams from bankable projects ensure that the social and environmental imperatives of sound corporate citizenship are met and repaid within the project costs. Our innovation is tested by implementing fast tracked bulk raw water infrastructure.

Our ability to raise funding and service debt, and to implement projects and manage the concomitant risks, has been honed to a level of specialisation that makes us unique in South Africa and, indeed, Africa. To achieve this with a relatively small team places the responsibility for success squarely on the shoulders of each team member – a value we call "leadership by all".

In the evolving water sector, TCTA remains enthused and challenged about its ongoing participation in the reform of the sector. TCTA will continue contributing its skills and know-how for the benefit of all.

We welcome the opportunity to meet the challenges posed by the implementation of projects mandated to us within the specified conditions and continue to set new benchmarks for bulk water infrastructure development.

We remain committed to support the development agenda of the government, through the Minister of Water Affairs and Forestry. We continue to chart the way forward and play a proactive role in finding a solution that is suitable for the dynamic needs of the country.



Post balance sheet event

On 3 August 2005 the Cabinet approved the creation of a National Water Resource Infrastructure Agency (NWRIA). The NWRIA will be created through the phased integration of TCTA and the Water Resource Infrastructure Branch of DWAF. The integration will be done in a manner that does not affect TCTA's obligations to the financial markets, its project credit ratings and explicit government guarantees.

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 pave the way for sustainable infrastructure development

- 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.

TCTA, the liability manager of choice!



Martie Janse van Rensburg

Chief Executive Officer

Performance Measurement

During the year under review, the organisation focused on specific performance issues to ensure that projects are completed according to plan and within an acceptable risk framework.

Strategic and operational functions

To enhance management capability through improved governance structures

TCTA implemented effective, integrated management assurance, compliance and governance functions, reporting into an audit and enterprise-wide risk management framework:

- An integrated risk management programme based on a three-year audit plan has been approved by the Audit and Risk Committee.
- Residual risks have been rated and action plans devised to further mitigate risks. These risks and action plans are standing items at Manco, Risk Forum, Exco and Board sub-committees.

TCTA implemented a formal Board effectiveness framework. The Board efficacy review did not reveal any items of concern.

It further strengthened the governance and assurance processes by increasing capacity within the assurance function, the legal capacity and focus within TCTA. The terms of reference of all Board committees were reviewed to include enterprise-wide risk management.

Formal systems were put in place to ensure that TCTA fully complies with relevant legislative regulatory frameworks such as the Public Finance Management Act (PFMA), National Water Act and TCTA's Notice of Establishment. No material or significant audit findings have emanated from the internal and external audit.

To enhance financial and risk efficiency and expertise

An automated Bloomberg treasury system was implemented, thereby enhancing trading and pricing capabilities, introducing online trading for bond auctions, allowing for straight-through processing and reducing treasury operational risk.

CA Ratings issued a long-term za AAA and short-term za A1+ credit rating with and without RSA Government guarantees in December 2003 (the highest rating attainable on a national scale basis). The credit rating (based on a thorough due diligence) is confirmation of:

- The high level of corporate governance and compliance to regulatory requirements achieved within TCTA.
- The ability to deliver and maintain the standards of delivery now and in the future based on TCTA's people, systems and processes.

- The strength of TCTA's project governance framework and the relationships with key stakeholders and end-users.
- TCTA's strong cash-flow stream and hence low probability of default.
- TCTA's strong capabilities in terms of meeting future funding requirements and managing the risks of various projects.

In terms of TCTA's commitment to linking tariff increases to inflation, the tariff for 2004/2005 increased by 5,4%, which is within the SARB's inflation target of 3% to 6%.

Ongoing successful monitoring and management of the Ash River continued through the River Management Plan in conjunction with DWAF.

“Mošomo o tšhaba diatla

Northern Sotho – Hands make work disappear.

Meaning: Getting started is the most important part of accomplishing a task.

TCTA gets things done. Today's commitment to implementation will ensure that projects are completed according to plan.”

To effectively re-align the organisational structure in support of its new multi-project environment

TCTA has, through people, systems and skills development, pursued the following organisational development strategies:

- Developed and launched an organisational DNA programme that defines TCTA's formula for success.
- Aligned the annual staff recognition awards for excellence with the new DNA principles.
- Launched a significant recruitment drive to meet the growing need for human resources, with specific regard to the transformation agenda.
- Implemented an internal communication strategy.
- Developed an operating framework and processes to capture and share learning/knowledge.

To facilitate and support sustainability in the water sector through consultation and advice

TCTA successfully completed its intervention role in Umgeni Water. The treasury operations, tariffing and debt management were handed over to Umgeni Water and a service level agreement was put in place for TCTA to provide high level strategic service to Umgeni Water.

TCTA provides ongoing tariff model assistance/capacity building in the water sector. A tariff model and long-term funding review at Mhlathuze Water have been completed with the handover of the model and training on how to use it.

The advisory services to DWAF included a review of the National Raw Water Pricing Strategy and assistance to address the outstanding analysis and redrafting; assistance to optimally implement, finance and structure the institutional arrangements of the Olifants River Water Resource Development Project Phase II and the Spring Grove Dam development in KwaZulu-Natal.

The CEO's participation on the National Task Team for Institutional Reform in water services provides a holistic view on the impact of changes in the water sector.



To support Black Economic Empowerment (BEE) and make a meaningful contribution to social responsibility

- TCTA is committed to black empowerment initiatives in South Africa.
- TCTA's BEE philosophy goes beyond empowerment requirements as contained in related government legislation.
- TCTA gives preference to local goods and services and supports broad-based empowerment initiatives specifically in the SMME sector.
- TCTA ensures that effective social strategies in support of BEE are implemented on its projects.
- TCTA funds regional tourism offices in the eastern Free State and uses the previously trained black guides on an ongoing basis for site visits.

To strengthen relationships with key stakeholders

- Briefed and updated the Portfolio Committee on Water Affairs and Forestry, the Portfolio Committee on Environmental Affairs and the National Council of Provinces.
- TCTA has maintained regular and constructive interaction with both National Treasury and DWAF.
- To support transparency and openness, regular meetings with the investor community, bond holders, market makers and financiers were held and the monthly treasury newsletter was distributed to them.
- Conducted numerous site visits and presentations to share information and develop relationships with financial market stakeholders.
- Made a strategic contribution to Johannesburg Water (JW) through the Chief Executive Officer's involvement as a non-executive director on the Board.
- Participated in the World Economic Forum Africa (WEF) as part of TCTA's support for NEPAD activities.
- Participated in the Rand Water Services Forum on issues of demand management, tariff setting and end-user education.



Lesotho Highlands Water Project

To manage funding proactively in order to achieve the lowest effective cost within acceptable risk parameters

- Raised gross funding of R2,3 billion, increasing total outstanding debt to R20,2 billion.
- Raised R1,2 billion for funding activities and R1,1 billion in accordance with the redemption strategy for the WS02 bond which matures in December 2005.
- The total amount raised through TCTA's locally registered LHWP WS-bonds was R2,3 billion for the year. A total of R21 million was raised through European Investment Bank loans. The amount borrowed through the commercial paper programme was reduced by R73 million.
- Achieved a funding rate of 11,17% on the stock of debt against a benchmark rate of 11,21%.
- Operated within authorised borrowing limits of R23 million.
- With the issue of the WSP1 to WSP5 split maturity bonds, TCTA achieved greater asset/liability matching and hence a lower interest rate and refinancing risk.
- Additional funding was raised in this bond through auctions.

To strategically position and further enhance TCTA's positive reputation in the financial markets

- TCTA has, through regular investor and site visits, illustrated its commitment to transparency, openness and integrity in raising funds and conducting business.
- Through active funding, debt and risk management, TCTA continuously strives for excellence in liability management.
- Both the capital market programme under the consolidated capital market guarantee of R21 billion and the commercial paper programme under the government guarantee of R4 billion, were successfully managed during this period. Both the depth and breadth of the investor base have increased.
- TCTA's turnover on the commercial paper programme, which includes repo activities, amounted to R23,5 billion.
- All TCTA's nominal bonds (except the recently launched WS06) are included in the All Bond Index (ALBI) with turnover in the capital market for the year at 6,8 times (WS01), 8,42 times (WS03), 3,8 times (WS04), 2,0 times (WS05) and 4,09 times (WS06) respectively, based on the average turnover figures obtained from the Bond Exchange of South Africa.

Operations and maintenance

To operate and maintain the LHWP works in South Africa

- Complied with provisions of protocol VI.
- Operated and maintained the works in accordance with international best standards and practice.
- Delivered the required volume of water in accordance with the Treaty.

Berg Water Project

To implement and fund the bulk water supply works for the BWP in the most cost-effective and risk-sensitive manner to the benefit of the water user

Funding

- The credit rating for the BWP Project as given by the Fitch Credit Rating Agency is AA+(zaf) long term and F1+(zaf) short term.
- TCTA obtained the necessary borrowing authority of R1 600 million for the period to March 2005 and performed within its parameters.
- The long-term project finance for the full cost of the project, estimated at R1,6 billion, has been successfully negotiated with international and local development finance institutions and a South African commercial bank.
- R163,5 million was raised to cover the revised funding requirement for the year under review.

Income

- The BWP Capital Charge is set within the parameters of the Implementation Agreement between DWAF and TCTA, where the charge is phased-in during the construction period.
- TCTA consults with 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.
- Regular sensitivity analysis and stress testing to changes in input assumptions, forms part of the annual budget process, bi-annual budget reviews and monthly sensitivity analysis reporting.

Risk management

- A bridging finance facility was refinanced via a redemption strategy where term paper was issued under the commercial paper programme.
- To ensure compliance with the risk management framework during the period of review:
 - No limits have been exceeded on the funding portfolio
 - Sufficient banking facilities were in place
 - The borrowing authority was not exceeded
 - The commercial paper programme limit was not exceeded.
- **Currency exposure:** The BWP has no foreign currency exposure as the EIB facility is drawn and repaid in South African rands.
- **Credit exposure:** The BWP does not have any credit exposure as at 31 March 2005.
- **Guarantees:** The BWP does not have any explicit government guarantees.
- **Benchmarking:** TCTA is currently establishing benchmarking and performance measurements for the BWP to provide benchmarks for the issue of a BWP Commercial Paper.

To implement the engineering and construction activities of the BWP in accordance with best practice

- Dam construction commenced on 1 June 2004 and is on schedule for impoundment by June 2007.
- Progress on the project infrastructure construction:
 - The access road to the dam site was completed in November 2004.
 - The construction housing services contract commenced on 13 October 2004 and will end on 6 June 2005.
- Construction of the 80 housing units started in January 2005 and of the first 40 houses are expected to be completed by June 2005.
- A principal-controlled insurance strategy is followed and all insurances are in place.

To implement the BWP in accordance with acceptable environmental standards and best environmental practices

Environment

- Baseline and long-term monitoring is being carried out by an independent service provider to establish possible effects of the dam on downstream water users and water quality.
- All environmental monitoring policies, procedures and controls are in place.
- The Environmental Control Officer (ECO) has been appointed and is monitoring the impacts of construction in accordance with the Environmental Management Plan.
- The engineering consultants and dam contractor, monitor the impacts of construction according to their respective contracts.
- TCTA signed an eight-year contract with Working for Water for clearing alien vegetation from the dam catchment. Performance is closely managed and monitored by TCTA.

- The impact of the construction activities, such as dust and noise levels on the natural environment, are monitored by BRC and BRPJV according to their respective contracts.

Social

To maximise the social benefits of the BWP to the project communities, TCTA has introduced the Franschhoek First Policy (FFP). The contractors' performance against the FFP is monitored by the employment information desk and social consultants. Contractors and consultants are obliged to adhere to the FFP through contractual targets set to achieve certain minimum levels of local employment and procurement.

To create and maintain meaningful relationships with key stakeholders regarding the BWP

- A public engagement plan has been developed as part of the Environmental Management Plan (EMP), focusing on social events and issues for the benefit of surrounding communities, and highlighting project achievements.
- Strategic relationships are maintained with key stakeholders on project time frames, employment and business opportunities.
- A communication strategy to facilitate and maintain the dissemination of relevant information to stakeholders has been implemented.
- Following a period of inactivity, the Environmental Monitoring Committee is preparing for restructuring subsequent to an intervention by the Department of Environmental Affairs and Tourism.

Project governance

- Monthly Project Coordination Committee meetings are held with DWAF (National and the Western Cape regions) and City of Cape Town.
- A Technical Committee established to consider and approve all technical matters and to make recommendations to the Board. Membership includes DWAF and City of Cape Town.

Umgeni Water

To deliver integrated treasury management services, capacity building and handover

- During the year under review TCTA achieved the objectives as defined in the Minister's directive to manage the treasury function of Umgeni Water. The deliverables under the Service Level Agreement (SLA) have been met.
 - A full audit of the general ledger was performed in December 2004.
 - The operational treasury activities treasury operations, tariffing and debt management have been successfully handed back to Umgeni Water.
 - TCTA's involvement on strategic issues continues and a capacity management role has been put in place to provide support where required.
 - A commercial contract for high-level strategic services is being finalised.
-



Vaal River Eastern Sub-system Augmentation Project (VRESAP)

To implement and fund the Vaal pipeline in the most cost-effective and risk-sensitive manner to the benefit of the water user

The Minister of Water Affairs and Forestry issued a directive to TCTA to implement and finance the Vaal River Eastern Sub-system Augmentation Project (VRESAP) on 26 November 2004. Subsequently, an implementation agreement was concluded with DWAF based on water supply agreements between DWAF, Eskom and Sasol.

Funding

- Request submitted for a medium-term borrowing authority and approval of a R3 600 million limit with an initial limit of R150 million in bridging facilities until agreements have been signed.
- A sensitivity and stress testing analysis on various scenarios was performed before agreeing on tariffs for users.
- There is substantial agreement with Eskom and Sasol on the water tariff determination process.

Income

- The various agreements make provision for income allocation to the repayment of the project cost, based on a water consumption tariff that accommodates the recovery of the full financial cost of the project.

Engineering

- The civil consultant's contract was awarded on 30 November 2004 with a start date of 1 December 2004 for the design, supervision and integration of the mechanical-electrical contract.
- Negotiations are expected to conclude by the end of June 2005 for the awarding of the mechanical-electrical contract to DWAF.
- The contracts for land acquisition (purchase, expropriation and servitudes) were awarded in February 2005 and the valuator appointed at the same time.
- The professional indemnity (PI) insurances necessary to cover TCTA against all reasonably insurable project implementation risks were in place by March 2005. The Contractors All Risk (CAR) insurances will be concluded before the construction contracts are awarded.

Resourcing

- TCTA will apply the spirit of the directive and offer secondment opportunities for DWAF staff in TCTA project structures to attract and retain the appropriate skills base.

To implement VRESAP in accordance with acceptable environmental standards and best environmental practices

Environment

- Consultants have been appointed to perform the Environmental Impact Assessment (EIA) and the Public Information Plan (PIP) to obtain environmental approvals. The EIA process will be completed in July 2005.

- The clarification process is in progress with DWAF to determine whether a water use license is required once the reserve has been established.

Social

- A VRESAP First Policy will be developed.

To deliver an efficient project implementation service to the satisfaction of our stakeholders

Project governance

Established and maintained strategic relationships with key stakeholders through the communication and stakeholder engagement strategy.

Regular meetings of the Technical Committee and the Project Coordination Committee are held to ensure the meaningful participation of TCTA's key stakeholders (Sasol/Eskom and DWAF) on implementation.

Corporate Governance

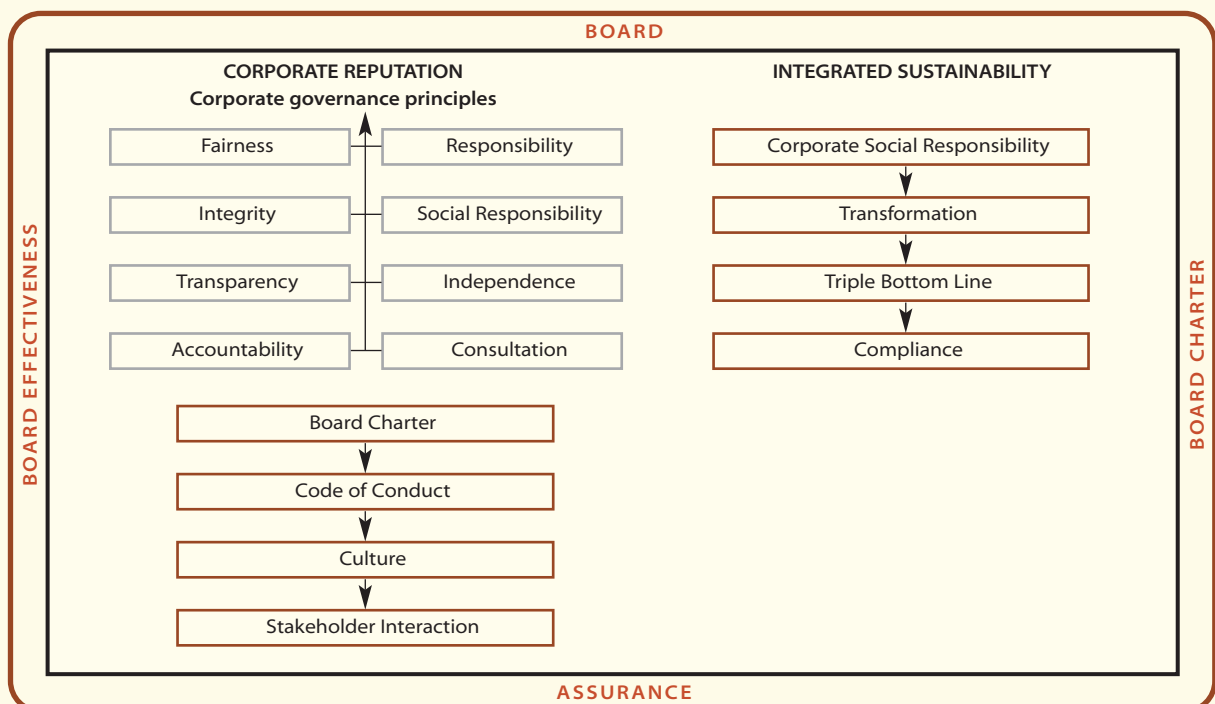


The degree of adherence to corporate governance is seen as a barometer for the health and performance of an organisation. It embraces the verification of the soundness and compliance with all the business processes of a corporation. TCTA is characterised by its drive to meet all corporate governance expectations of

the highest standard and exceed all international best practice benchmarks. It does so to help South Africans make optimum use of their precious water sources.

Figure 6 outlines TCTA's corporate governance framework.

Figure 6: TCTA's corporate governance framework



“Hulisa khotsi au na miau

Venda – Respect your elders and your days will be longer.

Meaning: Authority ensures sustainability.

TCTA applies sound governance and expertise to ensure that the business is sustainability.”

TCTA is committed to an open governance process through which its stakeholders derive assurance that it is being managed ethically and according to prudently-determined risk parameters and best international practices.

TCTA subscribes to the corporate governance principles of accountability, responsibility, equity, transparency, discipline and social responsibility as contained in the second King report (King II) in all its business undertakings and always aims to conduct its business with integrity.

TCTA ensures that its processes and practices on corporate governance and compliance are comprehensively and continuously reviewed to ensure compliance with all legal obligations to prevent fruitless and wasteful expenditure.

TCTA's directors, management and employees are committed to transparent, sound and ethical business practices as expressed in its code of conduct.

The Chief Executive Officer and the legal compliance division are responsible for monitoring compliance within the organisation.

Board of directors

Composition of the Board

In terms of the Public Finance Management Act (PFMA) 2001, read with TCTA's Notice of Establishment in terms of the National Water Act, 1998, the Minister of Water Affairs and Forestry is the executive authority of TCTA to whom its Board of Directors, as the accounting authority, is directly accountable.

The Board comprises:

- Five independent non-executive directors
- Three non-executive directors
- One executive director

The non-executive directors are appointed on a three-year term. The current Board cycle expired on 31 May 2005. However, the Minister extended the term of the current Board to 30 November 2005 to enable the recomposition of the Board in line with water sector

developments. The Chief Executive Officer, appointed in May 1998 on a permanent basis, remains the only executive director on the Board.

Mr P Hadebe, from National Treasury, was appointed to the Board on 14 October 2004 to fill the position allocated to a nominee from National Treasury.

Directors' induction and orientation

New Board members are 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.

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
- meeting procedures
- responsibility to report on integrated sustainability
- monitoring of the operational performance and management
- determination of policy and processes to ensure the integrity of TCTA's risk management and internal controls
- communications policy
- director selection, orientation and evaluation

Role and function

The Board's role as the accounting authority of TCTA in terms of the PFMA includes the following functions:

- Exercising the duty of utmost care to ensure reasonable protection of the assets and records

Corporate Governance continued

- Providing strategic direction and leadership
- Identifying and monitoring key risk areas and key performance indicators
- Ensuring the preparation of annual financial statements in accordance with generally accepted accounting practice (GAAP) and International Financial Reporting Standards (IFRS)
- Appointing independent auditors to review and report on annual financial statements
- Ensuring adequate, efficient, effective and transparent internal controls and systems of financial and risk management using a risk-based approach
- Monitoring and reviewing performance and effectiveness of controls and systems
- Ensuring the maintenance of adequate financial records
- Approving transactions beyond the authority of management
- Maintaining full and effective control over the operations of the organisation
- Approving the delegation of authority
- Ensuring good corporate governance and ethics
- Monitoring and ensuring triple bottom line performance
- Identifying and monitoring the non-financial aspects relevant to the business.

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.

All Board members completed an efficacy assessment in March 2005. The assessment examined the following areas:

- The Board's role, agenda setting, performance monitoring and strategic planning
- Size, composition and independence of the Board
- Director orientation and development
- Board leadership, teamwork and management relations
- Board meetings and sub-committee meetings

- Director and Board evaluation and compensation
- Management evaluation and compensation
- Succession planning
- Constituencies.

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 public servants or attached to semi-government organisations, are remunerated on the basis of board meeting attendance, including attendance of sub-committee meetings.

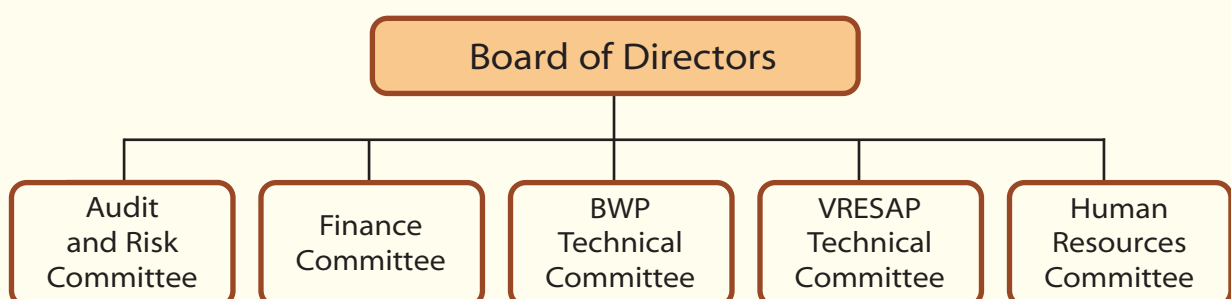
The Minister approved a remuneration policy in 2003 which ensures that remuneration of directors is comparable to the level, skill and expertise required from Board members and in accordance with current market practice. (Details of directors' remuneration are stated in the notes to the annual financial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

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 sub-committees are chaired by non-executive members and specialist skills are provided to the committee by advisors who are members of the committees
- The Chief Executive Officer is the only executive member of the Board
- All directors have access to TCTA's senior management
- All directors have access to advice and services and 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 Chairperson.

Figure 7: Governance structure





Board committees

Audit and Risk Committee

Consists of	Function
<ul style="list-style-type: none"> • Two non-executive directors • Independent Audit Expert • Chief Executive Officer • Invited persons: <ul style="list-style-type: none"> – Chief Financial Officer – Head of Internal Audit – External Auditor – Risk Manager – Financial Controller – Legal Advisor – Head of Corporate Affairs – Head of Strategy and Development – TCTA Project Manager 	<ul style="list-style-type: none"> • Ensures that: <ul style="list-style-type: none"> – Adequate and appropriate internal, financing and operating controls are in place. – Significant business, statutory and financial risks have been identified and are managed. – Appropriate standards of governance, reporting and compliance are in operation. • Reviews: <ul style="list-style-type: none"> – Annual financial statements and accounting policies. – Effectiveness of management information and other systems of internal control. – Identified weaknesses in controls and systems. • Risks: <ul style="list-style-type: none"> – Compliance cycles for financial year, taking into account high-risk areas and their impact on external and internal audits. – Enterprise wide risk assessment. – Significant matters in risk management. – Compliance to all relevant legislation. • Responsible for annual financial statements • Recommends external auditors <p>Four meetings were held during the financial year.</p>

Finance Committee

Consists of	Function
<ul style="list-style-type: none"> • Two non-executive directors • Independent specialist advisor • Chief Executive Officer • Invited persons: <ul style="list-style-type: none"> – Chief Financial Officer – Head of Corporate Affairs – Head of Strategy and Development – Financial Controller 	<ul style="list-style-type: none"> • Provides assurance to the Board that: <ul style="list-style-type: none"> – Financial risks are appropriately identified, measured, managed and reported. – An appropriate funding and risk strategy is formulated to meet current and future business requirements. – Financial policies are adhered to and reported. – The financial performance of the organisation is measured using relevant benchmarks and reported. – Relevant financial information is reported to assess the financial position and performance of the entity. <p>Six meetings were held during the financial year.</p>

BWP Technical Committee

Consists of	Function
<ul style="list-style-type: none"> • TCTA <ul style="list-style-type: none"> – Two non-executive directors – Chief Executive Officer • City of Cape Town (CCT) • Department of Water Affairs and Forestry (DWAF) <p><i>DWAF and CCT may have more than one representative but only have one vote.</i></p> • Invited persons: <ul style="list-style-type: none"> – Engineering specialists – Independent technical panels review and advise on certain issues as required – Project Manager – Project Engineer – Head of Strategy and Development – Head of Corporate Affairs – Chief Financial Officer 	<ul style="list-style-type: none"> • Ensures that: <ul style="list-style-type: none"> – The terms of the mandate to fund and implement the BWP are adhered to. – Appropriate policies are in place to ensure the award of tenders and contracts for capital works together with any variation orders. – Policies for capital expenditure are adhered to. – Appropriate technical consideration is given to recommendations from the independent technical review panels. – Associated project risks are appropriately identified, managed and reported. – Progress on the project is monitored. <p>Five meetings were held during the financial year.</p>

VRESAP Technical Committee

Consists of	Function
<ul style="list-style-type: none"> • TCTA <ul style="list-style-type: none"> – Two non-executive directors – Chief Executive Officer • Sasol • Eskom • Department of Water Affairs and Forestry <p><i>DWAF, Sasol and Eskom may have more than one representative but will only have one vote.</i></p> • Invited persons: <ul style="list-style-type: none"> – Engineering specialists – Independent technical panels review and advise on certain issues as required – Project Manager – Project Engineer – Head of Strategy and Development – Head of Corporate Affairs – Chief Financial Officer 	<ul style="list-style-type: none"> • Ensures that: <ul style="list-style-type: none"> – The terms of the mandate to fund and implement VRESAP are adhered to. – Appropriate policies are in place to ensure the award of tenders and contracts for capital works, together with any variation orders. – Policies for capital expenditure are adhered to. – Appropriate technical consideration is given to recommendations from the independent technical review panels. – Associated project risks are appropriately identified, managed and reported. – Progress on the project is monitored. <p>Two meetings were held during the financial year (new project).</p>

Human Resources Committee

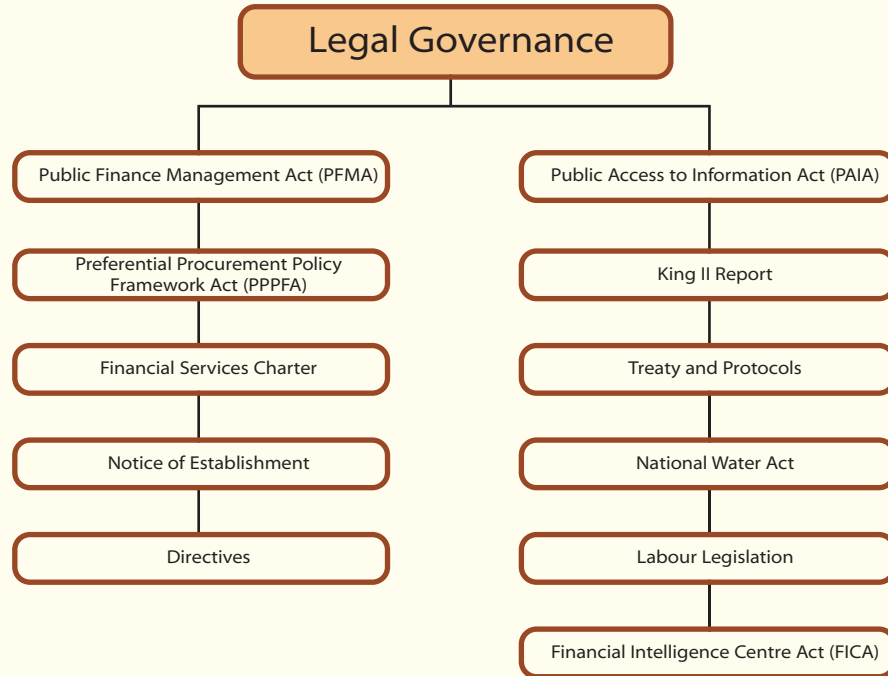
Consists of	Function
<ul style="list-style-type: none"> • Two non-executive directors • Chief Executive Officer • Independent advisor • Invited persons: <ul style="list-style-type: none"> – Independent remuneration consultants and performance management consultants as required – Head of Corporate Affairs – Chief Financial Officer – Head of Strategy and Development 	<p>Acts as a remuneration committee, driven by TCTA's philosophy to reward appropriate performance based on achievement of business strategies and goals.</p> <ul style="list-style-type: none"> • Ensures that: <ul style="list-style-type: none"> – The human capital of TCTA is appropriately managed and developed. – Labour law is adhered to, specifically regarding employment equity and skills development. – Management and staff receive market-related remuneration <ul style="list-style-type: none"> • independent opinions and advice are obtained on market moves regarding remuneration. • incentive reviews are appropriately applied in the organisation. – Human resources policies are adhered to and reported on. – Succession plans exist and are appropriately reviewed and actioned. – Executive management reports progress on business plans and general human capital development and management. <p>Three meetings were held during the financial year.</p>



Compliance with legislation, regulations and guidelines

TCTA complies with the governance legislation regulations and guidelines illustrated in Figure 8.

Figure 8: Regulations and guidelines



Compliance and regulatory reviews

Public Finance Management Act

TCTA has implemented governance structures and processes that conform to the provisions of the PFMA. Regular compliance reviews are conducted. Such findings are reported to the Audit and Risk Committee.

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

In November 2004, the Minister directed TCTA to implement VRESAP as an emergency project. Due to the complex negotiations required to agree on funding ratio between the partners, borrowing powers for the project are still not in place. Negotiations have progressed substantially and borrowing powers will be in place before the third quarter of 2005.

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.

The structure of TCTA's company secretariat is unique and not completely aligned to the traditional role as set out in King II. However, TCTA is satisfied that this function is performed adequately within the organisation.

Preferential Procurement Policy Framework Act (PPPFA)

Regular reviews are conducted to ensure compliance with TCTA's procurement guidelines. TCTA complies with the Preferential Procurement Policy Framework Act of 2000 and has structures in place to ensure application and compliance. TCTA is also committed to complying substantially with the principles of the Financial Sector Charter.

At projects level, targets are set in line with specific policies such as the Franschhoek First Policy which seeks to maximise job and business opportunities for local people (giving precedence to historically disadvantaged individuals and businesses). The policy ensures that employment, procurement and training opportunities for local communities are created by project role players, even to the extent that targets are specified in contract documentation. All targets are based on employees sourced through the



Employment Information Desk, based on a skills register.

Public Access to Information Act

TCTA complies with the Act and the manual is available on TCTA's website and intranet.

Financial Intelligence Centre Act (FICA)

TCTA has a zero-tolerance approach to fraud and corruption. Internal rules were drafted and approved as required by the Act. Maintenance of FICA is an ongoing function. TCTA's compliance is well within the parameters provided by National Treasury.

With the objective of continuous improvement and operating at best practice standards, TCTA is continuously training staff to ensure awareness of the organisation's reporting and identification obligations under FICA. It has implemented procedures and appointed a money laundering control officer in terms of the Act.

Labour legislation

TCTA has developed and implemented structures and processes to comply with all labour legislation. TCTA is committed to black empowerment initiatives and its support of such initiatives extends to its:

- employment equity plan
- skills development plan.

Consultants were commissioned to evaluate TCTA's compliance with labour legislation and reported that TCTA is in full compliance.

Notice of establishment

The Notice forms part of the National Water Act. TCTA fully complies with its directives, the Treaty and its protocols.

Internal, financial and operating controls

The Board acknowledges its responsibility for ensuring that TCTA implements and monitors the effectiveness of systems of internal, financial and operating

controls. These systems are designed to guard against material misstatement and loss. TCTA's Audit and Risk and Finance committees review these matters regularly on behalf of the Board.

The Board adopted a risk-based approach to establishing a sound system of internal control and reviewing its effectiveness. This is incorporated in the normal management and governance processes.

The Board has considered all significant aspects of internal control in TCTA for the year under review and up to the date of approval of the annual report and accounts. The internal and external audit functions as well as the compliance functions assist in providing the Board and executive management with monitoring mechanisms for identifying 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 laws and regulations. The entity's effective financial controls, including the maintenance of proper accounting records, are an important element of internal control. They help to ensure that TCTA is not unnecessarily exposed to avoidable financial risks and that financial information used internally and externally is reliable. They also contribute to the safeguarding of assets, including the prevention and detection of fraud. TCTA performs a thorough and regular evaluation of the nature and extent of the risks to which the entity is exposed.

In terms of the PFMA, the Board is pleased to confirm that no material loss through criminal conduct was experienced by the business and no irregular expenditure or fruitless and wasteful expenditure was incurred during the period under review.

To ensure that business practices are above reproach under all reasonable circumstances, all employees are required to maintain the highest ethical standards. Nothing has come to the attention of the directors to

indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review. The auditors confirm that nothing has come to their attention during the course of their normal statutory audit to indicate that any material breakdown in the functioning of the internal controls, procedures and systems has occurred during this period.

Assurance function

During the period, the assurance function was restructured to integrate the divisions dealing with governance, internal audit, risk management and legal issues. Figure 9 illustrates the new structure.

Internal audit

In compliance with the International Institute of Internal Auditors (IIA) standards, TCTA commissioned KPMG to perform an independent review of its internal audit function. KPMG made certain recommendations to align TCTA's internal audit with best practice. Substantial progress has been made with the implementation of the KPMG findings.

The internal audit function is a co-sourced independent appraisal function. The head of internal audit is a full-time position which is currently vacant and filled by a service provider. The internal audit function examines and evaluates TCTA's activities, with the objective of assisting executive management to discharge its responsibilities effectively. It assists all levels of management in TCTA and the Board through the Audit and Risk Committee to achieve the objectives of TCTA by

evaluating and developing recommendations for the enhancement of the processes through which:

- objectives and values are established and communicated
- the accomplishment of objectives is monitored
- accountability is ensured and
- corporate values are preserved.

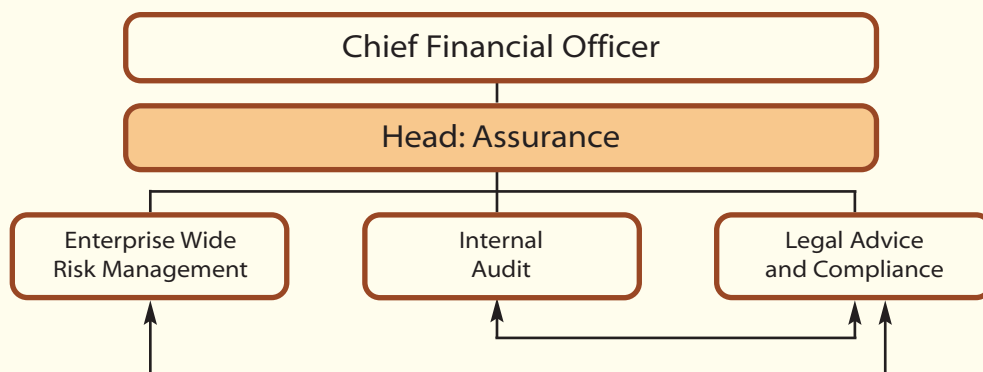
The internal audit activity also evaluates and contributes to the improvement of risk management, control and governance systems regarding:

- the information systems environment;
- reliability and integrity of financial and operational information;
- effectiveness and efficiency of operations;
- safeguarding assets;
- compliance with laws, regulations, controls and contracts;
- organisational ethical culture; and
- prevention and detection of fraud.

The internal audit function is independent of management. The purpose, authority and responsibility of the internal audit activity is defined in the Internal Audit Charter approved by the Board. The charter is consistent with the Institute of Internal Auditors' (IIA) definition of internal auditing.

The Head: Internal Audit is accountable to the CEO, who has delegated the responsibilities to the CFO. The Head: Internal Audit has free and unrestricted access to the chairperson of the Audit and Risk Committee and the chairperson of the Board. The Head: Internal Audit has attended and reported at all meetings of the Audit and Risk Committee.

Figure 9: Assurance function restructured





The function is independent of activities that were audited, and there was no limitation on its access to information.

Umgeni Water treasury management

The internal audit function has performed compliance services for Umgeni Water treasury management for the period ended 31 December 2004, and has reported periodically to the Umgeni Water audit committee.

The TCTA internal audit and Umgeni Water internal audit have liaised on audit coverage for the period to maximise assurance on financial, operational and compliance treasury controls, and to minimise duplication of effort.

On 31 December 2004, TCTA handed back the operational treasury management function to Umgeni Water.

Standards and best practices

The internal audit function adheres to international standards and best practice, including the standards for the professional practice of internal auditing.

External liaison

The internal and external audit functions liaise on audit coverage for the period to maximise assurance on financial, operational and compliance control, and minimise duplication of effort.

Communication with stakeholders

The principle of regular, relevant, open and factually-correct communication with stakeholders is upheld in all targeted and general communications by TCTA in its interaction with its stakeholders. TCTA believes that to present a balanced and understandable assessment of its position in financial and non-financial matters, both positive and negative aspects

are reported and addressed to demonstrate the long-term sustainability of the organisation, and full disclosures are made regarding all relevant aspects of information.

Communication and interaction with stakeholders was an ongoing process, and was addressed through various channels depending on the needs of stakeholders.

All relevant TCTA-related information is freely available on the TCTA website or by request from TCTA offices. The approach to disclosure of information reflects TCTA's core business values of integrity, trust and good corporate governance.

Social and transformation issues

More details of the highlights for the year are provided in the sustainability section of the report. TCTA fully ascribes to the government's initiatives to eradicate poverty. Considerable community assistance has taken place in Clarens in the eastern Free State, and Franschhoek in the Western Cape.

TCTA is fully committed to the principles of social transformation and the underlying Black Economic Empowerment principles.

Black Economic Empowerment (BEE)

TCTA fully supports and is committed to Black Economic Empowerment initiatives in South Africa and is compliant with all appropriate legislation. TCTA's philosophy in support of BEE extends to its employment equity plan, procurement, recruitment, learning and development, and the skills development plan. Beyond the legislative obligations, TCTA gives preference to local goods and services to strategically support SMMEs and BEE companies.

Employment equity

The management of TCTA is committed to developing all staff and creating access to growth and development opportunities in the workplace. TCTA applies the principles of employment equity which includes an affirmative action programme.

Affirmative action is an integral part of the employment equity plan and emphasises the appointment of suitably qualified individuals in appropriate positions.

Recruitment and selection are implemented in terms of the targets in the employment equity plan, taking TCTA's culture into consideration.

TCTA also offers its staff study assistance to create expertise in the financial services sector and other related fields.

Code of conduct

TCTA has developed and accepted a code of conduct for all employees and consultants. The directors believe the ethical standards and the criteria set in the Code were being met.



TCTA Board committee members and attendance

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

Meetings	Board ⁽¹⁾	Audit and Risk	Finance	Human Resources	BWP Technical	VRESAP Technical
Planned/Scheduled	6	4	6	4	6	2
Held	7	4	6	3	5	2
Board of Directors						
Leslie Maasdorp (Chairperson)	7			1 (by invitation)		
Omar Latiff (Vice Chairperson)	4	4	4 ^(A)			
Mike Muller	6	2				
Carmen Maynard	6	2 ^(A)	6			
Phakamani Hadebe ⁽²⁾	3		1 ⁽²⁾			
Robert Mbwana	6				5	2
Simo Lushaba	5			2	2	0
Angie Makwetla	6	1 ^(A)		3		
Martie Janse van Rensburg	7	3	5	3	4	2
Specialist members						
Paul Roberts ⁽³⁾					5	
Alison Beck ⁽⁴⁾		4				
Louis Kingma ⁽⁵⁾			5			
Maura Jarvis ⁽⁶⁾				2		
Project implementation partners						
DWAF: Willie Croucamp ⁽⁷⁾					5	2
CCT: Mike Marsden ⁽⁸⁾					0	
Sasol: Loekie Pretorius						2
Eskom: Rob Lines						2

⁽¹⁾ Includes one special Board meeting.

⁽²⁾ This position on the Board, a National Treasury nomination, was vacant for a year and was filled on 14 October 2004.

⁽³⁾ DSc (Civil Engineering) (MIT). Extensive experience in the planning, design and implementation of national and international bulk water supply projects as well as involvement in the policy preparation on water resources and management of information services.

⁽⁴⁾ BComm, CA, CAIB (SA). Partner in Financial Services Group KPMG. Extensive experience in financial markets, corporate treasury and assurance investigations.

⁽⁵⁾ FCIIS. Extensive experience in banking and commerce, project finance of major projects (IDC) and risk management. Serves on credit committees of a major financial institution.

⁽⁶⁾ BA (Industrial Psychology), PDM (Human Resources), DPLR (Labour Relations). Extensive experience in strategic human resource development and management at director level.

⁽⁷⁾ BSc(Hons)(Civil Engineering). Manager, Strategic Co-ordination, DWAF. Extensive experience in large water resource development project implementation and dam safety.

⁽⁸⁾ MSc (Engineering). Executive Director, Trading Services, City of Cape Town. Extensive experience in municipal engineering and municipal management.

⁽⁹⁾ Pr Eng Executive Director, Engineering and Planning, City of Cape Town. Extensive experience in municipal engineering.

^(A) Alternate members – These alternate members shall attend the meetings when the primary members are unable to do so. The alternate member will hold a voting right in instances when they are representing the primary member in his/her absence. The alternate member shall not carry this voting right if he/she is accompanying the primary member to the meeting.

Independent auditors

Deloitte & Touche, Woodmead, Johannesburg.

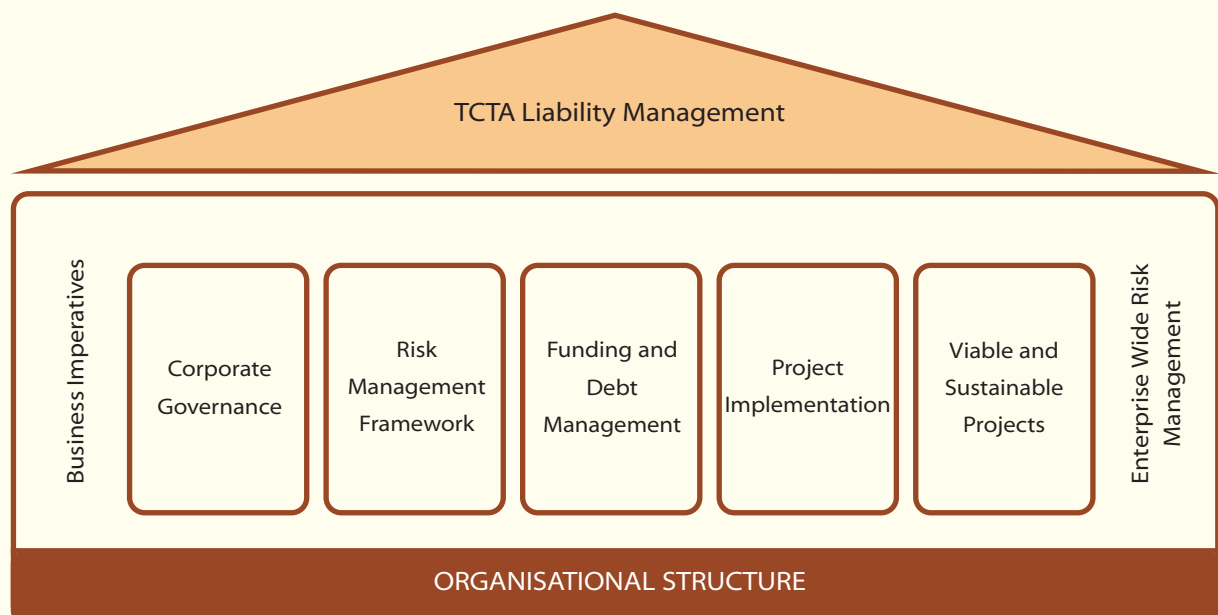
Risk Management



TCTA acknowledges the impact it has on the lives of South Africans and has therefore put in place a systematic and continuous process for evaluating and addressing the impact of risks in a cost-effective way for the benefit of the end-user.

As illustrated in Figure 10, TCTA has identified key business imperatives which contribute to its success as a specialised liability management entity.

Figure 10: TCTA business imperatives



“Akukho mful’ ongahlokomi

Zulu – No river flows without a sound.

Meaning: Significant things are noticed.

TCTA takes great care of the significant aspects of its business, especially risk identification and management.”

The key business imperatives identified include:

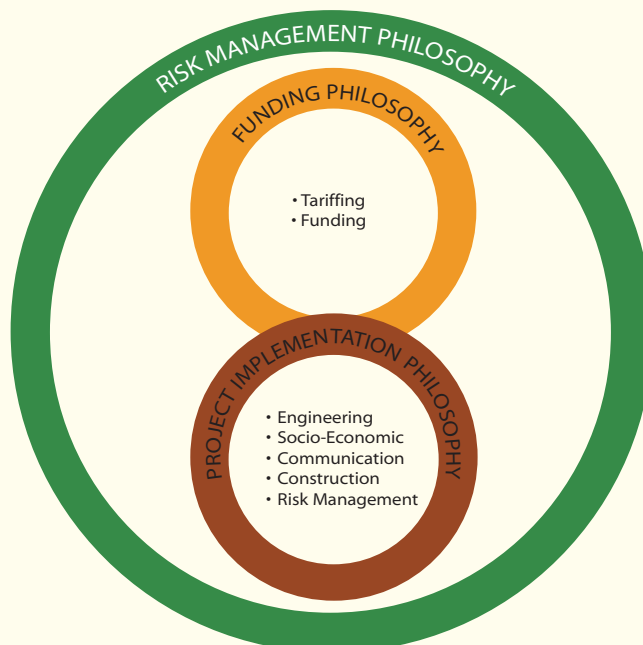
- Adherence to sound corporate governance.
- A well-articulated, integrated risk management framework incorporating all areas of the business.
- Funding and debt management principles.
- Sound project implementation principles.
- Involvement in viable and sustainable projects.

These imperatives are supported by an appropriate organisational structure that provides the platform for TCTA’s business success. These business imperatives are managed on an integrated and holistic basis through TCTA’s comprehensive enterprise-wide risk management framework.

Enterprise-wide risk management and philosophy

Enterprise-wide risk management is a formal response to corporate risk and is a structured, systematic process woven into existing management responsibilities. It is a continuous process that responds to every type of risk in all parts of the organisation.

Figure 11: Enterprise-wide risk management philosophy



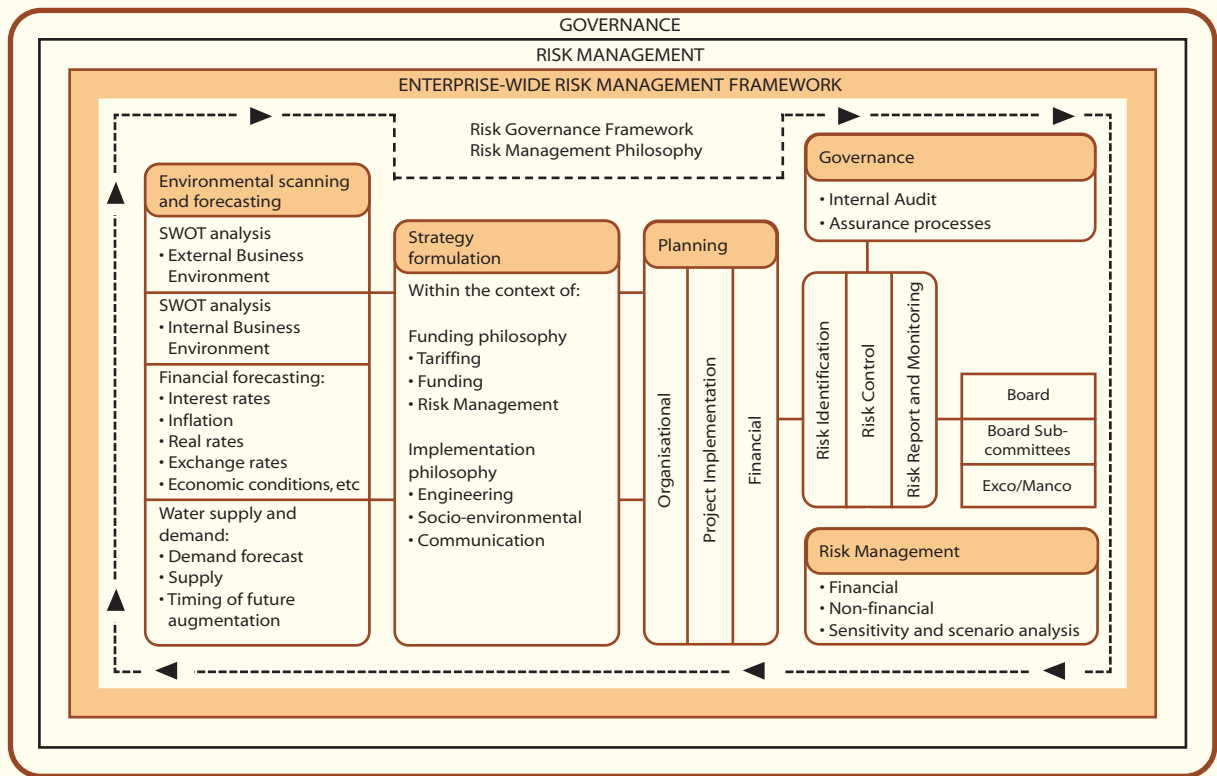
TCTA’s enterprise-wide risk function takes place within the risk management governance framework. Its risk management philosophy, which is conservative and has a low level of risk tolerance, includes its funding and project-implementation philosophy. (See Figure 11).

By embedding this philosophy into policies and a strategic framework, TCTA aims to minimise risk in both non-financial and business activities as well as in financial and project implementation areas.

The philosophy extends beyond financial risk management to a more holistic approach, taking into consideration:

- The specific risks associated with project implementation, such as those pertaining to social, environmental, geo-technical, supervisory and construction aspects.
- The links between risk variables and natural hedging or risk transfer mechanisms that may exist.
- The ability of the risk management process to reinforce TCTA’s business objectives.

Figure 12: Enterprise wide risk management framework



The enterprise-wide risk management framework (Figure 12) encompasses the environmental scanning and forecasting process within the context of liability management. Within this framework, risks are identified, and controls are designed and implemented to address and manage these risks. Monitoring and reporting procedures are designed to further enhance the risk management function. Results of this process are reported to the Audit and Risk Committee of the Board.

The principles of enterprise-wide risk management guide the allocation of the organisation's resources towards the management of potential up and downsides of risk on a prioritised basis.

Identification and monitoring

Identification is comprehensive; every risk within the business chain is located. Non-financial risks cannot be hedged by using financial instruments and therefore TCTA has developed alternative strategies to prevent and mitigate these risks.

According to the enterprise-wide risk management framework, risks are categorised as:

- Organisational risks such as those pertaining to human resources, information technology, political, reputation and strategic areas.
- Project risks including social, environmental, construction, design and supervision.
- Financial risks such as interest, currency, liquidity and credit as well as risk relating to financial policies and procedures, debt management, fraud and error.

Quantification and control

All significant risks (both financial and non-financial) are quantified by determining the likelihood and impact on the business objectives of TCTA. At the inception of a project, the implementation risks are identified and assessed, while mitigation strategies are also identified. The effectiveness of these strategies is continually evaluated and monitored.

TCTA's internal audit and compliance division plays an integral role in evaluating the effectiveness of controls, as well as compliance to approved policies and procedures.

For each risk identified, an accountable person, the control strategy, early warning mechanisms and residual risks are determined and implemented.

Reporting

Risk reporting is as dynamic as the rest of the risk management process. Post-event risk reporting will not prevent risks and will therefore not support the full risk management goal, but will tend to relate to internal control reporting. Early warning reports allow the risk management function to add more value to the management of cost-effective hedging of potentially high-impact exposures.

All risk exposures are regularly reported to management, the Audit and Risk, Human Resources, Finance and Technical committees and the Board. Key to the reporting process is the continuous assessment of early warning mechanisms that enable the Board and senior management to take appropriate mitigating action.



Risk assurance

As a further assurance to the enterprise-wide risk management framework, internal audit and the risk management function perform independent reviews on the process as well as on the identified risks and the controls to address them.

Furthermore, international pronouncements on risk management are continuously evaluated and, where appropriate, used to provide benchmarks to ensure continued compliance with international best practice. TCTA adheres substantially to the G30 recommendations, COSO framework, Turnbull internal control requirements, International Federation of Consulting Engineers, and the charter of best practice in treasury management.

Financial risks

The major features of the risks to which TCTA is exposed are covered in detail in note 5 to the annual financial statements. The management of the various risks is outlined below:

Liquidity risk

Liquidity risk is the risk of defaulting on financial obligations of the project as a result of insufficient funding capacity. It is managed by ensuring that sufficient funding is available to fulfil those obligations.

LHWP

TCTA operates in local money and capital markets, as well as in local and offshore loan markets. To meet its

obligations and future funding requirements efficiently, sufficient facilities are maintained in the required currencies.

In terms of the treaty, the South African government undertook to provide, on request, guarantees for all loans, credit facilities and other borrowings entered into for financing the water delivery component of the project. At the end of the year under review, the government's overall commitment in this regard amounted to R19 497 million (2004: R15 510 million). Details are reflected in note 9 to the annual financial statements.

BWP

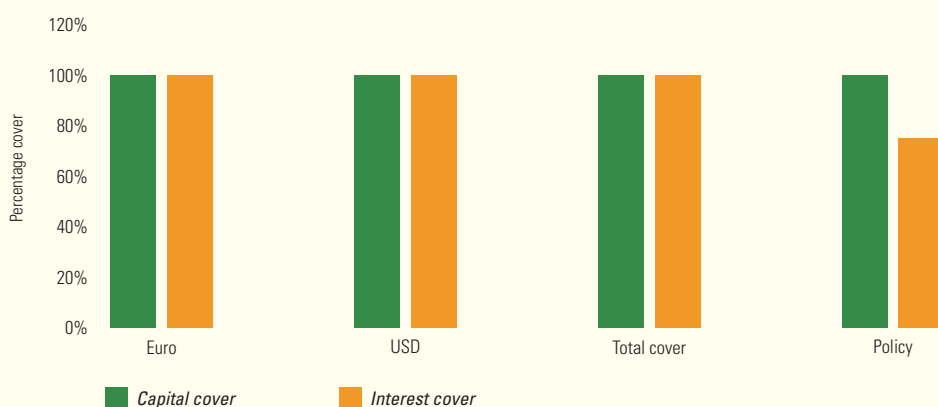
The BWP has been assigned an AA+ long-term and F1+ short-term credit rating by the international rating agency, Fitch. The BWP will be funded through long-term committed facilities provided by the EIB, DBSA and Absa. Therefore, TCTA has limited exposure to liquidity risk.

Foreign currency risk

LHWP

Foreign currency risk arises from the impact of exchange rate fluctuations on the LHWP foreign currency liabilities. In terms of the foreign exchange risk management policy, the capital value of all foreign loan facilities are hedged 100% and all anticipated interest costs and fees by 75%. (Figure 13).

Figure 13: Currency exposures on capital and interest – LHWP



Risk Management continued

TCTA is within the policy framework (100%) in terms of forward cover on capital exposures, but still exceeds the policy (75%) for forward cover on interest and fees.

The reasons for this are twofold:

- Lower and slower than anticipated drawdowns on the foreign facilities.
- The foreign variable interest rates having dropped from around 6% to around 2% during the life of the foreign loans.

BWP

TCTA is not currently exposed to any foreign exchange risk on the BWP.

Interest rate risk

Interest rate risk is the risk of adverse interest rate fluctuations negatively affecting debt exposures, including the repricing of TCTA's floating rate debt obligations and the short-term rollover of maturing debt. A key focus area of the risk management policy is to monitor and manage the interest rate risk proactively.

To do this, TCTA hedges interest rate exposure using approved derivative instruments, and works actively towards achieving an optimal capital structure, given the nature of the project.

A part of the risk evaluation process also deals with the evaluation of foreign versus local funding as well as duration matching of liabilities with free cash flow.

LHWP

Overall, the LHWP has a conservative capital structure of 72% fixed and 28% floating. This is in line with the targeted ratio of 70% fixed and 30% floating which has been statistically calculated to minimise the LHWP's sensitivity to interest rate movements under various scenarios. (Figure 14).

BWP

TCTA's funding on the BWP is currently at a fixed/floating ratio of 54% fixed and 46% floating interest rate. During the remainder of the implementation period, TCTA will target a ratio closer to 70%:30% fixed to floating. (Figure 15).

Figure 14: Interest rate exposure – LHWP

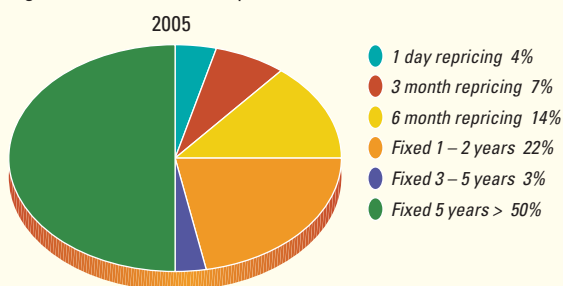
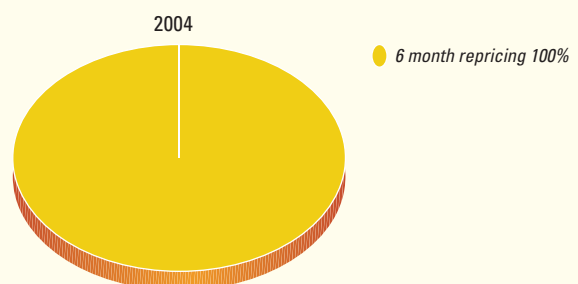
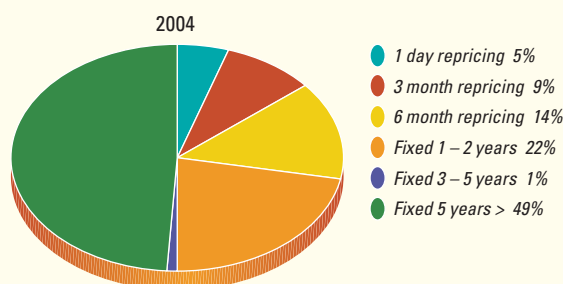
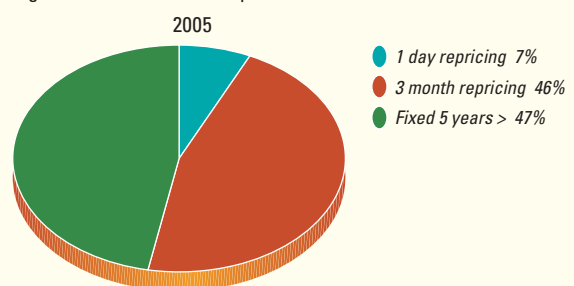


Figure 15: Interest rate exposure – BWP





Counterparty risk

The risk of counterparties failing to deliver on their obligations is managed by the allocation of appropriate credit limits for each counterparty. TCTA deals only with reputable institutions and within the limits set for these institutions. Risk is proactively managed through liaison with credit rating agencies and continuous monitoring of the financial standing of all counterparties. Credit limits are regularly reviewed and adjusted when it is deemed prudent to do so.

In addition to ensuring strict compliance with approved credit limits, credit risks associated with derivative instruments are further mitigated by the use of master netting agreements, as well as collateralisation arrangements.

TCTA only places funds with counterparties with a short-term credit rating of A1 and better. Our current counterparty exposure, according to short-term credit rating, is shown in Figure 16.

LHWP

The increase in exposure to A1+ counterparties can be attributed to forward exchange contracts and redemption portfolio assets being moved from A1 counterparties to A1+ counterparties.

BWP

The only credit exposure the BWP has is to A1+ rated counterparties where surplus cash is placed on overnight deposit.

Funding risk

In terms of managing risks associated with funding and debt management, TCTA actively manages the sensitivity of the cumulative liability curve to changes in water demand, interest rates and inflation rates.

LHWP

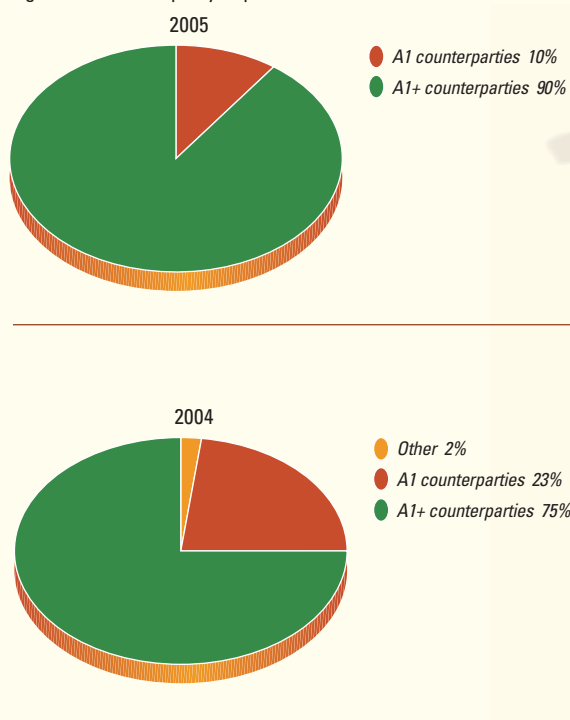
These risks are minimised or mitigated through asset/liability matching and sensitivity analysis and scenario planning. (Refer to Figure 19 on page 46).

From a funding perspective, TCTA strives to achieve an optimal capital structure by managing the fixed-to-floating ratios and evaluating foreign versus local funding opportunities.

BWP

TCTA has successfully procured the full funding amount required for the Berg Water Project and hence has no funding risk associated with this project. In terms of the refinancing risk, TCTA has mitigated this risk through proactive asset/liability matching. (Refer to Figure 29 on page 55).

Figure 16: Counterparty exposure – LHWP

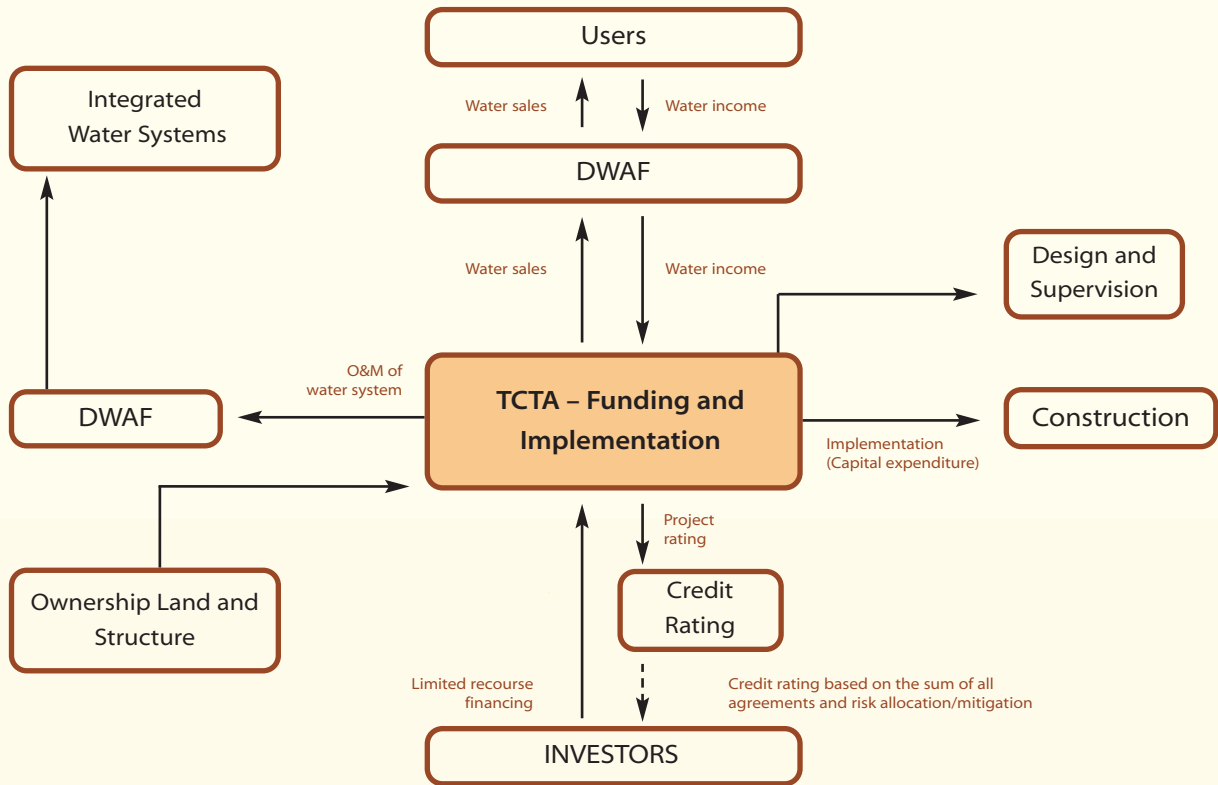


Project risks

In addition to the financial risks associated with a project, TCTA packages and manages the full ambit of project risks. These risks range from project implementation risks linked to design, supervision and construction through

to revenue, operation and maintenance, in the post-construction period. The various project components and their associated activities are depicted in Figure 17:

Figure 17: Project components and associated activities



Managing and packaging project risks

Implementation risks

Social and natural environmental risk

- Appropriate environmental assessments are undertaken to ensure all environmental impacts are identified and assessed to obtain authorisation by the Department of Environmental Affairs and Tourism (DEAT) to implement the project.
- Appropriate environmental management plans are compiled and approved to ensure that all environmental impacts are mitigated, managed or compensated.
- Where necessary, appropriate committees are established to ensure interested and affected parties are consulted in terms of project implementation.
- Appropriate social and environmental contractual obligations are written into project implementation contracts with service providers, to ensure compliance with the authorisation issued by DEAT.
- Appropriate procedures are established to monitor the impact of the project and to ensure the implementation of risk-mitigating strategies. The procedure also provides for the engagement of an independent environmental control officer reporting to DEAT.

Engineering risk

- Engineering risks are mitigated through outsourcing the design and supervision to the private sector on the basis of competitive tendering services and compliance to international standards. Furthermore, a panel of experts is appointed to review design and monitor the implementation of the project.
- Contract management is in-house and supplemented by independent design and supervision consultants responsible for overseeing implementation by contractors.
- Geo-technical considerations are addressed through prior investigations that advise on the most appropriate type of structures.
- The risks associated with engineering error are insured through appropriate levels of professional indemnity insurance.

Construction risk

- Risks relating to construction works are mitigated through insurance against all insurable events that may arise during the construction period as well as appropriate risk transfer agreements.
- Tendering on fixed bill of quantities increases certainty pertaining to construction costs.
- Contract risk is managed by using the standard conditions as detailed and prescribed by the International Federation of Consulting Engineers (FIDIC).
- Independent design and supervision consultants are appointed to oversee implementation by contractors. Furthermore, corporate governance, including legal governance, is managed through TCTA's formal legal governance framework as detailed in the corporate governance section of this report.
- The performance of contractors and consultants is managed through contractual agreements providing remedies in the case of non-performance, eg performance bonds, retention monies, liquidated damages and professional indemnity insurance.

Procurement risk

- Procurement risks are mitigated through a pre-qualification process that ensures the identification of technically competent tenderers, together with a competitive procurement process ensuring cost efficiencies. In the case of the BWP, TCTA developed and adheres to the Franschhoek First Policy, whereby employment and procurement benefits for the local and regional community are given preference.

Revenue risks

- On completion of construction, the user tariff is adjusted based on final implementation costs.
- During the operational phase and until repayment of the debt, the tariff is adjusted annually to take account of CPI-X as well as:
 - Changes in water demand and system yield
 - Changes in financial assumptions used in the base case financial model.

Operations and maintenance risks

- Contractual agreements set out the rights and obligations of the operator as well as remedies against the operator arising from failure to operate and maintain the system where such failure adversely affects the amount of water available for sale.

Sustainability



The aim of recent changes in corporate governance worldwide is to promote greater corporate accountability, transparency and stakeholder confidence. A direct result of these changes is increased accountability of company directors regarding risk control within their organisations. In South Africa, the second King Report on Corporate Governance (King II) urges companies to embrace the triple bottom line as a method of doing business.

King II recommends that organisations report on social, economic and environmental aspects. Social aspects involve values, ethics and the reciprocal relationship with stakeholders other than the shareowners of the company. Economic aspects refer to the financial performance of the company. The environmental aspects include the effect that the product or services of the company have on the environment. The way in which a company should report on the triple bottom line is recorded in the Global Reporting Initiative (appendix XI of King II).

Other social issues such as human rights, ethics and HIV/Aids are becoming part of the responsibility of organisations.

TCTA views sustainability as conducting business in a manner that meets and integrates economic, social and environmental needs without compromising the well-being of future generations.

During the year under review, TCTA displayed an outstanding ability to operate in a manner that ensures sustainability, especially in the major infrastructure projects under its management.

Economic performance

The long-term solvency of TCTA is determined by its tariff methodology, income agreements and guarantees. TCTA has developed liability management best practice on the Lesotho Highlands Water Project which remains the flagship project of the organisation. This expertise is being harnessed on other projects currently being implemented, to ensure viability and consistent economic growth through affordable bulk water supply across South Africa.

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

“!ke e: /xarra //ke

Khoisan language of the Xam people (motto of South Africa).

Meaning: Unity in diversity.

TCTA combines the diverse elements of sound economic performance, environmental management and social development to ensure sustainability.”

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 delivers clean water into the Vaal River system, improving the quality of water for the benefit of bulk water users, sustaining the economies of both South Africa and Lesotho.

The LHWP is termed a sustainable, bankable bulk infrastructure project in that it will be fully paid for by water users. As such, the LHWP depends on the revenues generated by water sales from the Vaal River system. Water has been transferred to South Africa since 1998. The available water in Katse Dam has been supplemented by the Matsoku Weir since October 2002. Mohale Dam will contribute approximately 9 cubic metres per second when delivery starts.

With the finalisation of the inflow requirement from Lesotho to the Orange River, the yield of the Vaal River system was adjusted accordingly by a 3% reduction. This had a direct impact on the Vaal River tariff as further augmentation was required earlier than anticipated and resulted in a triggered adjustment in accordance with the income agreement with DWAF. To redeem the debt over a decreased volume base, the marginal cost of water would increase.

The Vaal River tariff is constant in real terms and increases with CPI-X annually. The forecast long-term

CPI-X applied previously was an average of 5,7% to 2024. The Bureau of Economic Research revised the forecast to take account of the Reserve Bank's active inflation control agenda at an average of 4,8%. The impact of this on the tariff is that the future revenue stream is now linked to a lower index, which also resulted in an upward revision of the tariff. The cumulative effect of the three factors, yield, demand and inflation, necessitated an additional 7,2% increase in the tariff over and above CPI-X.

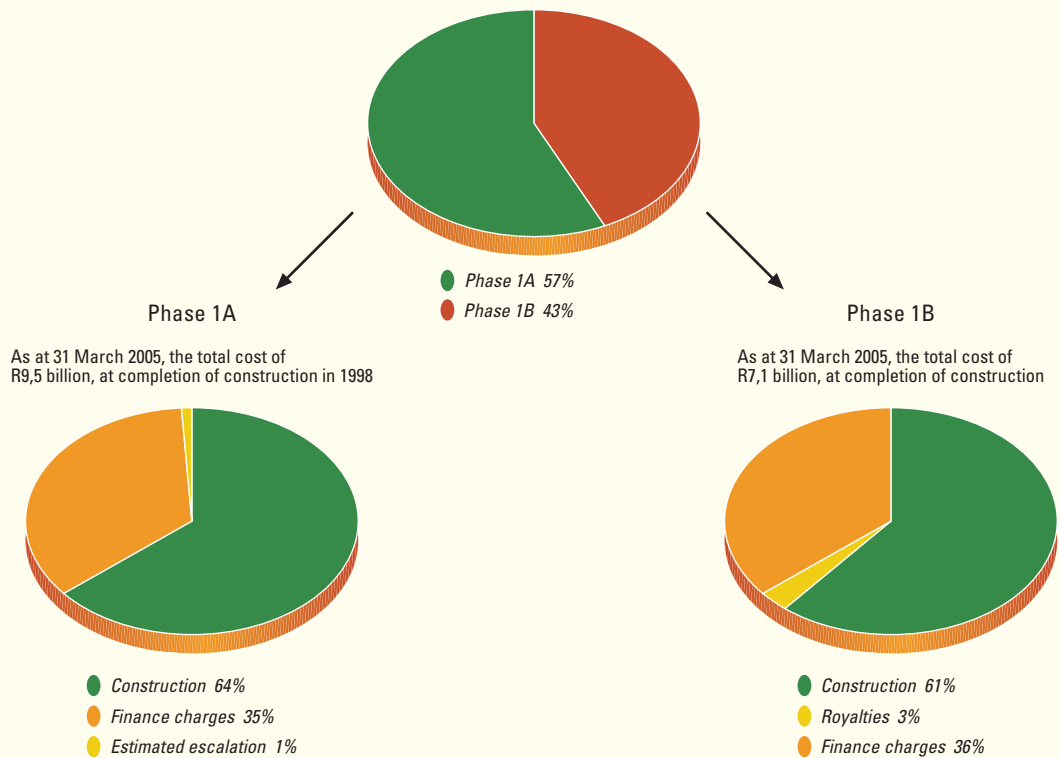
It was agreed with DWAF and the major bulk users to phase this adjustment in over a three-year period to take account of end-user affordability and administered price initiatives.

The Vaal River tariff therefore increased by 7,5% in 2005/06, consisting of 5% CPI-X (June index) and 2,5% as the first portion of phasing in the 7,2% additional adjustment required to redeem the LHWP debt by 2025 in line with the income agreement.

Project cost

Since the project started delivering in January 1998, water income and the related operating costs for phase 1A have been recognised in the income statement. Costs on phase 1B were capitalised until 31 March 2004. The R16,6 billion total project cost of the two phases is split 57:43 (Figure 18).

Figure 18: Total project cost – LHWP

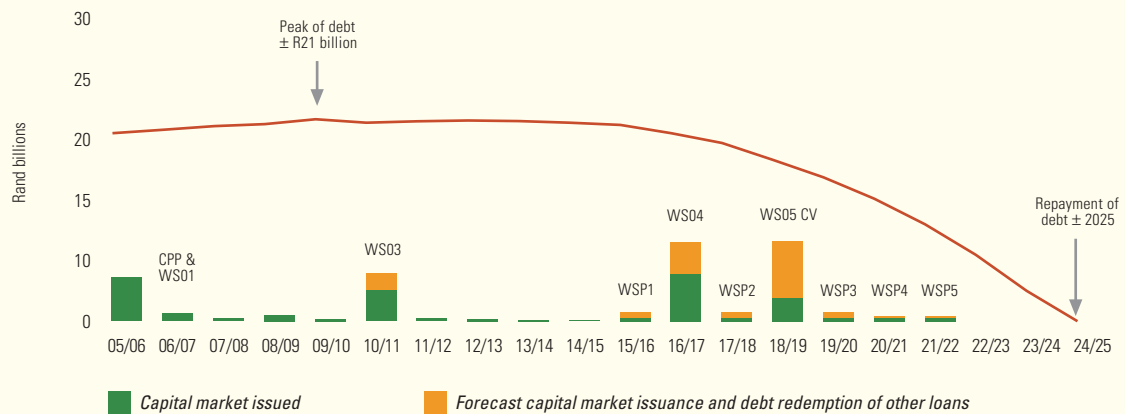


The full water transfer costs, incurred by both TCTA and LHDA, are the responsibility of the South African government and are included in TCTA's balance sheet. See note 5 to the financial statements for a split of the debt.

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 R20,2 billion as at 31 March 2005.

Figure 19: LHWP debt maturity profile and forecast cumulative net liability curve





Based on the current debt curve, it is estimated that the outstanding liabilities will peak in 2013 at R21 billion and that all debt will be repaid by 2025.

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

Operating results

TCTA reports an operating surplus of R1 568 million for the year under review (2004: R1 482 million). A net deficit for the year amounting to R638 million (2004: R76 million) has been realised, and reflects a shortfall in covering interest. Included in the net deficit for the year is a net loss of R21 million* (2004: net loss R122 million) resulting from the accounting treatment as required by IAS 39 and IAS 21.

** Included in the loss is a transfer of R52 million unrealised loss from equity to income statement resulting from excess forward cover as a result of an under-utilisation of export credit loans, a World Bank loan and funding from the European Investment Bank. TCTA's policy is to take out forward cover for 100% of the capital exposure and 75% of the interest exposure on foreign loans. Construction was completed, and the final contract claims were finalised in June 2004. As a result, a portion of the loans has been cancelled and TCTA has no contingent foreign liabilities.*

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 ±20 years after completion of each sub-phase. However, interest will be capitalised for the first number of years of operation.

Debt servicing

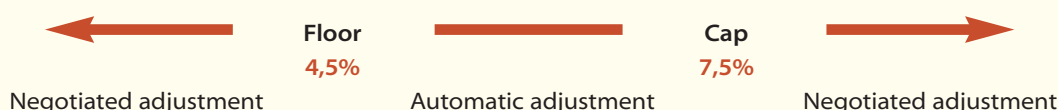
The revenue generated from the sale of water from the Vaal River system will be sufficient to repay the project debt.

Revenue generated by the sale of 1 351 million cubic metres (2004: 1 325 million cubic metres) of raw water amounts to R1 654 million (2004: R1 538 million). This revenue is based on a bulk raw water tariff of 122,4 cents per cubic metre (2004: 116,1 cents per cubic metre) for the year under review. The higher revenue is due to an increase of 2% in the volume of water sold and a 5,5% increase in the water tariff.

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 20):

Figure 20: Water tariff adjustment mechanism



Sustainability continued

Should CPI-X fall between the floor and the cap level of 4,5% and 7,5% respectively, the tariff will be adjusted automatically. However, should CPI-X 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.

- Change in input assumptions that increase/decrease the final repayment date.

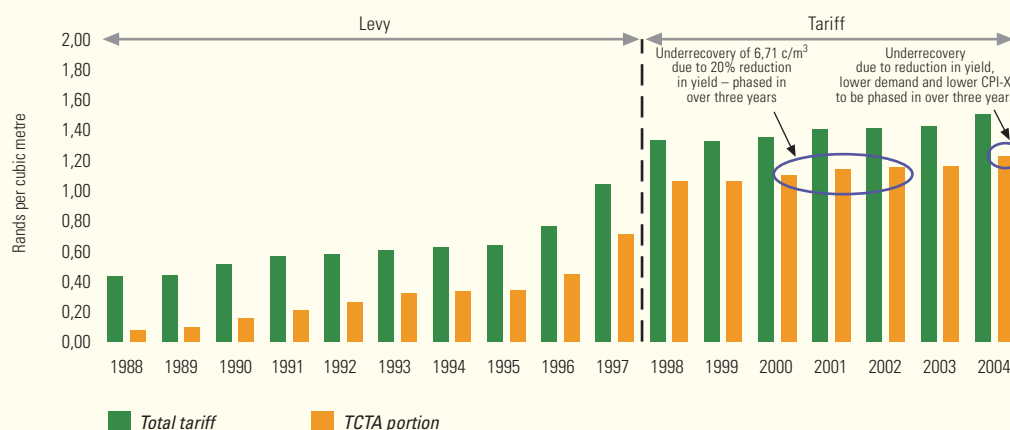
During the 2000/01 tariff determination, the yield of the Vaal River system was determined to be lower than originally anticipated by DWAF. This resulted in an underrecovery in the tariff of 6,71 cents per cubic metre, which triggered a negotiated adjustment to be phased in over a three-year period.

The tariff adjustments since the re-assessed yield are indicated in the table:

Vaal River tariff for augmentation schemes	Increase c/m ³	% increase due to CPI-X	% increase due to triggers	Total % increase
2000/01 tariff:	88,14			
Phase in portion one	2,11		2,39%	
CPI-X 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%	
CPI-X automatic adjustment	5,97	6,00%		
2002/03 tariff:	105,60			8,53%
Phase in portion three	2,57		2,43%	
CPI-X negotiated adjustment capped	7,93	7,50%		
2003/04 tariff:	116,10			9,93%
CPI-X automatic adjustment	6,30	5,40%		
2004/05 tariff:	122,40			5,40%
CPI-X automatic adjustment	6,14	5,00%		
Phase in portion one of three	3,06		2,50%	
2005/06 tariff:	131,60			7,50%

Apart from the phased-in correction in the tariff from 2002 to 2004, the tariff has remained constant in real terms. Figure 21 indicates the raw water tariff expressed in 2004 values.

Figure 21: Water levy/tariff expressed in terms of April 2004 Rands

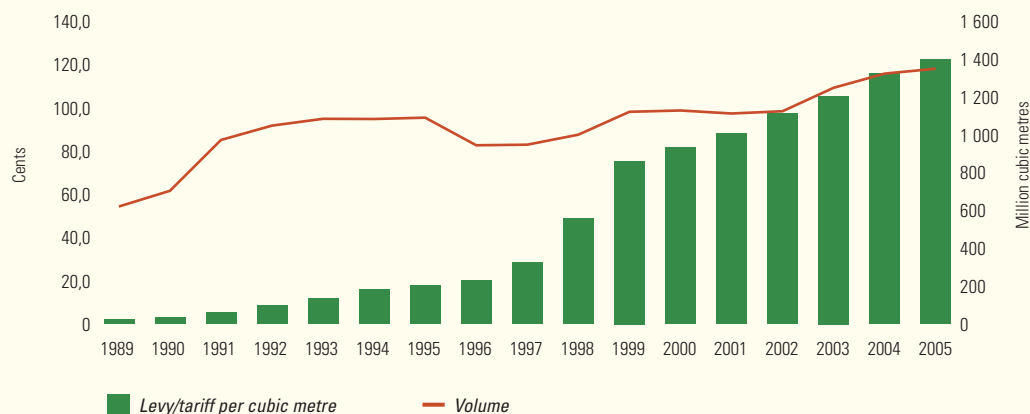


In 1988, a levy was introduced to fund part of the development costs of LHWP until it started to deliver water in 1998. The levy partially financed costs during the initial construction period and started at 2 cents per cubic metre in 1988. The total revenue generated

in levies was R1 688 million and in tariffs to date is R8 382 million (2004: R6 728 million).

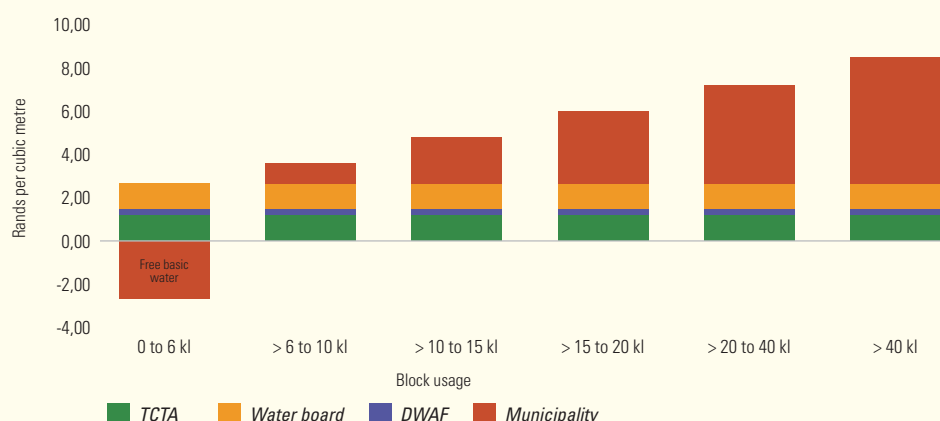
Figure 22 sets out the actual tariff charged each year for bulk water and the volume of sales on which the tariff was charged:

Figure 22: Water levy volume



Tariff composition in a typical urban environment is determined by volume usage per month, as illustrated in Figure 23:

Figure 23: Tariff composition for domestic usage 2004/2005 financial year



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 payable to the government of Lesotho 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.

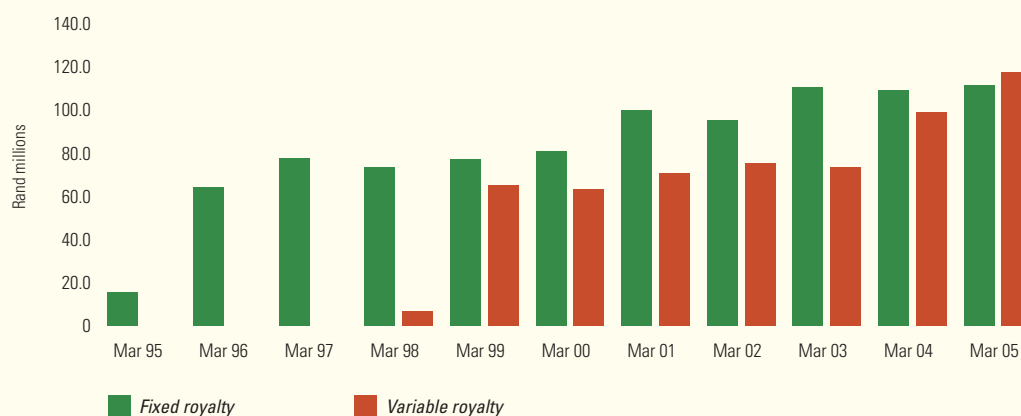
Sustainability continued

The total amount of royalties paid to date to the government of Lesotho is R1 472 million (2004: R1 244 million). (Refer to Figure 24.)

During this financial year, 692,9 million (2004: 687,0 million) cubic metres 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 4 242,9 million cubic metres.

Figure 24: Royalties paid



Project funding

A net amount of R2,3 billion was borrowed during the year to meet funding requirements. The table indicates the composition of funding:

Funding requirement	R million
Incremental	877
Refinancing	261
Redemption (WS01 maturing 1 December 2005)	1 139
Total	2 277

TCTA funded the requirement through various financial markets as follows:

Funding sources	Funding R million	Redemption R million	Total R million	Interest % NACM
Capital market	1 190	1 139	2 329	8,62%
Money market	(73)	0	(73)	7,48%
Foreign development financing	21	0	21	7,49%
Total	1 138	1 139	2 277	

Capital Market

TCTA launched its first split maturity capital market bond, WSP1-WSP5 with a value of R1 billion (nominal), in May 2003. It matures between May 2015 and May 2021. This formed part of the WS01 redemption strategy and supported the asset/liability matching

objectives to align debt maturities with areas where surplus cash is generated (2014 to 2026). TCTA subsequently tapped the bond by a further R500 million in March 2005 via an auction and an additional R1 billion will be raised as part of the WS01 redemption strategy (the WS01 matures on 1 December 2005).



Total capital market bonds in issue as at 31 March 2005:

Nominal bond	Maturity date	Coupon	Nominal 31 Mar 05 R million	Authorised amount R million
WS01	1 Dec 05	12,00%	4 360	5 000
WS03	15 Sep 10	13,00%	3 035	8 000
WS04	30 May 16	12,50%	4 675	7 000
WS05	1 Aug 18	5,00%	2 300 ⁽¹⁾	2 500
WS06	30 April 08	8,00%	600	2 500
TOTAL			14 970	25 000

Split maturity bond	Maturity date	Coupon	Nominal 31 Mar 05 R million	Authorised amount R million
WSP1	28 May 15	9,00%	300	400
WSP2	28 May 17	9,00%	300	400
WSP3	28 May 19	9,00%	300	400
WSP4	28 May 20	9,00%	300	400
WSP5	28 May 21	9,00%	300	400
			1 500	2 000

Note 1: The WS05 bond issued amount is reflected at principal value

TCTA is one of the largest issuers of bonds in the local capital market. R2,3 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. As at the end of March 2005, TCTA had issued R2 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 is actively traded in the market with a turnover of about R24 billion over the past year.

Foreign funding

Foreign facilities were accessed during the year through drawdowns on the export credit and European Investment Bank (EIB) facilities, which were drawn as ZAR funding (R21 million) through EIB's variable spread pool. This funding is applied directly to the costs of construction on phase 1B which has now been completed.

Funding performance

The average annual borrowing rate achieved during the year was 11,17% on the stock of debt (2004: 12,06%) and 7,84% on incremental funding (2004: 9,55%). The project as a whole achieved a rate of 11,31% (2004: 12,11%), which includes LHDA's water-transfer debt.

Sustainability continued

TCTA's domestic capital market performance and funding in Figure 25 indicate:

- The growth of debt in issue over the past eight years

- The trading differential above the government benchmark bond.

Figure 25: Growth in capital market issue versus average daily trading differential

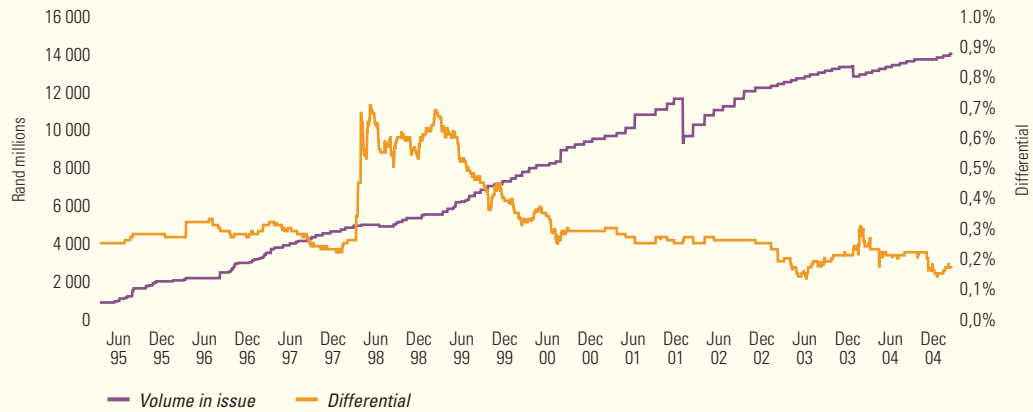
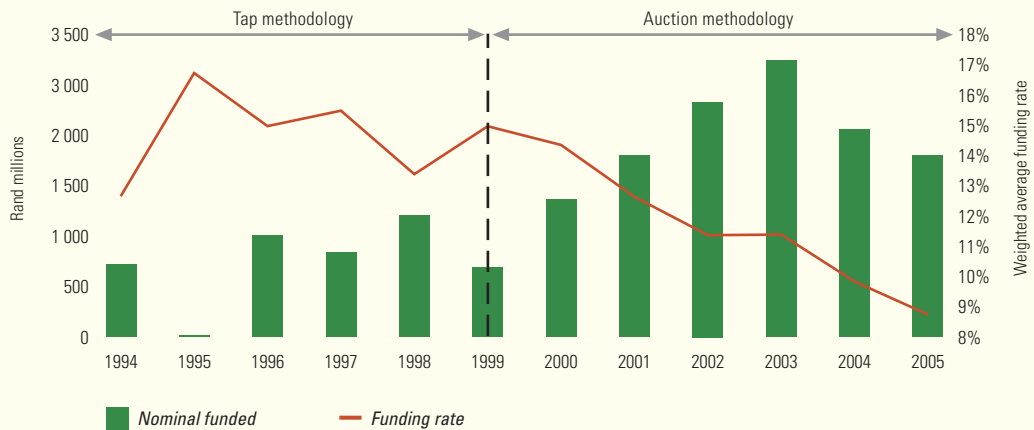


Figure 26 indicates:

- The volume of funding raised per annum
- The funding rates achieved over the past ten years since the first capital market issue in November 1994;

and the transition from a tap methodology to regular monthly auctions which took place in September 1997.

Figure 26: Capital market funding per financial year



Medium-term funding

TCTA will raise R2,9 billion in 2005/06 as follows:

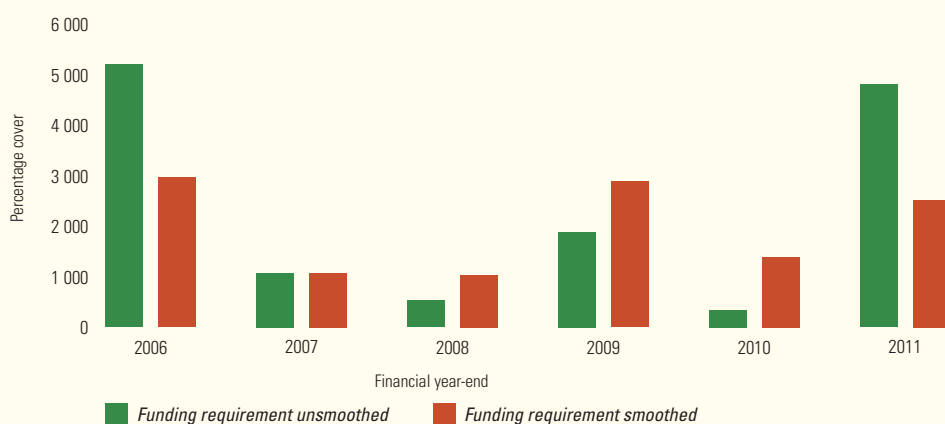
Funding requirement	Funding portfolio R million	Redemption portfolio R million	Total funding R million
Incremental funding requirement	506	–	506
Refinancing requirement	534	1 907	2 441
Total 2005/06 funding requirement	1 040	1 907	2 947



From the 2006/7 financial year to 2011 TCTA expects to raise on average R1,784 billion a year. This includes

provision for the redemption of locally-registered bonds on maturity. Funds are raised as required.

Figure 27: 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.

TCTA's panel of market makers

Berg Water Project

The Berg Water Project is termed a sustainable, bankable bulk raw water infrastructure project that will be fully paid for by water users. The BWP will increase and stabilise availability of water for the water-stressed City of Cape Town.

The repayment of loans to fund the BWP depends on revenues generated by water sales to the City of Cape Town from the Western Cape water system by DWAF.

Project cost

Preliminary budgets indicate that capital expenditure (excluding Berg Water capital charge, administrative and finance cost) on the BWP will be incurred as follows:

Date	July 2002 R million	Escalated value* R million
2003	13,6	14,5
2004	70,2	79,9
2005	354,8	427,3
2006	408,8	521,9
2007	356,4	482,4
2008	244,7	351,2
Total	1 448,5	1 877,2

* Escalated at 6%

Project funding

The project is funded through a fixed to floating ratio of 54:46% and funding to date is illustrated below.

Funding pocket	March 2005 R million
Incremental	86
Refinancing	130
Redemption	-
Total	216

Funding to date:	R million	%
Bridging finance/money market*	116	54%
Local loans (DBSA)	100	46%
Redemption	-	0%
Total	216	100%

* Excludes term deals

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

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

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

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 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 a four-year period, commencing 1 July 2003 on a straight-line basis to 30 June 2007, and 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 CPI-X, changes in water demand,



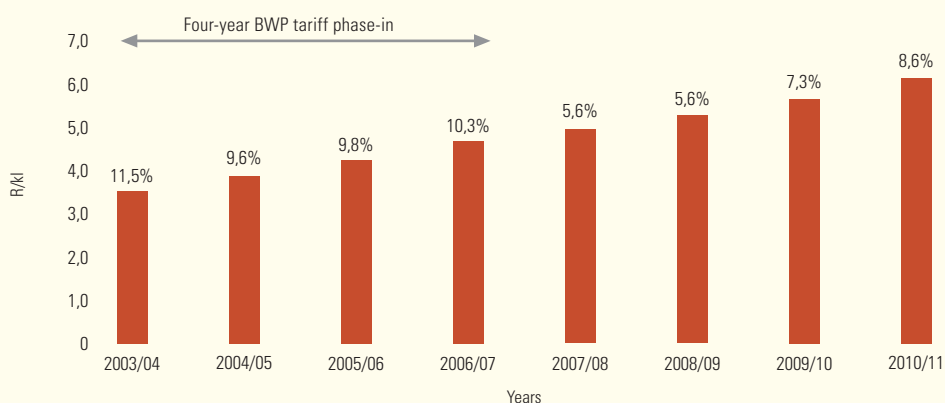
changes in interest cost and allocation of water to third party users. An upper and lower limit of the CPI-X index will be determined after the completion of construction.

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.

TCTA is constantly monitoring the possible impact of water restrictions in the Western Cape on the debt redemption. Thus far, no adjustment to the capital charge has been required.

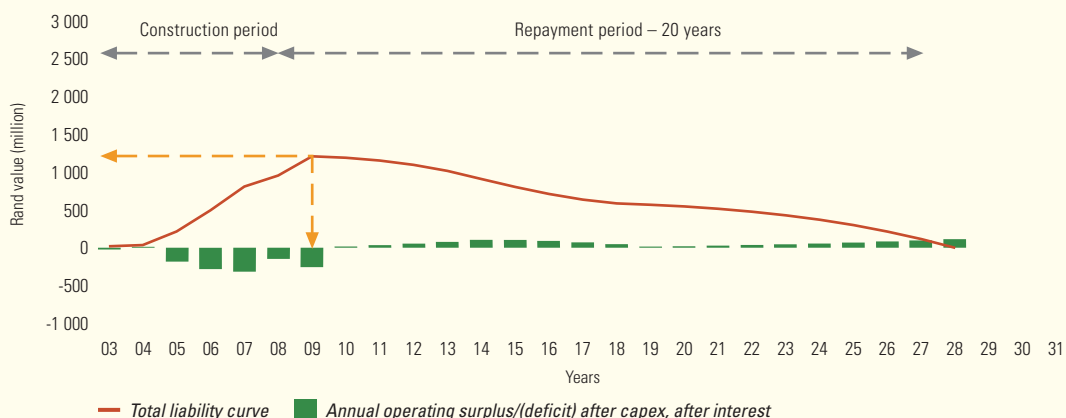
Impact on CCT water tariff projection (see Figure 28).

Figure 28: Average water tariff – based on 2% growth in water demand



The debt curve, as well as the annual operating surplus/deficit after capex and interest.

Figure 29: Annual surplus/(deficit) and liability curve



Payment process

Water delivery and tariff payment process:

Figure 30: Berg Water tariff and supply chain

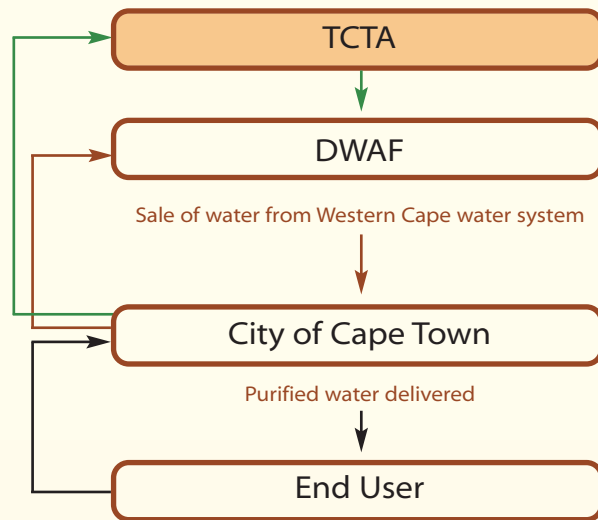
Cash flow

Berg Water capital charge on Western Cape water system per implementation agreement

DWAF raw water charge on Western Cape water system per supply agreement

City of Cape Town end user water charge

Legal obligation



Vaal River Sub-system Augmentation Project

VRESAP is termed a sustainable, bankable bulk raw water infrastructure project in that it will be fully paid for by water users.

Project cost

Based on current information, the estimated construction cost of VRESAP is R2 305 million in March 2005 terms (including Bosjesspruit).

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 40,32m³ to 132,09m³.

Project funding

As TCTA will receive income in rand from the sale of bulk raw water to DWAF, TCTA envisages that rand funding will be the primary source of funding. TCTA will however, consider foreign loans should the fully hedged all-in cost of foreign funding compare favourably with domestic funding rates. In terms of short-term funding requirements, TCTA will require working capital facilities to fund costs such as

administrative expenses, consultancy fees and other costs relating to environmental, engineering and design surveys and studies.

Once the implementation agreement with DWAF has been finalised, TCTA will focus on the long-term funding requirements where an underlying principle associated with debt management will be to link the repayment of long-term liabilities as closely as possible to free cash to be generated by the sale of water in future to support asset/liability matching.

Capital expenditure should be fully incurred by July 2007 and the tariff will be set so that the total outstanding debt by 2007 will be amortised over the period to 2027. This follows the TCTA principle of repaying the project debt 20 years after completion of construction.

While it is envisaged that TCTA will procure funding from development funding institutions and concessionary funding if accessible for possible socio-economic benefits from the project, the bulk of funding is likely to be raised in local capital markets.

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.

TCTA will have an implementation agreement with DWAF whereby the water is delivered to DWAF by TCTA. The water supply chain illustrated in Figure 32 outlines the arrangements to be put in place for the revenue streams.

Each user will be 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, as well as the tariff charged with and without inflation, is illustrated below:

Figure 31: VRESAP – Forecast liability curve

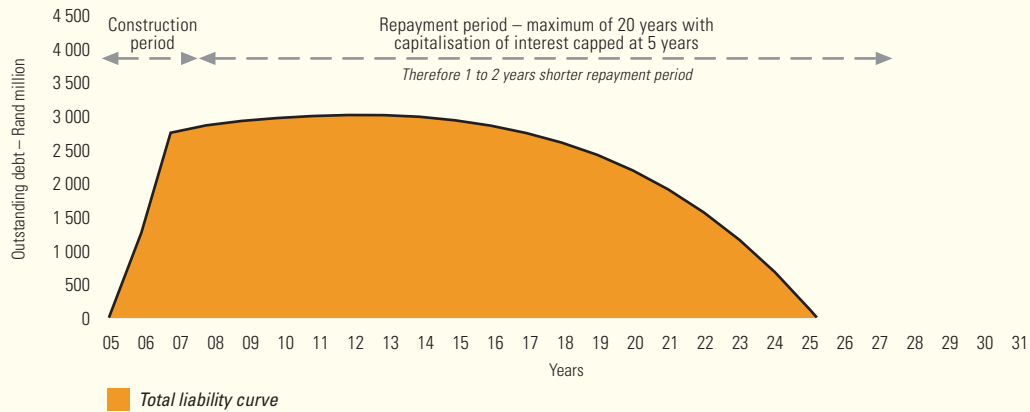
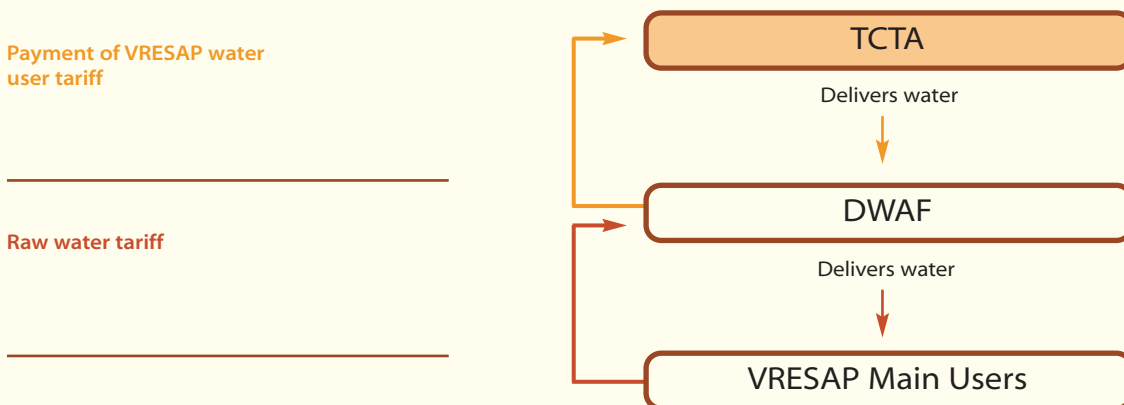


Figure 32: VRESAP water tariff and supply chain



Tariff principles and determination

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

- The income to VRESAP is based on sales taken from VRESS which consists of various sub-systems, of which VRESAP will form part. The income will therefore not be based on the volume of water delivered from VRESAP in isolation, but on total water sold to the main users out of the VRESS. That is, the tariff is based on the principle that the full financial cost of the project is recovered from water users.
- The required tariff will be supplied to DWAF, and will be included in the tariff calculation for raw water from the VRESS.
- The redemption period of 20 years after completion of construction was chosen (which is relatively short in comparison to the economic life of VRESAP), due to future augmentation required in the area.
- 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 basis for tariff determination is:

- The tariff is based on water used by the 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, 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.
 - Within an affordable structure to the offtakes.

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 1 August 2007 to 31 March 2027.
- 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 CPI-X, changes in water demand, changes in interest cost and allocation of water to third-party users. An upper and lower limit of the

CPI-X 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 systems 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 systems 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 offtakes 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.

Black Economic Empowerment

To support Black Economic Empowerment, as a pre-qualification, the appointed contractors will be required to establish a joint venture that should include a black enterprise as a member to a level of at least 25%. The black enterprise equity ownership in the joint venture must continue for the duration of the contract period.

Competitive bidding

Contracts will be procured on a competitive basis, except the consultants' contract which will be allocated to the DWAF mechanical and electrical engineering unit. This allocation of work is in line with the ministerial directive to TCTA to utilise DWAF resources in the technical field, subject to certain conditions, during the implementation of the project.

Environmental performance

Lesotho Highlands Water Project

Although construction of Phase 1 of LHWP is now complete, environmental management of the project continued unabated.

South Africa

River management plan

On behalf of DWAF, TCTA implemented a river management plan on the Ash River. The plan is aimed at monitoring the performance of erosion protection structures which have been constructed to mitigate

the impact of the water delivered from Lesotho as well as the need for any further contingency measures.

Lesotho

Instream flow requirements

Instream flow requirements (IFR) refer to the volume and release pattern of water required to ensure the health of downstream reaches and the sustainability of aquatic systems. The IFR policy is being implemented and proposed changes to the policy are considered following the first 20 months of IFR management experience by LHDA. Downstream communities impacted by the reduced flows have been identified and LHWC has approved the compensation to be paid to them.

Fisheries

A memorandum of understanding has been prepared for signature between the project authorities and an investment partner for the commercial production of trout in Katse Reservoir by November 2004. Conditional approval has been given by the LHDA board.

Biodiversity Trust

The trust has been established and a Board of trustees appointed. South Africa is represented by Professor Maitland Seaman, Dr Cornelius Ruiters and Mr Phillip Opperman, with Lesotho is represented by Chief Justice Lehohla, Dr Dan Phororo and Dr Thikhoi Jonathan. LHDA is represented by its chief executive, Mr Liphapang Potloane, and Dr Victor Marake from the LHDA Board. The induction meeting of the Board was held on 31 March 2004. Interim reports on translocated Maloti minnow indicate that the fish are thriving.

Eco-tourism

An investment partner for the Ts'ehlanyane Nature Reserve has started negotiations, while the African Development Bank has approved the construction of the Katse Information Centre. Bids for the Katse Botanical Gardens have been received and are being evaluated. The project authorities are assisting the Lesotho government in developing legislation on protected areas and other eco-tourism matters to enable the transfer of assets to a government agency.

Berg Water Project

At the heart of the BWP is the environmental management plan, a blueprint providing socio-economic strategies, guidelines for environmental design and specifications, as well as programmes for river and environmental monitoring. The plan has been approved by the Department of Environmental

Affairs and Tourism and is implemented through the mechanisms discussed below. TCTA complies with all the environmental specifications in the Environmental Management Plan (EMP), as do the consultants and contractors.

Contractual measures

Environmental mitigation measures contained in the plan have been developed into detailed environmental specifications in the various contracts. These specifications have been developed by TCTA to ensure that construction impacts are contained and mitigated as far as possible. TCTA has made sure that environmental specifications are stipulated within the contractual documents signed by all contractors on the BWP. This means that all contractors working on the BWP are compelled to implement and abide by the project's EMP. The environmental specifications cover aspects such as materials handling, management of site facilities, water management, protection of fauna and flora and community relations. An environmental monitor was appointed to ensure that specifications in contract documentation are implemented by the various BWP contractors.

Environmental Control Officer

TCTA have appointed an independent Environmental Control Officer (ECO) to monitor and audit TCTA's compliance with the implementation of the environmental management plan. This independent officer has been monitoring activities on site and in local communities since June 2004. The ECO produces monthly monitoring reports. The ECO completed the first full audit of environmental management plan performance in March 2005.

Environmental Monitoring Committee (EMC)

One of the first structures created on the BWP was the Environmental Monitoring Committee (EMC). This was a broad-based body created to provide a monitoring and feedback mechanism between all interested and affected parties, including stakeholders, and the project authorities. Its primary task was to approve the environmental management plan for submission to the Department of Environmental Affairs and Tourism. Approval of the Environmental Management Plan was granted in October 2003.

Initially, the committee made good progress in monitoring the BWP against the objectives set out in the environmental management plan. However, issues such as payment for the attendance of meetings and pressure from certain members to obtain indemnity

Sustainability continued

from government diverted the focus and eventually stalled the functioning of the EMC for more than eight months, forcing the Department of Environmental Affairs and Tourism to intervene.

In March 2005, the Department of Environmental Affairs and Tourism put forward three options to remaining committee members:

- Dissolve the current committee and reconstitute it in line with applicable legal procedures (which include Promotion of Administrative Justice Act legislation).
- Continue with the present committee and introduce changes required by the department.
- Replace the committee with an open public forum where anybody can attend, raise issues and request information.

It was agreed that the committee will continue with the changes required by the Department of Environmental Affairs and Tourism.

Vaal River Eastern Sub-system Augmentation Project (VRESAP)

In terms of the relevant environmental legislation, TCTA has procured the services of independent consulting environmentalists and public involvement specialists to conduct the environmental impact assessment and public involvement process, the outcome of which will be an environmental impact assessment report and a proposed outline environmental management plan to obtain environmental authorisation to proceed with construction.

Social performance

The ancient wisdom “motho ke motho ka batho” (we depend on each other to make progress as human beings) underscores TCTA’s commitment to social development.

The calibre and resilience of its people is the secret to TCTA’s ability to sustain the consistently high levels of performance and ability to respond to the defined mandates as contained in the ministerial directives. The creative talent of this diverse pool of technical, professional and support staff has been leveraged through:

- Team alignment
- Harnessing the power of diversity
- Creating a shared passion
- An integrated approach to learning and development
- A commitment to exceed expectations in service delivery.

This takes place in a context of equity and empowerment. TCTA’s flat management structure

increases individual responsibility and relies on the individual’s abilities, skills and expertise.

TCTA’s strategic business issues are handled by an executive management committee. Its composition reflects the inclusive approach and development focus in our management style. The committee consists of the Chief Executive Officer, Chief Financial Officer, Head of Strategy and Development, Treasury Manager, Financial Controller, IT Manager, Public Relations Manager, Corporate Services Manager, Human Resources Manager, Head of Corporate Affairs, Project Manager and Projects Engineer.

Employee management philosophy

The employee management philosophy of TCTA seeks to create an environment in which employees can optimise their potential and thereby enhance the organisation’s position in the water sector. It recognises that we:

- are a specialist organisation with specialised focus areas.
- pay for superior performance according to market fundamentals and benchmarks
- operate in an environment dictated by our value system as defined by every employee
- employ the right people in the right jobs using the best means of skill acquisition
- believe in creating an environment where there is no tolerance for discrimination or any other form of prejudice.

The TCTA Way

TCTA’s business formula is captured in its values and principles that are at the core of its culture and determine its success.

This formula was developed and launched in July 2004. It is a result of a company-wide interactive process to define what makes TCTA unique (its “DNA”) and what is required for the organisation to succeed. The formula is made up of a set of 28 non-negotiable behavioural principles: 14 top-line (which should be maximised) and 14 bottom-line principles (which should be minimised).

TCTA conducts a monthly health monitoring survey to measure the extent to which the organisation is living its principles. The voting process is facilitated by an external service provider to ensure anonymity and confidence in the system. The human resources department manages this process, with action plans for management to address highlighted issues and recommendations.

Organisation development and transformation

The transformation agenda in TCTA has been declared a priority, which led to the development of the transformation committee, which reports to the HR committee of the Board. To ensure simplicity in application and monitoring, the transformation



outcomes are aligned to all relevant business plans and follow the TCTA strategy formulation and implementation methodology.

The transformation programme of action rests on agreed focus areas (pillars). The programme for progress is monitored by the Executive Committee and the HR committee of the Board (See Figure 33.)

Employment equity

TCTA, applies the principles of equity and affirmative action in the appointment and development of its staff. A comprehensive audit of all employee policies and practices has been conducted to ensure that there is no discrimination in the workplace.

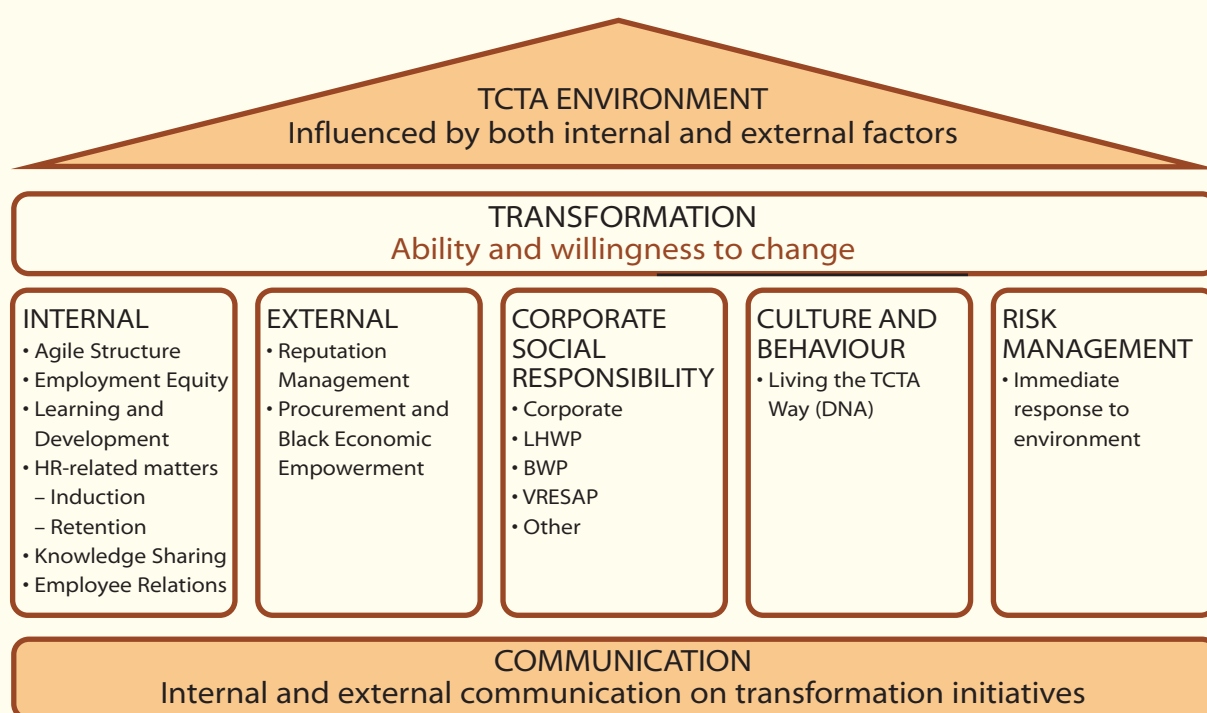
Furthermore, an analysis of the degree of representation in the workplace has been undertaken and the outcome used to set targets for a three-year period, taking into account the available skills pool, at a regional and national level.

The employment equity forum consists of elected representatives and a management representative. It is empowered to assist management in the execution of its mandate to build a diverse workplace devoid of any barriers. The forum continues to contribute to the successful management of diversity in the organisation, meets at least once per quarter and collaborates with staff through open forums. During the period under review, it met four times.

Diversity management

TCTA values diversity and continues to ensure that transformation remains an organisational priority. TCTA management actively pursues an organisational culture and climate conducive to maintaining a harmonious environment in which people from different demographic, personal and professional backgrounds feel included and valued. We appreciate diversity and the contribution it makes to ensure a successful and sustainable organisation.

Figure 33: TCTA transformation programme



Staff profiles

Given its specialised nature, TCTA builds capacity in the organisation in line with its strategic objectives, without compromising its transformation objectives. Recruitment and selection are implemented in terms of targets set out in the employment equity plan and in line with TCTA's culture.

TCTA seeks to maintain its core sophistication in its client service and project teams. Commitment is ensured via strong retention, succession and back-up policies. TCTA continually aligns its core competencies to the growth, specialisation and stakeholder expectations of the organisation. Where focused, dedicated, non-core specialisation is required, it is in-sourced on a contract basis to ensure that focus and specialised service delivery of the highest standard are maintained.

The increasing level of specialisation within the business and the addition of other projects have necessitated an increase in the number of employees. Due to expansion, redeployment of staff and a scarcity of certain strategic skills required, all targets

will be reviewed and aligned to business growth imperatives.

Percentage turnover: 14% (2005) 17% (2004)

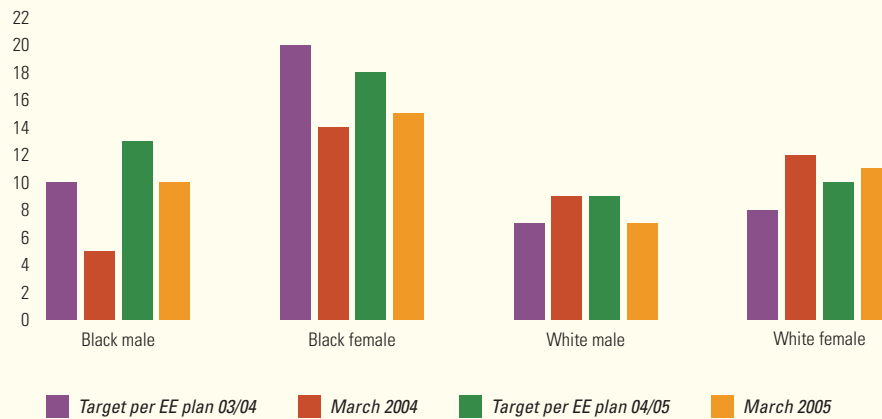
- For other work opportunities : 83,3%
- Conversion to contract : 16,6%

The following figures summarise employment statistics.

Number of people employed	2005	2004
Full time	44	39
Co-sourced	3	3
Seconded	1	0
Contracted	10	0
Part time	1	1
Tshwane	51	35
Franschhoek	4	4
Lesotho	4	4
Total	59	43

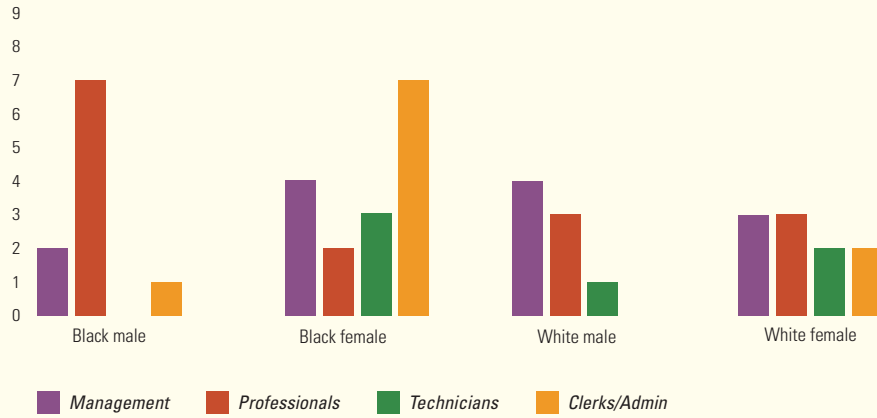
Progress in terms of the employment equity plan

Figure 34: Change in staff complement over the financial period to March 2005



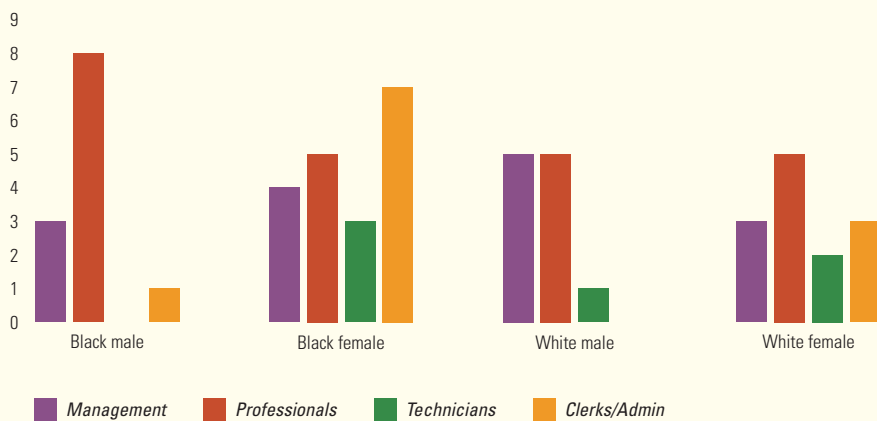
Employment profile excluding co-sourcing, secondments and contractors as at 31 March 2005

Figure 35: Employment profile as at 31 March 2005



Employment profile including co-sourcing, secondments and contractors as at 31 March 2005

Figure 36: Employment profile including co-sourcing, secondments and contractors change in staff complement over the financial period to March 2005



Integrated learning and development

TCTA has continued its learning and development programmes both formally and informally to increase competencies and skills for current and future requirements. These programmes are aimed at improving both our organisational effectiveness and functional skills base, as well as management competence. The development programmes expand technical and personal skills to assist managers in the demanding and ever-changing business environment.

Training takes place on the job, through individual coaching, in motivational sessions and in team development. Formal development programmes through external professional organisations and learning institutions have been used for specific needs. The employee assistance programme makes it possible for employees to obtain relevant formal qualifications.

Employee wellness programme

TCTA has embarked on an extensive wellness and support programme for staff members. The programme provides specialist services such as psychological support and counselling, flexible working hours and an adaptive working environment.

The programme aims to empower staff members with life skills that will assist them to better manage their own lives.

The programme offers managers access to professional assistance and coaching on people issues. Dreaded diseases, especially cancer and HIV/Aids, are the most challenging for corporate SA. HIV/Aids is also a reality facing TCTA's employees and we acknowledge that the organisation bears a responsibility in this regard. The wellness programme encourages staff to equip themselves with knowledge to manage the impact of the disease.

TCTA has implemented a programme in relation to dreaded diseases to:

- Increase knowledge
- Reduce associated risks
- Assist with dreaded disease benefit within the employee group life scheme.

Support of black empowerment

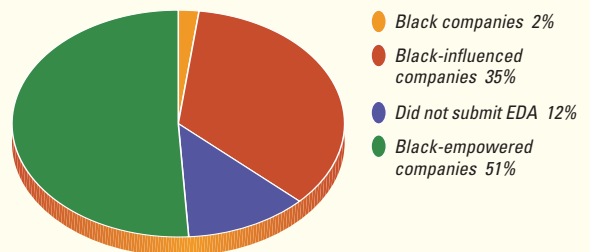
As a public entity, TCTA fully supports and is committed to black empowerment initiatives in South Africa and is compliant with all appropriate black empowerment legislation. TCTA's philosophy in support of black empowerment extends to our employment equity

plan, procurement of services, recruitment and selection, learning and development and the skills development plan. In the spirit of our commitment to black empowerment, TCTA gives preference to local goods and services to strategically support SMMEs and Black Economic Empowerment.

TCTA promotes the principles of openness, integrity and fairness in its drive to implement best procurement practices. The process is closely managed by the procurement committee, that is mandated to ensure transparency in the process.

Figure 37 indicates TCTA's total BEE spend in percentages as of 31 March 2005.

Figure 37: TCTA BEE spend



Lesotho Highlands Water Project

Ninety-nine percent of the impact of the LHWP is in Lesotho and it would therefore be irresponsible to implement the water transfer scheme without considering the social and environmental impacts of the projects on the people.

Phase I of LHWP has been completed in accordance with international and World Bank recommendations on the requirements of social development.

During the past year attention was focused on ongoing and outstanding social issues.

Resettlement

In total, 315 households have been resettled in Phase 1B. Four additional households were identified and approved for resettlement because they were too near the full supply level of Mohale reservoir. An asset inventory and verification of their properties are complete and they will be resettled soon. The construction of all schools (seven in the foothills and eight in the mountain areas) has been completed and handed over to the relevant ministry during the reporting period. The last 35 of 452 graves to be

removed and reburied will be done after the harvest season, between August and October 2005.

Compensation

Compensation payments have been well managed. Until 2004, payment dates for annual cash payments and annual grain had been informal (at harvest time), and there were no agreed dates for payments. In 2004, compensation dates were agreed and the affected households informed of the compensation schedule.

Compensation payments to 2 060 households in cash and in kind in the Phase 1A area were completed according to plan. In the Phase 1B area, 792 households received their annual compensation, while all resettled/relocated households received disturbance allowances according to the compensation policy.

Community compensation

Funds for lost communal assets due to project construction are paid to communities once local legal entities are established. In the Phase 1A area, 27 entities were established and received five years' worth of accumulated communal compensation totalling R11 million. Twelve entities started implementing development projects in their areas while 15 new business plans were developed and await approval.

In the Phase 1B area, 11 entities have been registered and received payments by March 2005. Another five are opening bank accounts and will receive compensation.

Village water supply, health and sanitation

In the Mohale area, 59 of 115 water supply systems have been completed; 1 819 latrines were completed out of 2 445; 1 719 of 2 445 refuse disposal pits were completed and 1 048 of 2 445 soak-away pits were completed.

A total of 5 400 VIP latrines, 120 water systems, and a similar number of water and refuse disposal structures are projected for the Katse area at a cost of R64 million. These will be constructed over three years.

Ombudsman hearings

The complaints resolution mechanism for the affected communities/households was reviewed in view of the ombudsman's interventions in August 2003. The ombudsman has signed off 54 of 58 actions raised in his report to which LHDA has complied. Information regarding the four outstanding issues were submitted to the LHWC which will take it up with the ombudsman.

Epidemiological and social survey

This survey is meant to help establish the social impact of the project on affected people. It will evaluate the health status of people in the entire project area, and can make a significant contribution to strategic planning for health intervention and HIV/Aids programmes. The consultant should start the study in May 2005.

Berg Water Project

The BWP is the largest infrastructure project currently being implemented in the Western Cape. It has a direct impact on the communities in the Franschhoek and Dwars River valleys.

Employment, training and procurement

Before construction of the dam started, TCTA conducted a skills survey in the Franschhoek and Dwars River valleys to determine existing skills within the project area. A database was developed from the survey to serve as the basis for preferential employment of local inhabitants. Subsequently, TCTA established an employment information desk to manage and update the database and provide a service to contractors in the process of recruiting local labour.

The BWP is the first project being implemented in compliance with the guidelines issued by the World Commission on Dams.

TCTA formulated and is implementing a development policy to maximise job and business opportunities for local people and businesses (giving preference to historically disadvantaged groups), known as the Franschhoek First Policy. The policy ensures that employment, procurement and training opportunities for local communities are created by project role players, and targets are specified in contract documentation.

Training on the project takes place in three forms: prevenient training (in anticipation of pending job opportunities), contractor's training (provided on site to increase skill levels) and business training (provided to SMMEs to ensure they can participate fully in available business opportunities). During March 2005, TCTA presented certificates to more than 80 candidates who successfully completed their prevenient training in skills ranging from carpentry to bush-cutting.

Training provided by the dam construction contractor

The dam construction contractor provided training to over 1 426 attendees, to date.

Training provided by the Working for Water programme

609 workers contracted for the Working for Water alien vegetation clearing programme were trained for 2 083 days.

SMME training

TCTA facilitated local SMME training to ensure that contractors are able to take maximum advantage of the business opportunities available from the BWP. This training support was specifically provided in preparation for the La Motte housing contract.

Training intervention	Local SMME attendants
<ul style="list-style-type: none"> • Business entity registration • Tender process • Access financial assistance • Business management skills 	14
<ul style="list-style-type: none"> • Registration of business legal entities 	12
<ul style="list-style-type: none"> • Tender process • Costing construction tenders • Compiling business plans 	13

Employment statistics

Access road

More than 90% of the workers were historically disadvantaged individuals. More than 200 people were employed and the contractor met the Franschoek First (local employment) targets.

La Motte housing contract

In its endeavour to create opportunities for small local contractors and give effect to the Franschoek First Policy, TCTA has divided the contract for the 80 houses into four multiples of 20 units. TCTA gave preference to local black enterprises and to tenderers that engage local black enterprises as joint venture partners.

Following the tender evaluation process, TCTA awarded the first contract for the construction of 40 houses to

Power/Donico Construction joint venture. The contract started on 10 January 2005. A contract for construction of 20 houses was awarded to Bright Idea Projects 632 CC (a black-owned SMME from Franschoek). Another local black enterprise Bright Idea Projects 611 CC (an SMME from the Dwars River Valley) was awarded the contract for constructing the other 20 housing units.

Dam contract

The dam contractor has a target of 75% local and 5% Western Cape with regard to the labour force on site. The dam contractor has not managed to meet the target of 75% local employment as of February 2005, due to a skills shortage in the local labour pool. However, the 80% target for historically disadvantaged individuals employed on site has been exceeded. The contractor is implementing a training programme to address the shortage.

Group	Target	Cumulative
Local	75%	49%
Western Cape	5%	23%
Outside Western Cape	20%	28%
HDI	80%	87%

Black economic empowerment

The procurement of goods and services by the dam contractor is gauged against contractual procurement targets on the dam contract. (All percentages are expressed as a percentage of 25% of the total contract value).

Figures supplied by BRPJV. Targets are based on 25% of the total contract value.

Group	Target	Cumulative % to date	Cumulative value to date
Black Enterprise (BE)	15%	39,77%	R14,7 million
Black Economic Empowerment	20%	34,65%	R12,8 million
Local business	5%	9,81%	R3,6 million
SMME	10%	47,39%	R17,5 million

Empowerment focus of BWP contracts

Infrastructure project	Contractors	Type of empowerment instituted
Access road	DWAF construction directorate	Government; Franschhoek First Policy targets.
Housing		
• 40 houses	Power/Donico Construction Joint Venture	BEE partnership; 80% local HDI content.
• 20 houses	Bright Idea Projects 632 CC	Black-owned SMME; Franschhoek.
• 20 houses	Bright Idea Projects 611 CC	Black-owned SMME, Dwars River valley.
Housing civils	DWAF construction directorate	Government; Franschhoek First Policy targets.
Wemmershoek pipeline	DWAF construction directorate	Government; Franschhoek First Policy targets.
Main construction		
Berg River dam	Berg River Project Joint Venture (BRPJV): <ul style="list-style-type: none"> • Grinaker-LTA • Group Five • Wilson Bayley Holmes Ovcon (WBHO) • Western Cape Empowerment Contractors (WCEC) – 10 black-owned SMMEs 	BEE joint venture with 20% black shareholding; Franschhoek First Policy targets.



Social monitoring strategy

A social monitoring strategy on the BWP is being implemented by independent consultants to ensure that all project benefits are maximised and negative social impacts are mitigated. To date, the social consultants have developed a monitoring and evaluation plan and have completed a comprehensive survey of 600 households. A baseline report on the capacity of the health, education, safety and security institutions has been completed. A complaints register has also been set up to enable individuals and groups to voice issues and complaints in a formal, ordered manner.

Sustainable utilisation plan

The public consultation process for the development of a sustainable utilisation plan began formally with two public meetings held in February 2005, one in Groendal and another in Pniel. The public meetings are being followed up with extensive bilateral meetings with key interested and affected parties. The outcome of this process will be development proposals for the dam water body and the surrounding land. Baseline information on applicable legislation and the physical environment is being collected to determine the possible constraints and opportunities against which the proposed development activities will be evaluated.

Public participation on BWP

The involvement and participation of the public and stakeholders in the BWP has occurred through various forums, communication media and events. For example, non-governmental organisations, community-based organisations and community representatives in the Franschhoek and Dwarsrivier valleys are involved in the monthly monitoring of employment and training issues and processes through the integrated employment and training committee established by TCTA. The committee was established in October 2004 and has held meetings every month since then. The public is kept informed about the BWP through TCTA's publication, the Berg Water News.

Project communications

An integrated communications plan was developed and is being implemented to involve stakeholders in various aspects of the project. TCTA celebrates important milestones with the communities in the immediate vicinity of the dam. Highlights of the year under review were:

- **A sod-turning event** for the Berg River Dam, attended by the Minister of Water Affairs, Ms Buyelwa Sonjica, and the Premier of the Western Cape, Mr Ebrahim Rasool.



- A certification event, *Under African Skies*, where more than 80 individuals received their training certificates.
- *The Working for Water signing* ceremony, at which TCTA committed to support the Assegaibos project with a R21-million contribution.
- *La Motte La' Waai*, a youth fun day in the La Motte community to celebrate the agreement for the construction of the contractors' houses.
- *The Box Cart Grand Prix 2005* to celebrate the opening of the access road to the dam.
- *Opening of the Information Centre* during National Water Week 2005.

The Berg Water Nuus, TCTA's own tri-lingual tabloid provides the local communities with regular information on the project. Feature articles in magazines, as well as news coverage by local and regional newspapers supplement it. Radio and TV coverage of the project have included news items, interviews and a Morning Live broadcast.

Site visits are increasing in frequency as the project develops. Since the completion of the Information Centre, the facility has become a popular meeting venue that has hosted foreign and local dignitaries, politicians and special interest groups.

Compensation and mitigation

TCTA expropriated two private properties and one business which were compensated in terms of the Expropriation Act. Both properties and the business are located in the dam basin. Negotiations on the final settlement amount are still under way.

All ad hoc claims for mitigation of losses during the course of the project implementation process and subsequent to the completion of the dam will be handled by way of appropriate national legislation or international best practice on similar projects.

Vaal River Eastern Sub-system Augmentation Project

Land acquisition process

For purposes of project planning and implementation, TCTA and its appointed service providers will require access to the land affected by the proposed project. All land acquisition processes will be undertaken by a specialist agent on behalf of TCTA.

The following processes are envisaged under the land access and acquisition process:

- Temporary access to land for purposes of geo-technical investigations.
- Acquisition of land and servitudes for construction purposes.
- Access to land for operations and maintenance purposes on project completion.

Both private and state land will be affected by project implementation. Therefore, TCTA will enter into discussions with affected land owners to ensure the registration of appropriate servitudes or acquisition of relevant land portions.

Sustainable infrastructure development

TCTA follows international best practice and guidelines on sustainable infrastructure development.



Lesotho Highlands Water Project



Mandate

TCTA was established in terms of Government Notice 2631 of 12 December 1986 for “the implementation, operation and maintenance of the project works within South Africa” according to the Treaty that governs the Lesotho Highlands Water Project (LHWP).

TCTA was directed by the South African government to take on the added responsibility of liability management for the LHWP. When the delivery of water started in 1998, the implementation function on Phase 1A was fulfilled. However, TCTA still performs its operations and maintenance function on the LHWP structures within South Africa. The delineation of the operations and maintenance function is prescribed in Protocol VI and will be commented on separately in this annual report.

The need for the LHWP

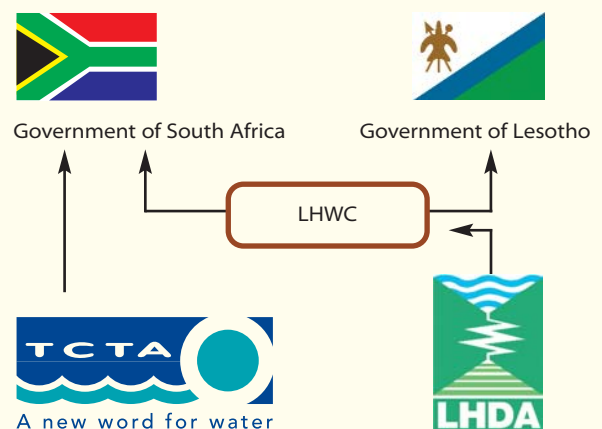
The LHWP is a world-class infrastructure project to divert waters of the Senqu River system in Lesotho to the dry Gauteng region of South Africa to provide water for domestic and industrial purposes. It is a joint project by the two countries, implemented by TCTA within the borders of South Africa, in accordance with

the Treaty and government directive implemented by LHDA within the borders of Lesotho, in accordance with the treaty and overseen by the Lesotho Highlands Water Commission (LHWC). The oversight role of the LHWC is defined in protocol VI to the Treaty.

Governance

TCTA reports directly to the Minister of Water Affairs and Forestry as the executive authority on all matters concerning liability management. On operations and maintenance functions, TCTA reports to the LHWC.

Figure 38: LHWP governance structure



“Khotso, pula, nala”

Southern Sotho – Peace, rain, prosperity (the official motto of Lesotho).

Meaning: With peace and rain, prosperity ensues.

The peaceful sharing of the waters of Lesotho brings prosperity to both countries. ”

Project update

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

TCTA was responsible for the implementation of the 21km Delivery Tunnel North on Phase 1A. The tunnel joins Delivery Tunnel South inside Lesotho and ends in the Ash River Outfall structure. Subsequently, TCTA implemented a series of structures on the Ash River to dissipate energy and modulate the fluctuations in flow caused by the operation of the Muela Hydropower Station.

The Phase 1B physical works, comprising Mohale Dam, Matsoku Weir and a 31km transfer tunnel from Mohale reservoir to Katse reservoir, have all been completed, bringing engineering activities on the project to a close. The Mohale-Katse transfer tunnel can now be operated, but will remain closed until the Mohale reservoir reaches a higher level. (Currently, water would flow from Katse Dam to Mohale Dam if the tunnel was operated.)

TCTA is responsible for the funding of the entire LHWP, with the exclusion of the Muela Hydropower Station.

According to the World Bank supervision missions, the main project works and engineering supervision continue to be rated highly satisfactory. The operation

Figure 39: Lesotho map illustrating the position of the LHWP



of the project is very successful and it continues to deliver a sustained flow of high quality water to the industrial heartland of South Africa. This water drives economic development, ensures community health and provides recreation in South Africa, while Lesotho benefits financially through royalty payments, advanced infrastructure, rural water and sanitation projects, the improvement of rural health services, tourism development and road transport services.

Emergency releases

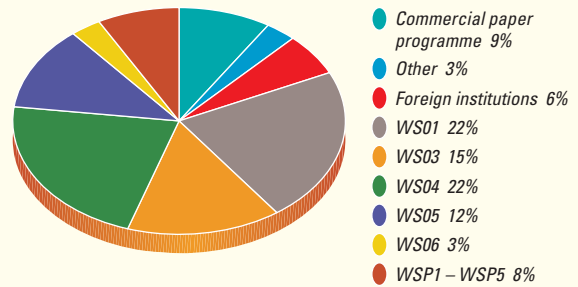
The project also offers flexibility to address water shortages in the central Free State, Eastern Cape and Lesotho.

Releases from the LHWP to the Caledon have been accepted by the government of Lesotho as an alternative to the raising of the Maqalika Dam and an emergency release was made in October 2003 when Maseru experienced severe drought conditions. This water offers Lesotho a valuable resource for sustainable industrial growth.

Possible future phases

Although the Treaty envisages four possible phases of the project, the Treaty partners (South Africa and Lesotho), were only committed to implement Phase 1, after which possible future phases would be evaluated. Following the completion of Phase 1, the governments of South Africa and Lesotho committed to a joint feasibility study in terms of the Treaty. The tender for this study should be issued towards the end of 2005.

Figure 40: Total funding portfolio liabilities as at 31 March 2005 R19 984 million



Liability management

Operating review

Current statement of income and expenditure relating to the operations and maintenance of the works in South Africa:

	2005 R'000	2004 R'000
Revenue from water sales	633	434
Operating costs	633	434

TCTA's responsibilities in relation to the LHWP increased as a result of the increase in the financial debt under TCTA's management amounting to ±R20 004 million at March 2005. The debt will reach a peak in 2013 at R21 billion and will be repaid by 2026. The risk of refinancing debt, continually lowering the average cost of funding, cost control and managing the peak and tail of the debt curve are controlled in an active enterprise-wide risk management framework where asset and liability matching and duration management are key.





Current debt outstanding and composition

The table summarises current debt outstanding and its composition.

	(R million)
Funding portfolio:	
Call	849
Fixed period borrowings	1 086
Capital market	16 519
Other	858
Foreign loans	692
Total	20 004

Ash River

A river management plan is being implemented to monitor the status of the river against predetermined expectations, which dictates any future action that may be required to stabilise erosion.

Operations and maintenance

TCTA reports on its activities on the project works inside South Africa separately from its other activities. These activities focus mainly on the ongoing operations and maintenance function.

TCTA's commitment is to ensure sustainable water delivery to the Vaal River system through its operations and maintenance function.



Berg Water Project



Mandate

The Berg Water Project is the culmination of a 14-year process by the Department of Water Affairs and Forestry (DWAF) that led to the decision to implement the project.

The process started with the Western Cape systems analysis in 1989, to determine the future needs and water resources available in the region, and was subjected to rigorous public participation process and debate, after which a record of decision was issued in 1999 by the Department of Environmental Affairs and Tourism.

In December 2001, the Minister was satisfied that appropriate progress regarding water demand management had been made by the City of Cape Town, and in April 2002, the Cabinet approved the implementation of the BWP.

In May 2002, the Minister directed TCTA in terms of section 103(2) of the National Water Act, 1998, to fund and implement the BWP as the agent for DWAF.

The need for the BWP

The BWP is designed to overcome the impending water shortage in the Western Cape metropole. It is the first bulk water resource development project that is directly linked to water demand management. The existing components of the Western Cape Water System, including the addition of the Berg River Dam, are depicted in Figure 40. The BWP will increase the yield of the Western Cape water system by 81 million cubic metres or 18% to 523 million cubic metres a year by 2007.



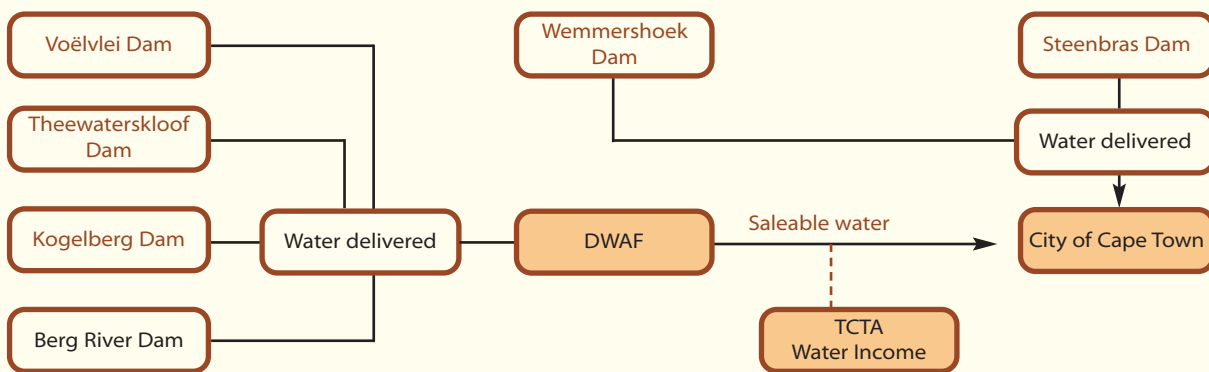
“Ditlamelo tsa pula di baakangoa gale

Tswana – Plan for rain before it falls.

Meaning: Think ahead.

Timeous planning for bulk infrastructure funding and implementation is at the heart of TCTA's strategy.”

Figure 41: Integrated Western Cape Water System



Decision-making participation

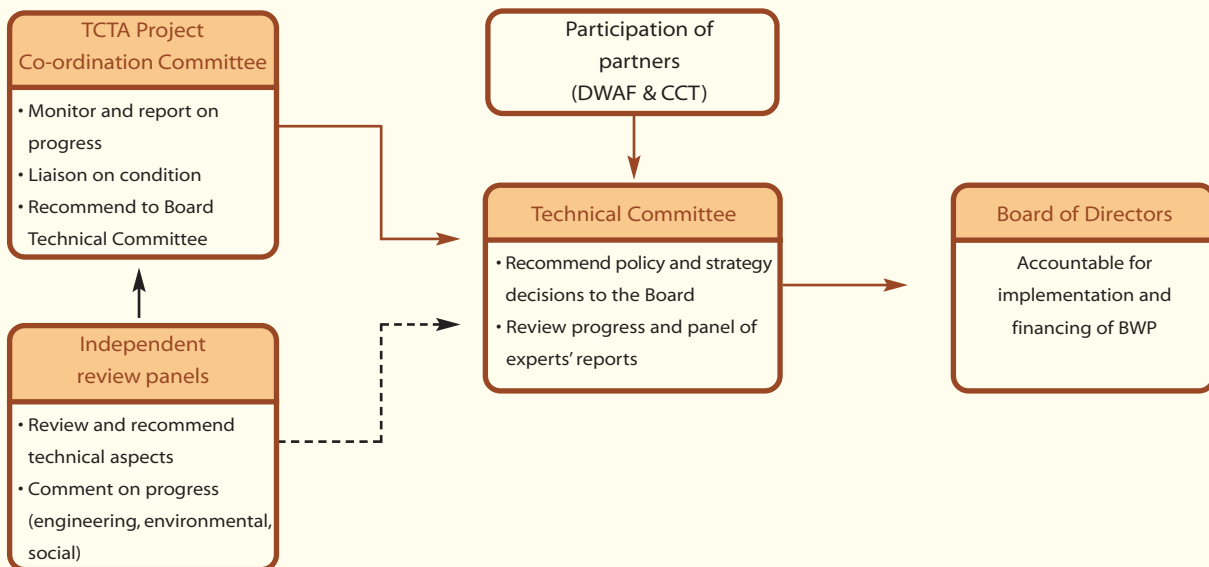
The BWP Technical Committee accommodates the participation of TCTA's partners (the City of Cape Town and DWAF) in implementing the project. An

independent engineering panel reviews all technical implementation aspects of the project and makes recommendations to the committee.

Governance

TCTA's Board is ultimately responsible to the Minister of Water Affairs and Forestry and to Cabinet for the implementation of the BWP.

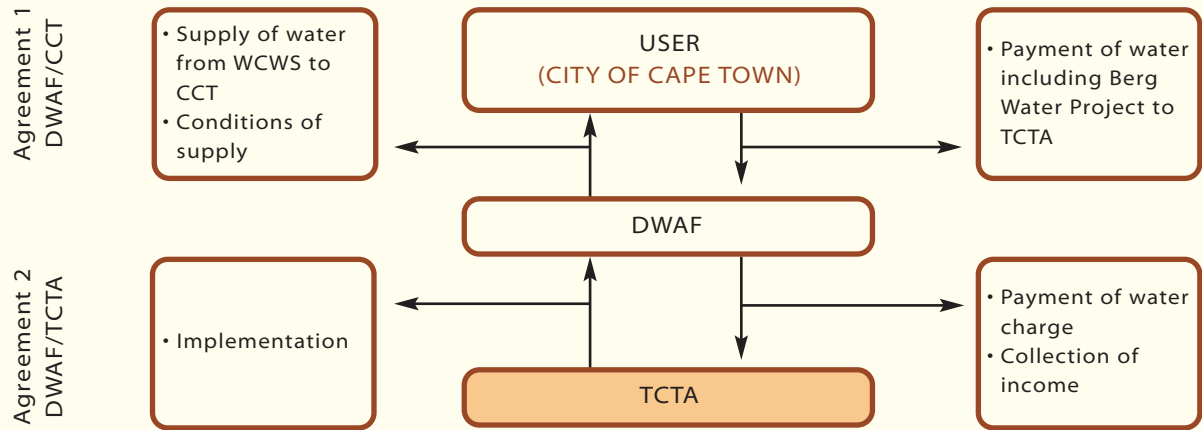
Figure 42: BWP decision-making structures



Berg Water Project continued

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

Figure 43: Implementation agreements



Project profile

The BWP comprises the Berg River Dam and a supplement scheme. The principal features of the project are:

Dam

The dam will be located in the upper reaches of the Berg River near Franschoek.

- Full supply level 250m above sea level
- Surface area 488ha
- Type Concrete-faced rockfill dam
- Gross storage capacity 130,0 million m³
- Net storage capacity 129,4 million m³
- Maximum dam height 62m (70m including foundation)
- Length of dam wall 928m
- Spillway Side channel
- Volume rockfill 2,5 million m³
- Multi-level inlet tower

Supplement scheme

Abstraction works on the Berg River, located downstream below the confluence with the Dwars River:

- Diversion weir across Berg River
- Balancing dam 4ha
- Pump station 4m³/second
- Pipeline 10km

Infrastructure

- Access road to the dam site 3,5km
- Construction housing 80 units



Project update

Within the space of less than a year (mobilisation of the main contractor started on 1 June 2004), the BWP site has been transformed from a carpet of thick alien vegetation along the Berg River, into a maze of roads, machinery and an imposing main embankment on the right riverbank, with a growing concrete conduit parallel to the river on the left bank.

Site establishment

The contractor's facilities, engineer's offices and general services were the first to be established and completed on site. The contractor's yard area comprising the offices and parking areas, the clinic and first aid post, the canteen, laboratory, fuel storage facility, workshops and wash bay, stores and on-site training centre are fully complete and operational.

The latest structure on site is the TCTA Information Centre that was officially opened during National Water Week 2005. Services to the engineer's offices and contractor's yard, sewage treatment facilities and radio communication system are complete and fully operational.

Soon after site establishment, the site was fenced off and the public was informed that general access to the site would no longer be permitted. Access facilities, as well as access control and security systems are in place.

Bush clearing of the dam footprint was the first to be completed and the operation is progressing very well in other parts of the dam basin. Three wood chipping

machines are in operation and the material is being stockpiled offsite at Robertsvlei.

The crusher plant has been established and is in full production for concrete aggregate and filter material. A mobile crusher to supplement filter production is expected in July 2005.

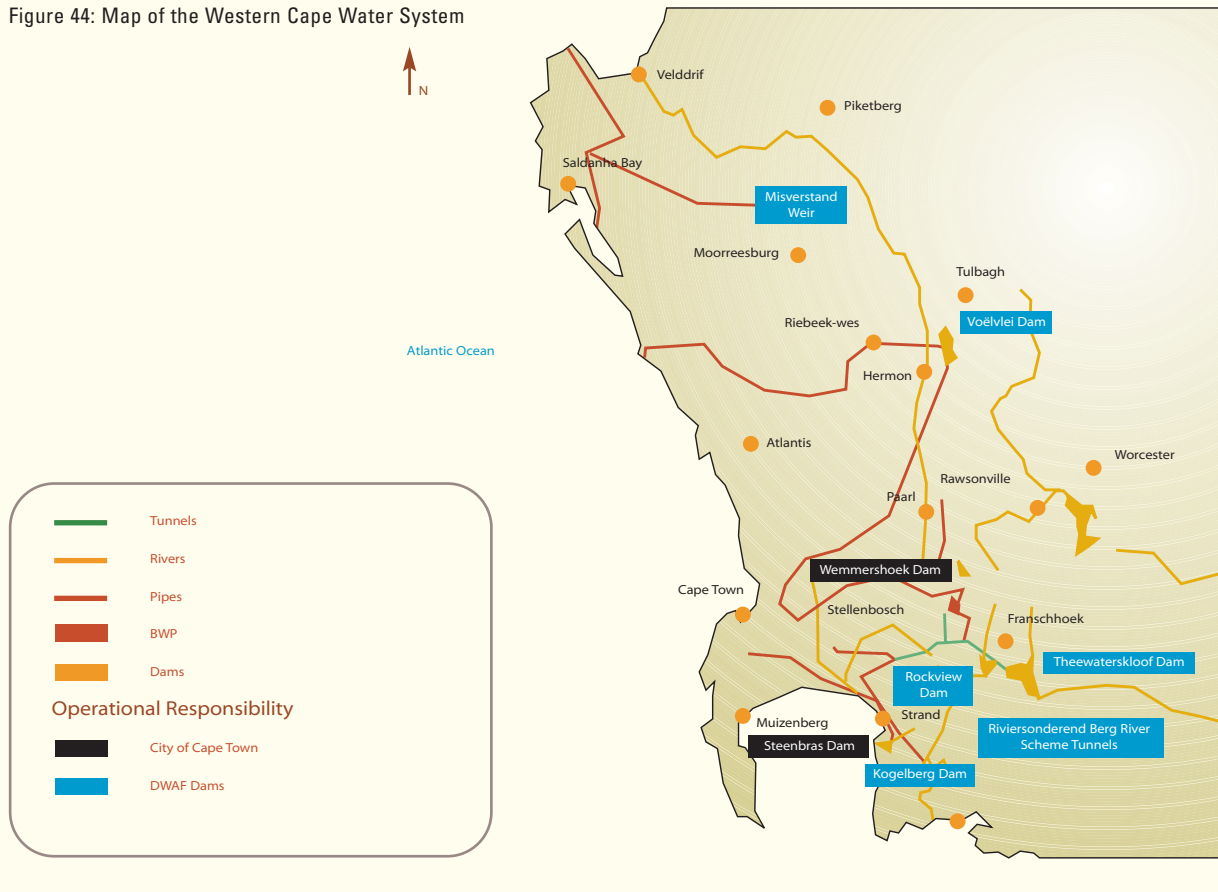
All the contractor's haul roads have been completed, as well as two low-level crossings on the Berg River; one upstream and the other downstream of the main embankment. In the event of flash floods, the upstream concrete low-level bridges are used while the necessary repairs are effected to the river crossings.

Dam construction progress

Excavation of river rock from the upstream borrow area is under way to supply material for the embankment and the crushers. The excavation process often has to contend with severe groundwater conditions. To date, total area of 29 395m² equating to a volume of 102 883m³ of material has been excavated to supply the crushers. A total area of 195 959m² equating to a volume of 720 000m³ of material has been excavated for placement on the embankment during the same period.

The upstream cofferdam, consisting of a slurry trench below a clay core, in the centre of a rockfill embankment, was the first project structure on site. (Both the cofferdam and main embankment are being constructed on the right bank until the diversion structures are completed on the left bank.) Construction of the right bank section of the cofferdam is ahead of schedule and ceased at 209 metres above sea level (masl); final construction to 212 masl will continue after the river diversion.

Figure 44: Map of the Western Cape Water System



While construction of the cofferdam commenced on the right bank, the dynamic compaction of the foundation for the main embankment started. This was necessary due to weak foundation conditions. Excavation of the plinth for the concrete face of the main embankment was carried out concurrently. Once the dynamic compaction was completed, the placement of rock on the main embankment could start, as well as the placement of concrete on the exposed foundation rock for the plinth. Additional excavation for the plinth is in progress on the upper right bank due to poor foundation conditions. Five 22,5m sections of the plinth have been completed to date with preparation of the sixth section in progress.

Daily placement of material on the main embankment is approximately 12 000 cubic metres with an estimated total of 820 000 cubic metres to date (June 2005). The current level is 222 masl.

River diversion channel

The good rock formations on the left bank facilitated the construction of the river diversion channel, which

will contain the conduit and intake tower, as well as the outlet structure.

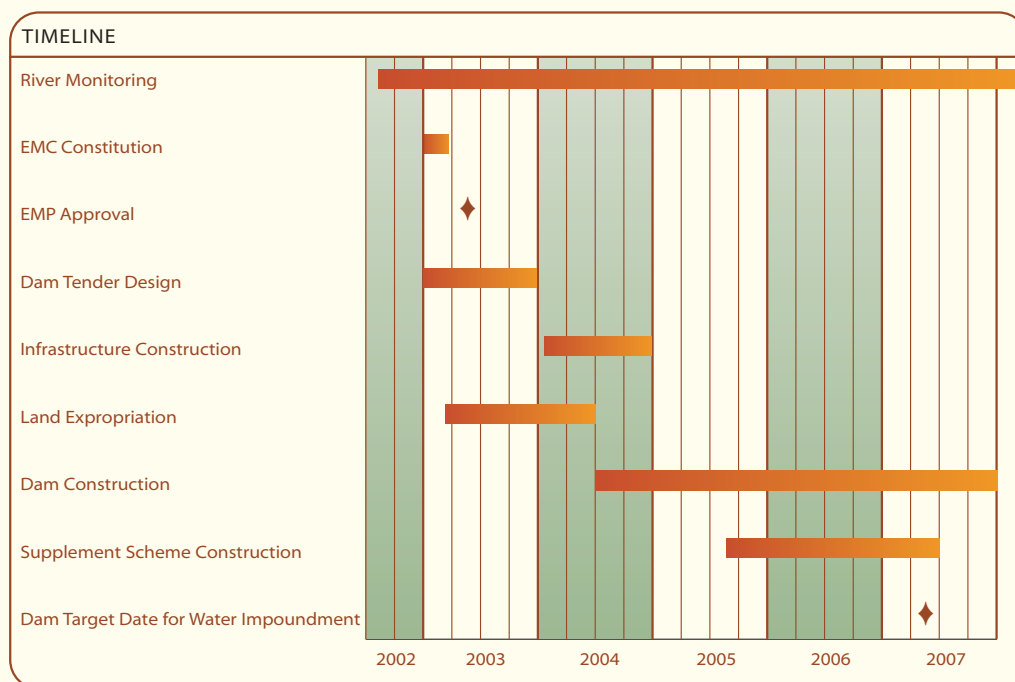
Initially, the diversion of the river will channel the flow through the conduit beneath the intake tower. For impoundment, the intake portal below the intake tower will be sealed.

The excavation of the channel has almost been completed and the construction of the conduit and approach channel walls is progressing well; only the wall sections adjacent to the intake tower still have to be cast. Work on the final sections of the channel walls should start by mid-July 2005, when the construction progress on the intake tower should allow it. All the bases of the conduit sections have all been completed and two segments of the conduit have also been completed.

Both concrete batch plants have been set up and are fully operational. Two tower cranes (at the intake tower and the outlet works) are fully operational, while a second one on the intake tower is being commissioned.



Figure 45: BWP Timeline



The diversion of the Berg River should take place by November 2005.

Intake tower

The intake tower consists of a wet and a dry well; the wet well faces upstream and contains two selector gates at three levels, while the dry well faces downstream and contains a series of pipes and valves at various levels. The dry well will abstract water for stream flow and delivery to Cape Town, while the wet well will be used for flood releases. The fabrication of pipe work is under way in Cape Town and the hydro-mechanical subcontractor is expected on site by July 2005.

Spillway and plunge pool

Bulk excavation of the spillway chute and plunge pool commenced in January 2005 and is continuing unabatedly. This includes regular blasting for bulk excavation of the spillway and plunge pool.

Schedule

The project is on track for water delivery by December 2007.



Ref. 4/3/1
4/28-700SWS

**MINISTRY: WATER AFFAIRS AND FORESTRY
REPUBLIC OF SOUTH AFRICA**

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Mr T Fowler
Chairperson
Trans-Caledon Tunnel Authority
PO Box 10335
CENTURION
0046

06 MAY 2002

Dear Mr Fowler

DIRECTIVE IN TERMS OF THE NATIONAL WATER ACT, 1998 (ACT 36 OF 1998): BERG WATER PROJECT

The Cabinet recently approved the implementation of the Berg Water Project, which will augment the water supplies in the Western Cape Water System. Cabinet has further approved that the financing shall be via an off-budget funding mechanism and specifically approved that the Trans-Caledon Tunnel Authority (TCTA) raise the funds. It is anticipated that no Government guarantee will be required as borrowing will be on the strength of the revenue from the sale of water to the City of Cape Town.

In view of this decision I hereby direct the TCTA in terms of section 103(2)(b) of the National Water Act, 1998 to finance and implement the Berg Water Project subject to the following conditions:

1. Report to me on progress on the Project every six months, as well as on an *ad hoc* basis on issues which require my attention and intervention.
2. Agreements between the Department of Water Affairs and Forestry, City of Cape Town and TCTA, who are the principal Parties for the Project, shall be prepared and signed. The issue of ownership shall be addressed in these agreements.
3. The Institutional arrangements and processes for the Project shall ensure meaningful participation of the Department of Water Affairs, City of Cape Town and the Western Cape Provincial Government at the strategic/policy level and co-ordination at the operational level of the Project.
4. The Project must be implemented in the most efficient manner with due regard to cost and timing, both of which are of great importance to the end-user.
5. The Project should start delivering water in 2006 via the pumping scheme with substantial completion of the dam prior to the wet season of 2007. Earlier completion within cost constraints will be desirable in view of the probable water situation in the Western Cape Water System over the next 5 years.

Viva water pure and clean! • Viva forests rich and green!

6. The internal resources of the Department of Water Affairs and Forestry, especially in the technical area, should be used, subject to constraints, including but not limited to the financing mechanisms, total cost and accountability.
7. Environmental and social aspects shall be fully integrated in the implementation of the Project as well as compliance with the Record of Decision of 10 May 1999 by the Department of Environment Affairs and Tourism. Structures must also be set up to ensure adequate public and community participation in the Project.
8. During the development of the Project other benefits such as job creation, infrastructure development, housing which can be transferred to the local community, tourism and recreation should be optimised.

This Directive paves the way for a new era in the development of water resources in South Africa and I expect that all Parties will participate in the Project in a positive manner in a true spirit of partnership.

With kind regards



RONNIE KASRILS MP
MINISTER OF WATER AFFAIRS AND FORESTRY

BERGWATERSUPP



Ref: 4/3/1

**MINISTRY: WATER AFFAIRS AND FORESTRY
REPUBLIC OF SOUTH AFRICA**

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Chairperson
Trans-Caledon Tunnel Authority
P O Box 10335
CENTURION
0046

05 MAR 2003

Dear Sir

**DIRECTIVE AND AUTHORIZATION IN TERMS OF THE NATIONAL WATER
ACT, 1998 (ACT NO 36 OF 1998): BERG WATER PROJECT**

Further to my directive with references 4/3/1 and 4/28-700SWS dated 6 May 2002, I hereby direct that the Trans-Caledon Tunnel Authority (TCTA) be authorized, with effect from 6 May 2002, in terms of section 103(2) of the said National Water Act of 1998 to finance and implement the Berg Water Project.

In terms of section 64(1) of the said National Water Act, 1998, I further authorize the TCTA to expropriate property required to implement the Berg Water Project.

With kind regards

A handwritten signature in cursive script that reads 'Ronnie Kasrils'.

**RONNIE KASRILS, MP
MINISTER OF WATER AFFAIRS AND FORESTRY**

Viva water pure and clean! • Viva forests rich and green!



Ref: 4/3/1
4/28-700SWS

**MINISTRY: WATER AFFAIRS AND FORESTRY
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4 NOV 2004

Mr L Maasdorp
Chairperson
Trans-Caledon Tunnel Authority
P O Box 10335
CENTURION
0046

Dear Mr Maasdorp

AMENDMENT TO DIRECTIVE IN TERMS OF THE NATIONAL WATER ACT, 1998 (ACT 36 OF 1998) IN RESPECT OF THE BERG WATER PROJECT ISSUED TO THE TRANS-CALEDON TUNNEL AUTHORITY (TCTA) ON 6 MAY 2002

Investigations recently undertaken by the Consultants Ninham Shand, at the request of the City of Cape Town, have indicated that the potential benefits of completing the Supplement Scheme in 2006, one year in advance of the Berg River Dam, are insufficient to justify the early expenditure required to achieve this completion date. Ninham Shand has recommended that the completion of the Supplement Scheme be deferred by at least a year. The City of Cape Town's Mayoral Committee has accepted this recommendation.

The directive dated 6 May 2002, which was issued by my predecessor Mr Ronnie Kasrils, MP, is hereby amended as follows:

Item 5 is replaced by the following:

"The Project should start delivering water from the Berg River Dam in 2007 after substantial completion of the dam prior to the wet season of 2007. The Supplement Scheme should be completed at the same time."

The impact of the above directive amendment on the existing various Agreements between the TCTA, the Department of Water Affairs and Forestry and the City of Cape Town should be assessed and the Agreements amended, if necessary.

With kind regards

(MS) B P SONJICA MP
MINISTER OF WATER AFFAIRS AND FORESTRY

cc: Ms M van Rensburg, CEO: TCTA

Viva water pure and clean! • Viva forests rich and green!

Umgeni Water



Background

On 4 July 2001, the Minister of Water Affairs and Forestry directed TCTA to fulfil the treasury management services of Umgeni Water. The relationship between TCTA and Umgeni Water was formalised by signing a two-year service level agreement on 11 July 2001. During July 2003, this agreement was extended for two years on the basis that the term may be shorter if the Minister confirms that TCTA had fulfilled its interventionary role towards Umgeni Water.

On 17 May 2004, the Minister confirmed that TCTA had completed its interventionary role and indicated that following a capacity-building and handover programme, TCTA and Umgeni Water could negotiate a commercial contract. TCTA and Umgeni Water started

a capacity-building and handover programme in October 2004, which was completed in January 2005.

The handover programme

The purpose of the handover and capacity-building programme was twofold:

- Provide adequate training to Umgeni Water to perform the full treasury function
- Provide training and clarification on all spreadsheets, models and programmes used for cash flow projections, debt modelling, tariffing calculations and for any other decision-making purpose.

Figure 46 illustrates the capacity-building and handover programme.



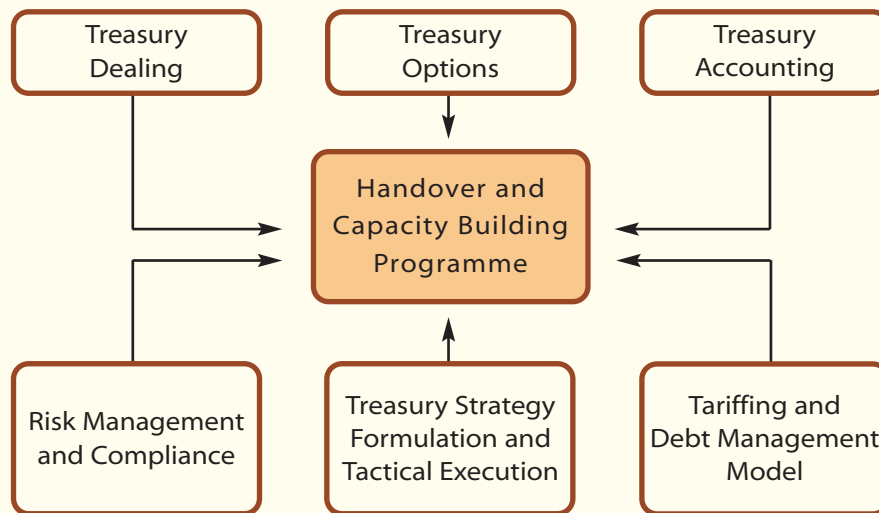
“Kwa kukuta, oko ku nonkenya

Ovambo, Namibia – The hard thing has a seed inside.

Meaning: When people persevere, prosperity follows.

TCTA and Umgeni Water persevered and achieved success.”

Figure 46: Capacity building and handover programme



The new service level agreement

TCTA and Umgeni Water are finalising a new service level agreement in which TCTA will render strategic services to Umgeni Water. In particular, TCTA will provide assistance on:

- Tariffing
- Funding and debt management

- Risk and ALCO management
- Reviewing treasury operational issues
- Formulating interest rate views.

TCTA's advisory and oversight role will also be performed through TCTA's participation on the Umgeni Water Finance Committee.



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Ref. 4/8/4

04 JUL 2001

Chairperson
Trans Caledon Tunnel Authority
P O Box 10335
CENTURION
0046

Dear Mr T Fowler

DIRECTIVE IN TERMS OF THE NATIONAL WATER ACT, 1998 (ACT No 36 of 1998)

On 14 June 2001 I gave a directive to the Board of Umgeni Water (Umgeni) in terms of the Water Services Act, 1997 (Act No 108 Of 1997) relating to the management of Umgeni's Treasury. One aspect of the directive requested Umgeni to take immediate action to bring the treasury management under control and report back to me by 29 June 2001 why I should not direct the Trans Caledon Tunnel Authority (TCTA) to undertake the treasury management of Umgeni as an interim measure on a cost-recovery basis until an acceptable permanent arrangement can be established.

I understand that a communication has been addressed to my department whereby Umgeni and the TCTA have proposed a joint undertaking to address this aspect. This undertaking sets out how the scope and extent of the treasury management of Umgeni will be undertaken and deals with such aspects as strategic, tactical and operational activities.

The above meets with my approval and therefore, I, direct, as I hereby do, that in terms of section 103(2)(b) of the National Water Act, 1998 that TCTA performs the treasury management activities of Umgeni on a cost-recovery basis until a more permanent arrangement can be established. Further, that a Service Level Agreement be entered into with TCTA that is approved of by myself within fourteen days of this directive. I further expect to be kept well informed on the progress being made on a regular basis including the risk positions and action to be taken within an agreed time period. I am satisfied that these additional functions will not prejudice the capacity of TCTA to perform the functions for which it was established.

Sincerely

A handwritten signature in blue ink that reads 'Ronnie Kasrils'.

Ronnie Kasrils, MP
Minister of Water Affairs and Forestry



Ref. 4/8/4
4/9/3/1
4/3/1

**MINISTRY: WATER AFFAIRS AND FORESTRY
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17 MAY 2004

Mr L Maasdorp
Chairperson
Trans-Caledon Tunnel Authority
PO Box 10335
CENTURION
0046

Dear Mr Maasdorp

TRANS-CALEDON TUNNEL AUTHORITY: REVISED MANDATE TO PROVIDE TREASURY MANAGEMENT SERVICES TO UMGENI WATER, OTHER WATER BOARDS, WATER MANAGEMENT INSTITUTIONS AND THE DEPARTMENT OF WATER AFFAIRS AND FORESTRY

I am aware that the Trans-Caledon Tunnel Authority (TCTA) has completed its mandate in terms of earlier authorisation that my predecessor had issued to allow the TCTA to assist Umgeni Water in its treasury management and that I accept that this has now been concluded to the satisfaction of all parties.

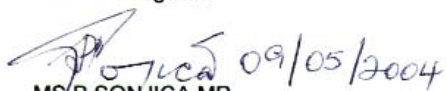
In terms of section 103(2) of the National Water Act, 1998 (Act 36 of 1998) I now hereby authorise the Trans-Caledon Tunnel Authority (TCTA) to deliver financial and treasury management services to water management institutions as defined in the National Water Act, 1998 and to water boards as defined in the Water Services Act, 1997 (Act 108 of 1997) and the Department of Water Affairs and Forestry upon request.

All such services should be formalised by agreements to cover the scope of services, time frame, delivery of outputs and fees and must be reported in the TCTA's Annual Report. Interim reports must be submitted to myself and my Department, on a six monthly basis, setting out the following:

- Scope of services and timeframe;
- Risks identified and managed;
- Progress in capacity transfer; and
- Impact on the TCTA resources and capability to perform its functions for which it was established.

This directive paves the way for a new era in public sector partnerships.

With kind regards


MS B SONJICA MP
MINISTER OF WATER AFFAIRS AND FORESTRY

Viva water pure and clean! • Viva forests rich and green!



Mandate

On 6 October 2004, the Cabinet approved the Vaal River Eastern Sub-system Augmentation Project (VRESAP). On 26 November 2004 the Minister of Water Affairs and Forestry, in terms of section 103(2) of the National Water Act, No 36 of 1998, directed TCTA to fund and implement VRESAP.

Authorisation

In terms of clause 24 of the revised notice of establishment published in Government Notice No 21017 dated 24 March 2000, TCTA may perform any additional functions required in terms of a directive by the Minister of Water Affairs and Forestry under section 103(2) of the National Water Act.

VRESAP will be a separately ring-fenced project without a government guarantee and will be implemented and financed by TCTA. The borrowings will be in TCTA's name with recourse against the income stream from the project.

Background – project details

VRESAP is to be implemented to meet the growing water demands of Eskom and Sasol in the Mpumalanga highveld region. The scheme will transfer water via a 120km pipeline from the Vaal Dam near Vaal Marina to the Knoppiesfontein diversion structure which discharges into either the Trichardtsfontein or Bosjesspruit dams near Secunda (see map). VRESAP will augment the yield of the Vaal River Eastern Sub-system (VRESS) by 160 million m³ per year.

Based on estimates at March 2005, VRESAP project costs are expected to be R2,3 billion. Construction

should be completed by July 2007. Based on the funding principle of repaying the project within 20 years after construction, the debt should be repaid by 2027.

Project description

The proposed augmentation project for the transfer of water into the Vaal River eastern sub-system, a sub-system of the integrated Vaal River system, will involve the installation of a pumping system to convey raw water from a new intake in the Vaal Dam to an upgraded Knoppiesfontein diversion structure. The abstraction point at the Vaal Dam is approximately 1 000m upstream from Vaal Marina. The upgraded diversion structure will also be able to convey and divert raw water pumped from the Grootfontein pump station.

Project components

The components of the project include:

- An abstraction works, including desilting facilities, at the Vaal Dam
- A high-lift pump station, capable of delivering 5,4m³/s
- An upgraded Knoppiesfontein diversion structure
- 120km of 1 900mm nominal diameter (sub-surface) steel pipeline
- 6km of 1 200mm nominal diameter steel pipeline to Bosjesspruit Dam
- Air ventilation valves and scour chambers (above surface) at intervals along the pipeline route.

Yield ratio

The total yield of the pipeline is 160 million m³ per annum.

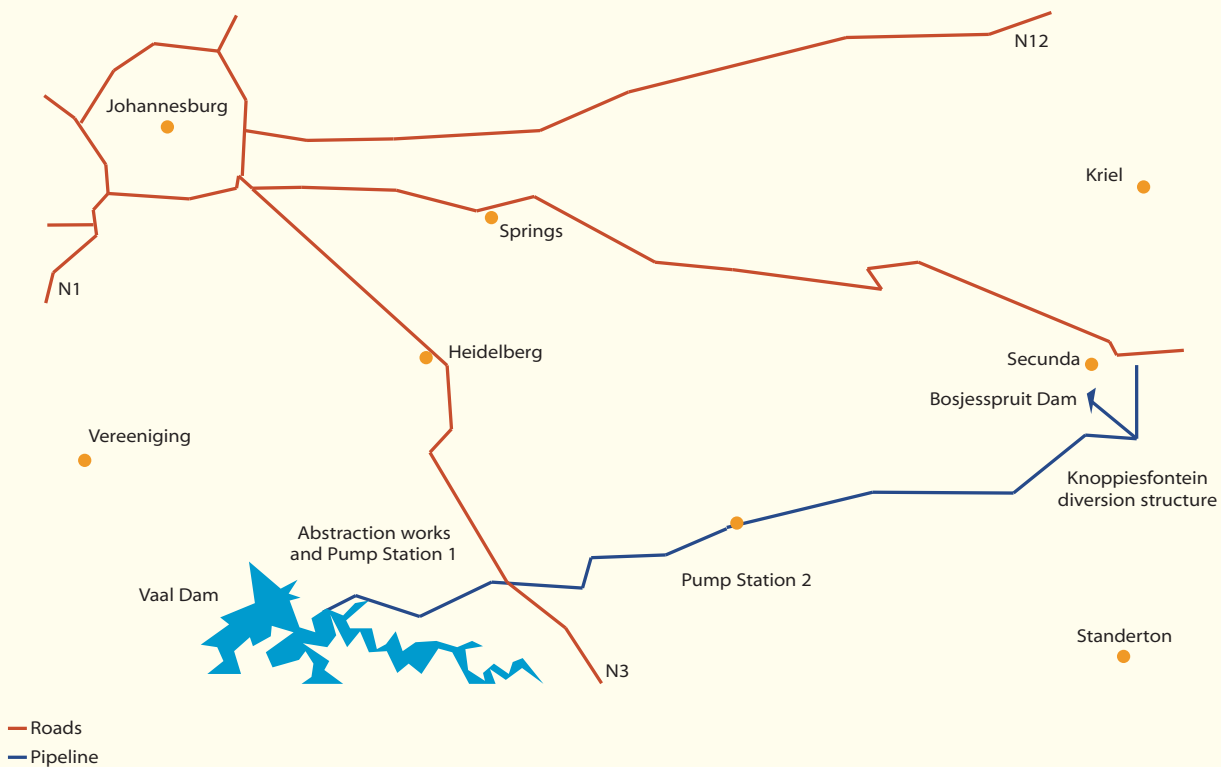
“Mutu umodzi susenza denga

Chichewa – Zulu dialect spoken in Malawi.

Meaning: Collaboration is vital.

TCTA's collaborating with Sasol, Eskom and Dwaf to make Vresap a resounding success.”

Figure 47: The VRESAP project



Project governance structure

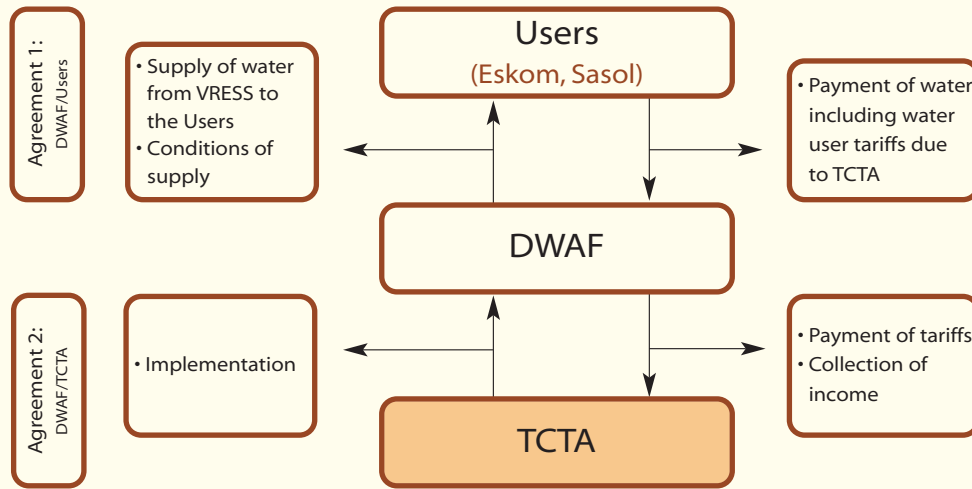
Figure 48 sets out the institutional arrangements between DWAF and the main users (**agreement 1**) and DWAF and TCTA (**agreement 2**). These agreements are still being finalised and are expected to be signed during the latter half of 2005.

Agreement 1 sets out the terms and conditions of supply from DWAF to the users as well as the terms

and conditions of payment by the users to DWAF for all raw water delivered where the payment of water from VRESAP forms part of the bulk raw water tariff.

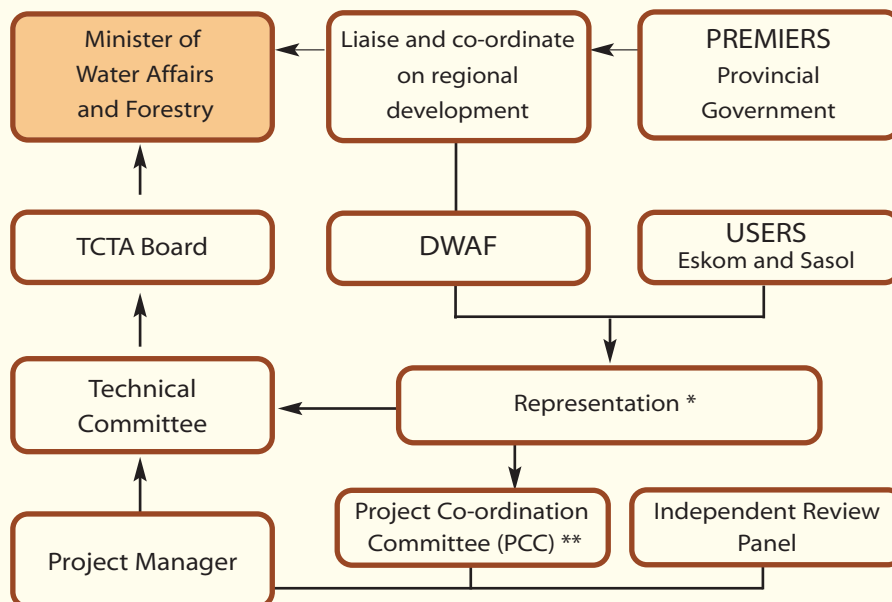
Agreement 2 sets out the terms and conditions relating to the implementation of the project and the payment by DWAF to TCTA for bulk raw water delivered. TCTA's credit exposure is therefore to DWAF and not to the users.

Figure 48: VRESAP institutional agreements



To support a consultative approach to project implementation, where the interests of stakeholders are taken into account, TCTA has developed institutional and governance structures which includes stakeholder participation. These structures are depicted in Figure 49:

Figure 49: VRESAP institutional and governance structure



* Voting membership on Technical Committee

** Stakeholder representation on Project Co-ordination Committee



Figure 50: TCTA governance structures, memberships and processes

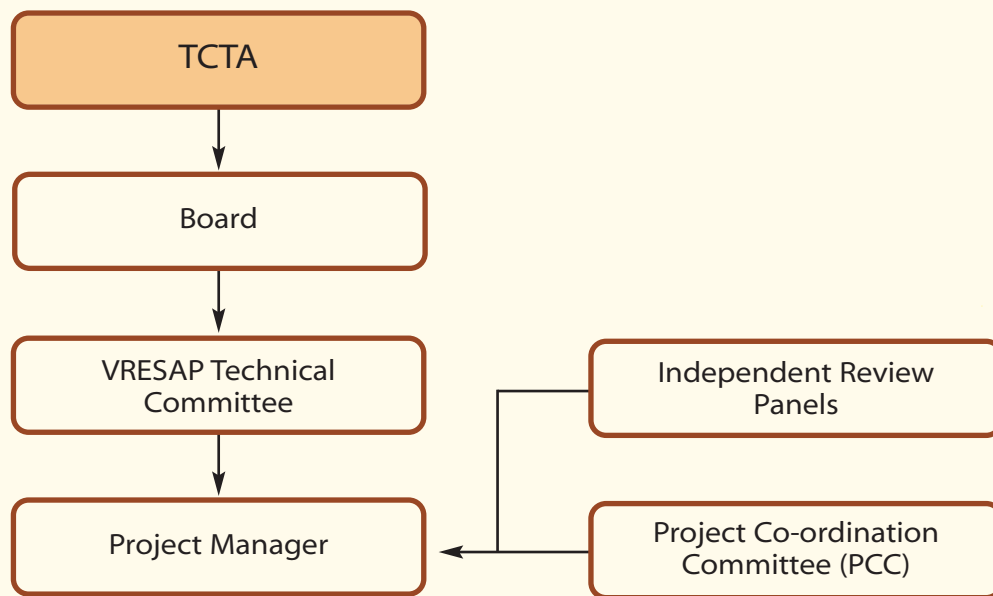
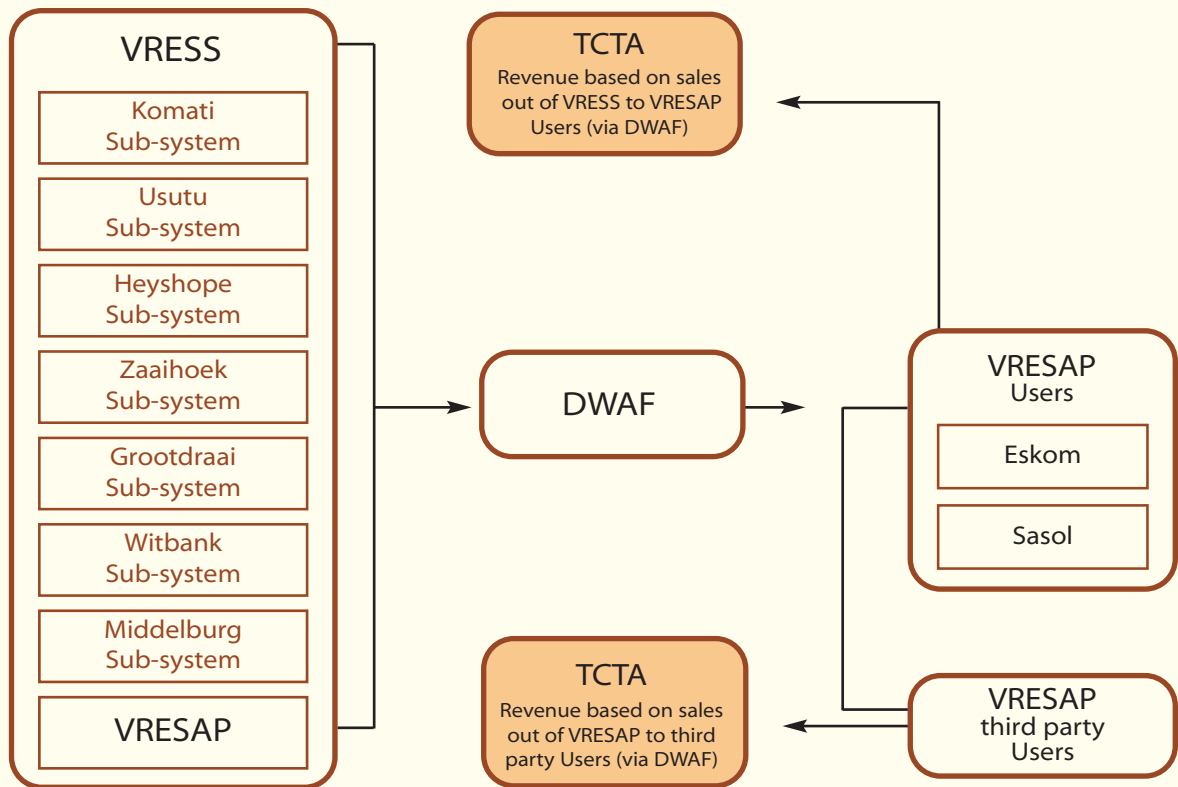


Figure 51: Water delivery and payment model



Financial information

Project cost

Based on current information, the estimated project cost of VRESAP is R2 305 million in March 2005 terms (including Bosjesspruit, which is for Sasol's account only).

Capital cost allocation and capacity ratio

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

demand is expected to increase from 40,32m³ to 132,09m³.

The total yield of the pipeline is 160 million m³ per annum of which Eskom is allocated ±60% and Sasol ±40%. Each user will be deemed to be purchasing capacity in the pipeline.

Income arrangements

TCTA will have an implementation agreement with DWAF whereby the infrastructure is delivered to DWAF by TCTA.

Systems approach

The VRESAP tariffs are based on the total water required by Eskom and Sasol from VRESS and not on water taken from VRESAP. The systems 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 systems approach implies that water resources will be managed on an integrated basis. It does not imply that the users accept the integrated risk of the system. For example, Sasol will not take on the risk of substantially lower water sales to Eskom. In effect, there will be two sub-debt curves for VRESAP and a differentiated tariff per user going forward.

Some of the benefits resulting from a systems approach are:

- It achieves lower tariff volatility as a result of using the total demand curve. From a rating and financing

perspective, increasing the certainty and predictability of the tariff reduces the likelihood of affordability issues being raised.

- It takes cognisance of the need to manage the system on an integrated basis and to take account of future augmentation.
- The parties do not bear the risk of reduced consumption by other parties to the system.
- There is increased flexibility to manage the specific requirements of each end-user without impacting adversely on other users.

Duration

The expected high-level project phases and duration are:

- Project start-up phase – November 2004 to June 2005.
- Environmental assessment phase – March 2005 to August 2005.
- Construction phase – September 2005 to July 2007.
- Operations and maintenance – August 2007 onwards.





**MINISTRY: WATER AFFAIRS AND FORESTRY
REPUBLIC OF SOUTH AFRICA**

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Ref. 4/0/3/1

26 NOV 2004

Mr L. Maasdorp
Chairperson
Trans-Caledon Tunnel Authority
P.O. Box 10335
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Dear Leslie

VAAL RIVER EASTERN SUB-SYSTEM AUGMENTATION PROJECT: DIRECTIVE IN TERMS OF THE NATIONAL WATER ACT, 1998 (ACT NO 36 OF 1998)

The Cabinet on 6 October 2004 approved that the Department of Water Affairs and Forestry proceeds with activities to ensure the earliest possible implementation of new national infrastructure to augment the water supply to the Eastern Sub-system of the Vaal River. Cabinet further approved that the Trans-Caledon Tunnel Authority (TCTA) procures funding for the project subject to the concurrence of the National Treasury. Lastly Cabinet approved that the TCTA and DWAF pool their organizational resources for the implementation of the project.

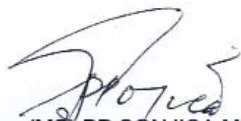
In view of this decision I hereby direct the TCTA in terms of section 103(2) of the National Water Act, 1998, to finance and implement the Vaal River Eastern Sub-system Augmentation Project subject to the following conditions:

1. TCTA shall raise the off-budget portion of the funds required for the Project using the model previously approved by Cabinet for the Berg Water Project in the Western Cape.
2. National Treasury's concurrence with the model for raising of project funding by the TCTA shall be obtained in addition to the processes prescribed by the Public Finance Management Act.
3. The works must be constructed as Government Waterworks.
4. Current best practices, and where applicable, international standards, shall be applied for the design, construction, supervision and operation of the works.

5. Whereas the Project has been classified as an "emergency project" in accordance with Section 110 2(a) of the NWA, all steps should be taken to ensure compliance with environmental legislation by the completion date of the Project.
6. In order to meet the projected demand for water all reasonable steps shall be taken to ensure that the Project is completed to commence delivery of water by 31 July 2007.
7. An implementation Agreement for the Project must be concluded between the Department of Water Affairs and Forestry (DWAF) and the TCTA setting out clear lines of responsibility and accountability.
8. The pooling of available DWAF and TCTA organizational resources in a manner that will build capacity for the management and development of the national water resources infrastructure.
9. The establishment of Institutional arrangements and processes to ensure meaningful participation by DWAF, Eskom and Sasol at the strategic and policy level and co-ordination at the operational level of the Project.
10. The reasonable needs of other water users in the project area must be considered and provided for.
11. Water supply agreements must be concluded between DWAF and Eskom, Sasol and other water users. The financing for the Project must be addressed in terms of these agreements which must also take into account the provisions of the National Water Pricing Strategy.
12. The project must be implemented in the most efficient manner with due regard to cost, timing, and reliability, all of which are important to Eskom, Sasol and other end users.
13. Progress reports on the Project shall be submitted to me every six months as well as on an ad hoc basis on issues that require my attention and intervention.

I wish you success with this important assignment.

With kind regards



(MS) BP SONJICA MP
MINISTER OF WATER AFFAIRS AND FORESTRY

Cc CEO

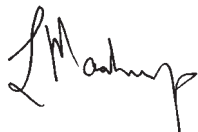
Responsibility of directors for the annual financial statements

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

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

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

The financial statements were approved by the Board of Directors on 7 June 2005 and are signed on its behalf by the Chairperson and Chief Executive Officer.



Leslie Maasdorp
Chairperson



Martie Janse van Rensburg
Chief Executive Officer

Health, safety and environmental policy

Health and safety

TCTA aims to provide and maintain a safe and healthy work environment for its employees.

It is TCTA's policy to provide the resources necessary to:

- Maintain health and safety systems.
- Protect individuals against risks to their health and safety arising from TCTA's business.
- Protect TCTA's property from damage or loss.
- Minimise risks to the environment arising from TCTA's activities.

We subscribe to the principle that no operating condition or urgency of service can ever justify endangering the life of anyone.

Environmental policy

TCTA aims to:

- Promote open communication on environmental issues between employees and stakeholders.
- Establish an environmental management system with a view to ensuring continuous improvement of the appropriate business activities, including prevention of pollution and the responsible use of water, energy and other resources.
- Educate, train and motivate its employees about environmental issues.



Martie Janse van Rensburg
Chief Executive Officer

The Audit and Risk Committee's report to stakeholders and other users of the financial statements

The Audit and Risk Committee comprises non-executive directors, an independent audit expert and the executive director.

Chaired by a non-executive director, it meets no less than three times a year and assists the Board in observing its responsibility to ensure that TCTA's financial and accounting systems provide accurate, up-to-date information on its current financial position and that TCTA's published annual financial statements present a fair reflection of this position. The Audit and Risk Committee also ensures that appropriate accounting policies, controls and compliance procedures, as well as ensure the implementation of an enterprise-wide risk-management governance framework. The internal and independent auditors attend the Audit and Risk Committee's meetings and both have unrestricted access to its members.

The Audit and Risk Committee has adopted formal terms of reference.

The objectives of the Audit and Risk Committee are:

- To assist the Board of Directors in its evaluation of the adequacy and efficiency of the internal control systems, accounting practices, information systems and auditing processes applied in the day-to-day management of the business.
- To provide a forum for communication between the Board of Directors, management and the internal and independent auditors.
- To introduce such measures that in the committee's opinion, may serve to enhance the credibility and objectivity of the annual financial statements and affairs of TCTA.
- To monitor enterprise-wide risk management and mitigatory controls.
- To review the effectiveness of internal audit.
- To review the risk areas of TCTA's operations to be covered in the scope of internal and external audits and any accounting and auditing concerns identified as a result of internal and external audits.
- To review TCTA's compliance with legal and regulatory provisions.
- To review the activities of the internal audit function, including its annual work programme, co-ordination with the external auditors, the reports of significant investigations and the responses of management to specific recommendations.

The Audit and Risk Committee has met its objectives in compliance with its terms of reference and is satisfied with the level of disclosure to it and to the stakeholders.



Omar Latiff
Chairperson

Report of the Independent Auditor to the Minister of Water Affairs and Forestry of the Republic of South Africa on TCTA

Introduction

We have audited the annual financial statements of TCTA for the year ended 31 March 2005 set out on pages 100 to 146. These annual financial statements are the responsibility of the Board. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with Statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual financial statements are free of material misstatement.

The audit was also planned and performed to obtain reasonable assurance that our duties in terms of section 60 and 61 of the Public Finance Management Act, 1999, have been complied with.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

Audit opinion

In our opinion:

- The financial statements fairly present, in all material respects, the financial position of TCTA at 31 March 2005, and the results of its operations and cash flows for the year then ended, in accordance with International Financial Reporting Standards, and in the manner required by the Public Finance Management Act, 1999.
- The performance information of TCTA in terms of section 55(2)(a) of the Public Finance Management Act, 1 of 1999, as amended, fairly presents in all material respects TCTA's performance for the year ended 31 March 2005 against predetermined objectives and is, where applicable, consistent with that of the preceding year.
- The transactions of TCTA which were examined during the course of our audit were in all material respects in accordance with the mandatory functions of TCTA, as determined by law or otherwise.



Deloitte & Touche

Registered Accountants and Auditors
Chartered Accountants (SA)

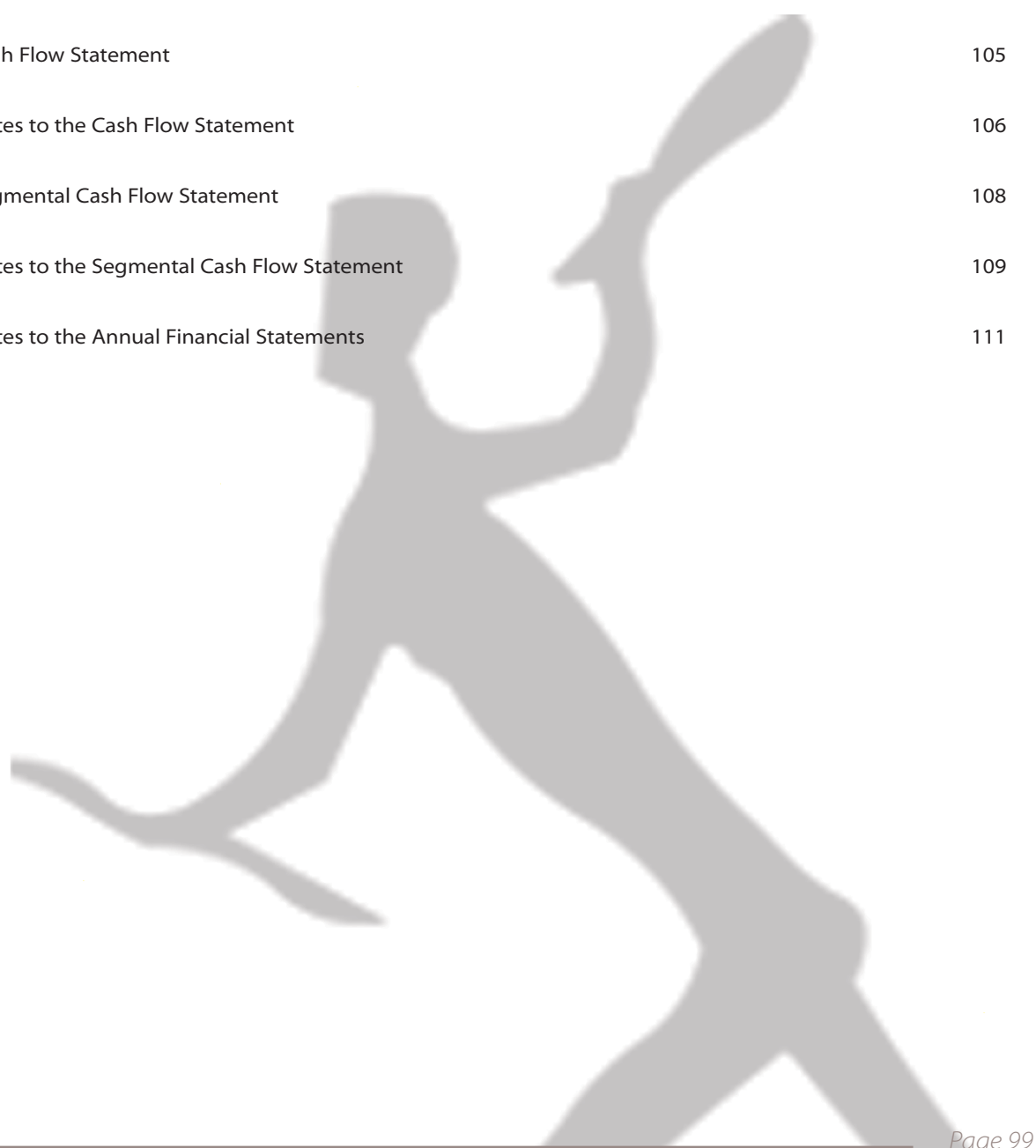
Johannesburg
7 June 2005

Contents to the Annual Financial Statements

for the year ended 31 March 2005

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Balance Sheet

as at 31 March 2005

	Notes	2005 R million	Restated 2004 R million
Assets			
Non-current assets		15 732	15 951
Property, plant and equipment	2	2 174	2 006
Intangible asset	3	13 349	12 813
Investment property	4	4	4
Long-term financial market investments	5	12	942
Trade and other receivables	6	193	186
Current assets		2 878	742
Trade and other receivables	6	623	400
Short-term financial market investments	5	2 254	335
Cash and cash equivalents		1	7
Total assets		18 610	16 693
Equity and liabilities			
Reserves and deficit		(2 810)	(2 206)
Non-distributable reserves	7	1	(32)
Cumulative deficit	8	(2 811)	(2 174)
Non-current liabilities		14 475	16 188
Long-term financial market liabilities	5	14 234	16 188
Long-term liabilities		241	-
Current liabilities		6 945	2 711
Trade and other payables	9	764	594
Provisions	10	2	-
Short-term financial market liabilities	5	6 179	2 117
Total equity and liabilities		18 610	16 693

Segmental Balance Sheet

as at 31 March 2005

	Notes	LHWP ⁽¹⁾ 2005 R million	BWP ⁽²⁾ 2005 R million	VRESAP ⁽³⁾ 2005 R million	Total 2005 R million	Restated Total 2004 R million
Assets						
Non-current assets						
		15 529	195	8	15 732	15 951
Property, plant and equipment	2	1 971	195	8	2 174	2 006
Intangible asset	3	13 349	–	–	13 349	12 813
Investment property	4	4	–	–	4	4
Long-term financial market investments	5	12	–	–	12	942
Trade and other receivables	6	193	–	–	193	186
Current assets						
		2 811	65	2	2 878	742
Trade and other receivables	6	557	64	2	623	400
Short-term financial market investments	5	2 254	–	–	2 254	335
Cash and cash equivalents		–	1	–	1	7
Total assets						
		18 340	260	10	18 610	16 693
Equity and liabilities						
Reserves and deficit						
		(2 810)	–	–	(2 810)	(2 206)
Non-distributable reserves	7	1	–	–	1	(32)
Cumulative deficit	8	(2 811)	–	–	(2 811)	(2 174)
Non-current liabilities						
		14 375	100	–	14 475	16 188
Long-term financial market liabilities	5	14 134	100	–	14 234	16 188
Long-term liabilities		241	–	–	241	–
Current liabilities						
		6 775	160	10	6 945	2 711
Trade and other payables	9	710	44	10	764	594
Provisions	10	2	–	–	2	–
Short-term financial market liabilities	5	6 063	116	–	6 179	2 117
Total equity and liabilities						
		18 340	260	10	18 610	16 693

⁽¹⁾ LHWP – Lesotho Highlands Water Project

⁽²⁾ BWP – Berg Water Project

⁽³⁾ VRESAP – Vaal River Eastern Sub-system Augmentation Project

Income Statement

for the year ended 31 March 2005

	Notes	2005 R million	Restated 2004 R million
Revenue	11	1 655	1 541
Other income	12	229	224
Royalties paid	13	228	208
Operating expenses	14	88	75
Operating surplus		1 568	1 482
Finance costs	15	2 206	1 558
Net deficit for the year	16	638	76



Segmental Income Statement

for the year ended 31 March 2005

	Notes	LHWP 2005 R million	UW ⁽⁴⁾ 2005 R million	ORWRDP ⁽⁵⁾ 2005 R million	Total 2005 R million	Restated Total 2004 R million
Revenue	11	1 654	1	–	1 655	1 541
Other income	12	229	–	–	229	224
Royalties paid	13	228	–	–	228	208
Operating expenses	14	87	1	–	88	75
Operating surplus		1 568	–	–	1 568	1 482
Finance costs	15	2 206	–	–	2 206	1 558
Net deficit for the year	16	638	–	–	638	76

⁽⁴⁾ UW – Umgeni Water Treasury Management Services

⁽⁵⁾ ORWRDP – Olifants River Water Resource Development Programme



Statement of Changes in Equity

for the year ended 31 March 2005

	Non-distributable reserves			Restated cumulative deficit R million	Total recognised income and expense for the year ⁽¹⁾ R million
	Revaluation reserve R million	Hedging reserve R million	Total reserves R million		
Balance at 31 March 2003	145	(121)	24	(2 162)	(2 138)
Restated opening balance at 31 March 2003	20	(121)	(101)	(2 098)	(2 199)
Prior year adjustment – cost allocation (refer note 8)	–	–	–	72	72
Prior year adjustment – Katse claim (refer note 8)	–	–	–	(5)	(5)
Prior year adjustment – reversal of realised revaluation reserve (refer note 8)	–	–	–	(3)	(3)
Prior year adjustment – change in accounting policy	(125)	–	(125)	–	(125)
Revaluation gains relating to hedges of future anticipated transactions	–	(6)	(6)	–	(6)
Revaluation losses relating to hedges of future anticipated transactions	–	76	76	–	76
Revaluation of depreciable portion of construction works in South Africa	(1)	–	(1)	–	(1)
Net deficit for the year (restated) (refer note 8)	–	–	–	(76)	(76)
Realisation of revaluation surplus	–	–	–	–	–
Restated Balance at 31 March 2004	19	(51)	(32)	(2 174)	(2 206)
Balance at 31 March 2004	135	(51)	84	(2 257)	(2 173)
Restated opening balance at 31 March 2004	19	(51)	(32)	(2 174)	(2 206)
Prior year adjustment (refer note 8)	–	–	–	64	64
Prior year adjustment – change in accounting policy	(116)	–	(116)	–	(116)
Prior year adjustment – cost allocation (refer note 8)	–	–	–	21	21
Prior year adjustment – Katse claim (refer note 8)	–	–	–	(5)	(5)
Reversal of realised revaluation reserve	–	–	–	(3)	(3)
Restatement of current year realisation of reserve (refer note 8)	–	–	–	6	6
Revaluation gains relating to hedges of future anticipated transactions	–	–	–	–	–
Revaluation losses relating to hedges of future anticipated transactions	–	32	32	–	32
Revaluation of depreciable portion of construction works in South Africa	2	–	2	–	2
Net deficit for the year (refer note 8)	–	–	–	(638)	(638)
Realisation of revaluation surplus	(1)	–	(1)	1	–
Balance at 31 March 2005	20	(19)	1	(2 811)	(2 810)

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

Cash Flow Statement

for the year ended 31 March 2005

	Notes	Total 2005 R million	Total 2004 R million
Cash flow from operating activities			
Cash receipts from customers		1 558	1 533
Cash paid to suppliers and employees		(223)	(300)
Cash generated from project activities	A	1 335	1 233
Interest received	C	44	40
Interest paid	B	(1 929)	(1 283)
		(550)	(10)
Protocol V refund of previously paid taxes		4	6
Net cash outflow from operating activities		(546)	(4)
Cash flow from investing activities			
Amounts invested		(1 139)	(932)
Capitalised to works in RSA		(169)	(62)
Capitalised to enduring benefit		(410)	(892)
Addition of treasury system/ other assets		(4)	(5)
Disposal of land and buildings		-	-
Net cash inflow from investing activities		(1 722)	(1 891)
Cash flow from financing activities			
Proceeds from long-term borrowings		2 683	2 580
Repayments on long-term borrowings		(295)	(1 193)
Proceeds from short-term borrowings		977	1 007
Repayments on short-term borrowings		(1 103)	(492)
Net cash inflow from financing activities	D	2 262	1 902
Net increase/(decrease) in cash and cash equivalents		(6)	7
Cash and cash equivalents at beginning of period		7	-
Cash and cash equivalents at end of period	E	1	7



Notes to the Cash Flow Statement

for the year ended 31 March 2005

	Total 2005 R million	Total 2004 R million
A. Cash inflow from operations		
Net deficit for the year	(638)	(99)
Adjustments for non-cash flow items and amounts shown separately on the face:		
Depreciation	19	14
Net finance costs	1 848	1 237
Net foreign exchange gains	(134)	(132)
Net foreign exchange losses	263	246
Increase in receivables and prepayments	(97)	(36)
Increase in payables (excluding interest payable)	85	3
Non-cash flow item in accounts receivable	13	–
Non-cash flow item in accounts payable	(24)	–
Cash inflow from operations	1 335	1 233
B. Interest paid		
Amount not paid at beginning of the year	(436)	(431)
Expensed during the year adjusted for non-cash items	(2 014)	(1 288)
Amount expensed	(2 077)	(1 371)
Less: Loan discount amortised	71	43
Loss on WS01 buyback	–	8
Loss on cancellation of FECs	(29)	–
Non-cash interest on asset swaps	39	22
Option premium transferred out of equity	2	–
Capital adjustment to inflation-linked liability	4	10
Concessionary portion on foreign loans	7	–
Profit on FEC rolls transferred out of equity	(2)	–
Non-cash flow items relating to financing activities	(29)	–
Amount not paid at the end of the year	521	436
Interest paid	(1 929)	(1 283)

	Total 2005 R million	Total 2004 R million
C. Interest received		
Amount due at beginning of the year	92	–
Income during the year adjusted for non-cash items	171	132
Amount received	229	134
Non-cash interest on asset swaps	(14)	–
Realisation of non-distributable reserves	–	(2)
Loan premium amortised	(19)	–
Interest on GOL cost allocation liability	(25)	–
Amount due at the end of the year	(219)	(92)
Interest received	44	40
D. Reconciliation of cash flow on financing activities to note 5 on financial instruments		
Net movement in financial instruments	1 074	1 165
Non-cash flow movements due to IAS 21 and IAS 39	88	(213)
Non-cash flow items in liabilities	(66)	18
Items not included in liabilities but reflected under financing activities	27	(7)
Amounts invested reflected separately in cash flow statement	1 139	939
Net cash flow from financing activities	2 262	1 902
E. Cash and cash equivalents		
Cash and cash equivalents consist of cash on hand and balances with banks		



Segmental Cash Flow Statement

for the year ended 31 March 2005

	Notes	LHWP 2005 R million	BWP 2005 R million	VRESAP 2005 R million	Total 2005 R million	Total 2004 R million
Cash flow from operating activities						
Cash receipts from customers		1 620	(60)	(2)	1 558	1 533
Cash paid to suppliers and employees		(271)	38	10	(223)	(300)
Cash generated/(utilised) from/(by)						
project activities	A	1 349	(22)	8	1 335	1 233
Interest received	C	44	-	-	44	40
Interest paid	B	(1 929)	-	-	(1 929)	(1 283)
		(536)	(22)	8	(550)	(10)
Protocol V refund of previously paid taxes		4	-	-	4	6
Net cash (outflow)/inflow from operating activities		(532)	(22)	8	(546)	(4)
Cash flow from investing activities						
Amounts invested		(1 139)	-	-	(1 139)	(932)
Capitalised to works in RSA		-	(161)	(8)	(169)	(62)
Capitalised to enduring benefit		(410)	-	-	(410)	(892)
Addition of treasury system/other assets		(4)	-	-	(4)	(5)
Disposal of land and buildings		-	-	-	-	-
Net cash inflow from investing activities		(1 553)	(161)	(8)	(1 722)	(1 891)
Cash flow from financing activities						
Proceeds from long-term borrowings		2 583	100	-	2 683	2 580
Repayments on long-term borrowings		(295)	-	-	(295)	(1 193)
Proceeds from short-term borrowings		900	77	-	977	1 007
Repayments on short-term borrowings		(1 103)	-	-	(1 103)	(492)
Net cash inflow from financing activities	D	2 085	177	-	2 262	1 902
Net increase/(decrease) in cash and cash equivalents		-	(6)	-	(6)	7
Cash and cash equivalents at beginning of period		-	7	-	7	-
Cash and cash equivalents at end of period	E	-	1	-	1	7

Notes to the Segmental Cash Flow Statement

for the year ended 31 March 2005

	LHWP 2005 R million	BWP 2005 R million	VRESAP 2005 R million	Total 2005 R million	Total 2004 R million
A. Cash inflow from operations					
Net deficit for the year	(638)	–	–	(638)	(99)
Adjustments for non-cash flow items and amounts shown separately on the face:					
Depreciation	19	–	–	19	14
Net finance costs	1 848	–	–	1 848	1 237
Net foreign exchange gains	(134)	–	–	(134)	(132)
Net foreign exchange losses	263	–	–	263	246
Loss on disposal of property	–	–	–	–	–
Increase in receivables and prepayments	(35)	(60)	(2)	(97)	(36)
Increase in payables (excluding interest payable)	37	38	10	85	3
Non-cash flow item in accounts receivable	13	–	–	13	–
Non-cash flow item in accounts payable	(24)	–	–	(24)	–
Cash inflow from operations	1 349	(22)	8	1 335	1 233
B. Interest paid					
Amount not paid at beginning of the year	(436)	–	–	(436)	(431)
Expensed during the year adjusted for non-cash items	(2 014)	–	–	(2 014)	(1 288)
Amount expensed	(2 077)	–	–	(2 077)	(1 371)
Less: Loan discount amortised	71	–	–	71	43
Loss on WS01 buyback	–	–	–	–	8
Loss on cancellation of FECs	(29)	–	–	(29)	–
Non-cash interest on asset swaps	39	–	–	39	22
Option premium transferred out of equity	2	–	–	2	–
Capital adjustment to inflation- linked liability	4	–	–	4	10
Concessionary portion on foreign loans	7	–	–	7	–
Profit on FEC rolls transferred out of equity	(2)	–	–	(2)	–
Cash flow shown separately	(29)	–	–	(29)	–
Amount not paid at the end of the year	521	–	–	521	436
Interest paid	(1 929)	–	–	(1 929)	(1 283)

Notes to the Segmental Cash Flow Statement (continued)

for the year ended 31 March 2005

	LHWP 2005 R million	BWP 2005 R million	VRESAP 2005 R million	Total 2005 R million	Total 2004 R million
C. Interest received					
Amount due at beginning of the year	92	–	–	92	–
Income during the year adjusted for non-cash items	171	–	–	171	132
Amount received	229	–	–	229	134
Non-cash interest on asset swaps	(14)	–	–	(14)	–
Realisation of non-distributable reserves	–	–	–	–	(2)
Loan premium amortised	(19)	–	–	(19)	–
Interest on GOL cost allocation liability	(25)	–	–	(25)	–
Amount due at the end of the year	(219)	–	–	(219)	(92)
Interest received	44	–	–	44	40
D. Reconciliation of cash flow on financing activities to note 5 on financial instruments					
Net movement in financial instruments	897	177	–	1 074	1 165
Non-cash flow movements due to IAS 21 and IAS 39	88	–	–	88	(213)
Non-cash flow items in liabilities	(66)	–	–	(66)	18
Items not included in liabilities but reflected under financing activities	27	–	–	27	(7)
Amounts invested reflected separately in cash flow statement	1 139	–	–	1 139	939
Net cash flow from financing activities	2 085	177	–	2 262	1 902
E. Cash and cash equivalents					
Cash and cash equivalents consist of cash on hand and balances with banks					



Notes to the Annual Financial Statements

for the year ended 31 March 2005

1. Significant accounting policies

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

Basis of preparation

The financial statements have been prepared in accordance with Revised International Accounting Standards and new International Financial Reporting Standards (IFRS) for the first time. TCTA has elected to early adopt IFRS effective 1 April 2004. The annual financial statements have been prepared under the historical cost convention, except for the revaluation of the works in South Africa as well as financial instruments held in the strategic portfolio, foreign currency hedges and foreign loans, which are stated at fair value.

The preparation of financial statements in conformity with IFRS, requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying TCTA's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 1.16.

It should be noted that TCTA has reclassified its enduring benefit from property, plant and equipment to an intangible asset, in terms of GAAP. The impact, in terms of IFRS, is that the cost model has to be adopted as opposed to the revaluation model previously used by TCTA. This has resulted in an IFRS adjustment, as expanded in the reconciliation below.

Explanation of GAAP adjustments and transition to IFRS

GAAP

The reconciliation below (column 4) illustrates the adjustments in terms of GAAP which were processed to the annual financial statements. These adjustments were in respect of the following:

- Government of Lesotho (GOL) debtor for cost allocation
The cost allocation and cost to funding exercise, performed by the LHDA, which identifies the percentage allocation between RSA and GOL in terms of "Multipurpose Schemes" has fallen behind. A preliminary exercise was performed by the LHDA to assess the extent of liabilities between the governments as a result of one party paying for the costs of the other. At the ministers meeting held on 9 November 2004, LHWC was given the mandate to appoint consultants to assist with the exercise and expedite the process to establish the extent of the hydropower costs funded by RSA.

The exercise has been finalised up until 31 March 1996, indicating a liability by GOL of R57 million as at 31 March 1996. TCTA has disclosed this amount that is known with certainty, to date, in its annual financial statements as a debtor with a resultant reduction in the intangible asset, which represents the water transfer costs incurred for works in Lesotho. The adjustment has been processed retrospectively, as a prior year adjustment. The impact up to 1 April 2003, with interest, is R148 million and at 31 March 2004 is R169 million, with interest.

- Katse claim
A claim has been awarded by the Tribunal, on contract 123, relating to construction of the Katse dam. The claim has been adjusted retrospectively, hence the prior year adjustment of R74 million, including interest up to 1 April 2003 and R77 million, including interest, up to 31 March 2004.

IFRS

This is the first year that TCTA has presented its financial statements under IFRS. The following reconciliations are required in the year of transition. The last financial statements under GAAP were for the year ended 31 March 2004 and the date of transition to IFRS was therefore 1 April 2003.

The adjustments from GAAP to IFRS relate only to the accounting treatment for the enduring benefit which is changed to the cost model where before the revaluation model was adopted.

Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2005

1. Significant accounting policies (continued)

Reconciliation of equity at 1 April 2003 (date of transition to IFRS)

	Notes	Previous GAAP R million	GAAP Adjust- ments ¹ R million	Restated GAAP balance R million	Effect of transition to IFRS R million	IFRS R million
Property, plant and equipment	2	13 907	(11 879)	2 028	–	2 028
Intangible assets	3	–	11 865	11 865	(125)	11 740
Investment property	4	–	4	4	–	4
Long-term financial market investments	5	4	–	4	–	4
Trade and other receivables	6	–	–	–	–	–
Total non-current assets		13 911	(10)	13 901	(125)	13 776
Trade and other receivables	6	341	148	489	–	489
Short-term financial market investments	5	350	–	350	–	350
Cash and cash equivalents		–	–	–	–	–
Total current assets		691	148	839	–	839
Total assets		14 602	138	14 740	(125)	14 615
Long-term financial market liabilities	5	15 082	–	15 082	–	15 082
Long-term liabilities		–	74	74	–	74
Trade and other payables	9	484	–	484	–	484
Provisions	10	–	–	–	–	–
Short-term financial market liabilities	5	1 174	–	1 174	–	1 174
Total liabilities		16 740	74	16 814	–	16 814
Total assets less total liabilities		(2 138)	64	(2 074)	(125)	(2 199)
Revaluation reserve	7	145	–	145	(125)	20
Hedging reserve	7	(121)	–	(121)	–	(121)
Retained earnings/cumulative deficit	8	(2 162)	64	(2 098)	–	(2 098)
Total reserves and deficit		(2 138)	64	(2 074)	(125)	(2 199)

Notes to the reconciliation of equity at 1 April 2003

The enduring benefit is reclassified as an intangible asset. The enduring benefit is restated based on the cost model as the enduring benefit does not qualify to be recognised on the revaluation model under IAS 38 *Intangible assets*.

1. Significant accounting policies (continued)

Reconciliation of equity at 31 March 2004

	Notes	Previous GAAP R million	GAAP Adjust- ments ¹ R million	Restated GAAP balance R million	Effect of transition to IFRS R million	IFRS R million
Property, plant and equipment	2	14 947	(12 941)	2 006	–	2 006
Intangible assets	3	–	12 929	12 929	(116)	12 813
Investment property	4	–	4	4	–	4
Long-term financial market investments	5	942	–	942	–	942
Trade and other receivables	6	17	169	186	–	186
Total non-current assets		15 906	161	16 067	(116)	15 951
Trade and other receivables	6	446	(46)	400	–	400
Short-term financial market investments	5	335	–	335	–	335
Cash and cash equivalents		7	–	7	–	7
Total current assets		788	(46)	742	–	742
Total assets		16 694	115	16 809	(116)	16 693
Long-term financial market liabilities	5	16 187	1	16 188	–	16 188
Long-term liabilities		–	–	–	–	–
Trade and other payables	9	517	77	594	–	594
Provisions	10	–	–	–	–	–
Short-term financial market liabilities	5	2 163	(46)	2 117	–	2 117
Total liabilities		18 867	32	18 899	–	18 899
Total assets less total liabilities		(2 173)	83	(2 090)	(116)	(2 206)
Revaluation reserve	7	135	–	135	(116)	19
Hedging reserve	7	(51)	–	(51)	–	(51)
Retained earnings/cumulative deficit	8	(2 257)	83	(2 174)	–	(2 174)
Total reserves and deficit		(2 173)	83	(2 090)	(116)	(2 206)

¹ GAAP Adjustments: These adjustments are re-classifications and prior year adjustments based on the requirements of previous GAAP.

Reconciliation of deficit for 2004

	Previous GAAP R million	GAAP Adjust- ments ¹ R million	Restated GAAP balance R million	Effect of transition to IFRS R million	IFRS R million
Revenue	1 541	–	1 541	–	1 541
Other income	–	224	224	–	224
Royalties paid	(208)	–	(208)	–	(208)
Operating expenses	(81)	–	(81)	6	(75)
Operating surplus	1 252	224	1 476	6	1 482
Finance cost	(1 351)	(207)	(1 558)	–	(1 558)
Deficit for the year	(99)	17	(82)	6	(76)

Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2005

1. Significant accounting policies (continued)

Notes to the reconciliation of deficit for 2004:

Depreciation was influenced by the revaluation of the enduring benefit. The cumulative adjustment, including the reversal of the revaluation reserve, resulted in a reduction in the enduring benefit of R116 million.

Explanation of material adjustments to the cash flow statement for 2004:

There are no differences between the cash flow statement presented under IFRS and the cash flow statement presented under previous GAAP.

1.1 Property, plant and equipment

Land

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

Water delivery system: Works in South Africa

Works in South Africa are stated at the revalued amount less any subsequent accumulated depreciation and accumulated impairment. Costs incurred on works and all other costs are capitalised until such time as the construction is completed. Thereafter the depreciable portion will be amortised over the estimated useful life.

During construction

- Contract costs and directly attributable overheads are only accrued when certified progress reports or reasonable estimates of work performed are received in accordance with IAS 11: *Construction contracts*.
- Interest and finance charges, which are a result of funding works in connection with the project, are capitalised to works during the period of construction in accordance with IAS 23: *Borrowing costs*.
- All income received during the construction period, is offset against works. Revenue from water levies is allocated to works and the enduring benefit on a proportional cost basis. Water levies are received during the construction phase before saleable water is delivered.

Once construction is complete

LHWP

- The depreciable portion is estimated at 10% of the construction costs, which is amortised over an estimated useful life of 45 years, based on deliverable volumes of water per annum, in accordance with the Treaty⁽¹⁾.
- Full technical revaluations are carried out every five years. The remaining useful lives of assets and the depreciable portion will also be reassessed during the revaluations. In the intervening years, revaluations will be carried out annually on the depreciable portion, based on the average Producer Price Index.

BWP and Vaal River Eastern Sub-system Augmentation Project (VRESAP)

- The depreciable portion is estimated at 10% of the construction costs, which is amortised over an estimated useful life of 45 years.
- Full technical revaluations are carried out every five years. The remaining useful lives of assets and the depreciable portion will also be reassessed during the revaluations. In the intervening years, revaluations will be carried out annually on the depreciable portion, based on the average Producer Price Index.

Furniture, vehicles, computer and office equipment

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

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

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

1. Significant accounting policies (continued)

Leasehold improvements

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

Disposals of property, plant and equipment

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

1.2 Intangible assets

Enduring benefit

In terms of the Treaty⁽¹⁾, South Africa is responsible by way of cost-related payments, as defined in the Treaty, for the liabilities incurred by the Lesotho Highlands Development Authority in respect of the water delivery component of the LHWP. TCTA is responsible for making these cost-related payments on the South African Government's behalf. By paying for these liabilities, South Africa, as represented by TCTA, acquires the right to receive water.

Cost-related payments do not confer rights of ownership or equity. The right to receive water is of a perpetual nature and is capitalised as an enduring benefit. The amortisation of the enduring benefit, which will commence upon completion of construction, is directly related to the depreciable component of the underlying assets.

During construction

- Costs are only accrued when certified progress reports or reasonable estimates of work performed are received.
- Interest and finance charges, which are a result of funding works and overheads in connection with the project, are capitalised to works during the period of construction.
- Revenue from water levies is allocated to works and the enduring benefit on a proportional cost basis. Water levies are received during the construction phase before saleable water is delivered.

Once construction is complete

LHWP

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

Intangible assets are tested for impairment annually by comparing its carrying amount with its recoverable amount, irrespective of whether there is any indication that it may be impaired.

1.3 Investment property

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

Buildings have been reflected under property, plant and equipment since 1998. As at 31 March 2005 buildings have been reclassified as investment property, using the cost model under IAS 40: *Investment property*. The comparatives have also been restated. Investment properties are carried at cost less accumulated depreciation and accumulated impairment. Depreciation is calculated at 2% per annum.

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

Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2005

1. Significant accounting policies (continued)

1.4 Impairment of assets

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

A reversal of an impairment loss for an asset is recognised immediately in surplus or deficit, unless the asset is carried at a revalued amount. Any reversal of a revalued asset shall be credited directly to equity.

1.5 Borrowing costs

LHWP

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

Capitalisation of borrowing costs on Berg Water Project and Vaal River Eastern Sub-system Augmentation Project

Interest and finance charges incurred and income received on works and all other costs are capitalised until such time as the construction is completed. Hence there is no income statement for Berg Water and the Vaal River Eastern Sub-system Augmentation Project.

1.6 Foreign currency translation

a. Functional and presentation currency

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

b. Transactions and balances

Transactions in foreign currencies are accounted for at the rates of exchange ruling on the date of the transactions. Foreign exchange gains and losses arising from the settlement of such transactions and from translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges under IAS 39: *Financial instruments*. Unrealised differences on monetary assets and liabilities are recognised in the income statement in the year in which they occur.

1.7 Financial instruments

Definition

Financial instruments recognised on the balance sheet include:

- Derivative instruments
- Bonds
- Cash and cash equivalents
- Trade and other receivables
- Trade and other payables
- Investments
- Loans

Measurement

Financial instruments measured at amortised cost are initially recognised at cost including transaction costs. Financial instruments that are measured at fair value are initially recognised at fair value excluding transaction costs.

Recognition

Financial assets and liabilities are recognised on the balance sheet when TCTA becomes a party to the contractual provisions of the instruments. Regular way transactions are accounted for at trade date.

1. Significant accounting policies (continued)

Long-term financial market investments

Long-term financial market investments consist of promissory notes and investments which are included in the redemption portfolio. The redemption portfolio is established to implement a planned redemption strategy for liquidity risk-management purposes. The instruments are held-to-maturity and are stated at amortised cost, applying the yield to maturity method.

Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments and are initially measured at cost, which includes transaction costs, and are accounted for at trade date. These receivables are classified as "loans and receivables" in terms of IAS 39.

Trade and other receivables are subsequently stated at amortised cost.

Short-term financial market investments

TCTA engages in repurchase agreements (repos) in locally registered bonds, within limits, with the panel of market makers to enhance the marketability of the bonds in issue. The repurchase agreements are subsequently recognised at amortised cost.

Long-term financial market liabilities

Funding Portfolio

The funding portfolio comprises the long-term funding for the project.

Locally registered bonds in issue are classified as "other liabilities" in terms of IAS 39 and are hence stated at amortised cost, applying the yield to maturity method.

Local loans are stated at amortised cost and classified as "other liabilities" in terms of IAS 39. At balance sheet date, foreign loans are stated at amortised cost and restated at the rates of exchange ruling at financial year-end. Gains or losses are recognised in the net surplus or deficit.

Long-term commercial paper (more than 12 months to maturity), classified as "other liabilities", is held at amortised cost.

Asset swaps, classified as "liability at fair value through profit or loss", are measured at fair value and gains and losses are recognised directly in net surplus or deficit.

Trade and other payables

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

Short-term financial market liabilities

Funding Portfolio

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

Strategic Portfolio

The strategic portfolio is a trading portfolio established for interest rate risk management purposes. At present no such instruments are held by TCTA.

Locally registered bonds held for trading purposes are carried at fair value, which is determined with reference to exchange quoted prices at the close of business on the balance sheet date. Resultant gains or losses on the subsequent measurement are included in the net surplus or deficit for the year in which they arise. At present no such instruments are held by TCTA.

Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2005

1. Significant accounting policies (continued)

TCTA engages in repurchase agreements in locally registered bonds, within limits, with the panel of market makers to enhance the marketability of the bonds in issue. The repurchase agreements are recognised at transaction value and are classified as “other liabilities” in terms of IAS 39.

Derivative instruments

Derivative assets and liabilities are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value.

Hedge Accounting

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. For the purposes of hedge accounting, hedges are classified into two categories:

- (a) Fair value hedges, which hedge the exposure to changes in fair value of a recognised asset or liability. In relation to fair value hedges that meet the conditions for hedge accounting, any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in surplus or deficit. Changes in fair value of these hedging instruments are recognised in the income statement as they arise.
- (b) Cash flow hedges, which hedge exposure to variability in cash flows attributable either to a particular risk associated with a recognised asset or liability, or to a forecasted transaction. In relation to cash flow hedges that meet the conditions of hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in surplus or deficit for the year.

For cash flow hedges affecting future transactions, the gains or losses recognised in equity are transferred to income statement in the same year in which the hedge transaction affects net surplus or deficit. Where the hedge transaction results in the recognition of an asset or liability, the associated gains or losses that had previously been recognised in equity, are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability.

In instances where derivative instruments would not qualify for hedge accounting, changes in the fair value are recognised immediately in the income statement.

Gains and losses on subsequent measurement

Gains and losses on subsequent measurement are recognised as follows:

Gains and losses arising from a change in the fair value of financial instruments that are not part of a hedging relationship are included in net surplus or deficit for the year in which they arise. Where the gains and losses that are recognised directly in equity relate to a financial asset that has now been disposed of, those gains and losses are included in net surplus or deficit for the year.

Offsetting

Where a legally enforceable right of set-off exists for recognised financial assets and financial liabilities, and there is an intention to settle the liability and realise the asset simultaneously, or to settle on a net basis, all related financial effects are offset. No financial assets and financial liabilities have been settled on a net basis by TCTA during the current financial year.

Impairment of financial assets

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

1. Significant accounting policies (continued)

Derecognition

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

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

Fair value estimation

The fair values of the listed bonds are the BESA closing rate as at the balance sheet date. Unlisted financial instruments are fair valued using rates as determined by the industry.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. TCTA uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to TCTA for similar financial instruments.

1.8 Employee benefits

Leave benefits

Annual leave is granted pro-rata in accordance with the number of full calendar months worked and is subject to a cap. An employee shall be granted 36 working days sick leave for each three-year cycle, on full pay.

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement age or when an employee accepts voluntary redundancy in exchange for benefits. Termination benefits are recognised when it is probable that the expenses will be incurred.

1.9 Provisions

Provisions are recognised when TCTA has a legal or constructive present obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources will be required to settle the obligation, the provision is reversed.

Provisions are only used for those expenditures for which the provision was originally recognised.

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

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

Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2005

1. Significant accounting policies (continued)

1.11 Revenue recognition

Bulk raw water tariff

LHWP

Revenue, which excludes value-added tax, comprises a portion of the bulk raw water tariff charged by the Department of Water Affairs and Forestry (DWAF) to the Vaal River System water consumer. The portion of this tariff due to TCTA is recognised when DWAF invoices the water consumer.

BWP

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

Umgeni Water

Revenue, which excludes value-added tax, comprises the recovery of costs incurred in managing the treasury function.

Olifants River Water Resource Development Programme

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

1.12 Other income

Rental income is generated from the properties that were acquired during the construction of the project.

Interest income comprises interest receivable on loans, advances, trade receivables and income from financial market investments. Interest is only recognised where it is probable that the economic benefits associated with the transaction will flow to TCTA.

1.13 Operating leases

Leases of assets to TCTA under which all the risks and benefits of ownership are effectively retained by the lessor, are classified as operating leases. Payments made under operating leases are charged against income on a straight-line basis over the period of the lease.

1.14 Segmental reporting

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

- Lesotho Highlands Water Project (LHWP)
- Berg Water Project (BWP)
- Umgeni Water
- Vaal River Eastern Sub-system Augmentation Project (VRESAP)
- Olifants River Water Resource Development Project (ORWRDP)

These five segments consist of the different projects that TCTA have been mandated with. TCTA provides various services to its customers such as liability management, treasury management services as well as project implementation.

Based on the fact that there are no defined geographical segments for TCTA's products and services, TCTA has not disclosed financial information on a geographical segmental basis.

1.15 Related party transactions

TCTA has no related parties in terms of the definition under IAS 24: *Related party disclosure*.

1. Significant accounting policies (continued)

1.16 Critical judgements/ Key sources of estimation uncertainty

In the process of applying TCTA's accounting policies, management makes various estimates and judgements based on past experience, expectations of the future and other information. The key sources of estimation uncertainty and the critical judgements that can significantly affect the amounts recognised in the financial statements are disclosed below:

1.16.1 Enduring benefit and Works in RSA

TCTA has adopted the assumptions underlying the National Water Pricing Strategy which states that the depreciable portion for dams and tunnels is 10% based on the proportion of the mechanical components which are subject to replacement. The useful life of the civil components are therefore deemed to have an indefinite life.

The estimated useful life of the enduring benefit is 45 years which is also based on the National Water Pricing Strategy.

1.16.2 Held-to-maturity investments

TCTA follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed maturity as held-to-maturity. In making this judgment, TCTA refers to its intention and ability to hold such investments to maturity. These investments are specifically earmarked for the redemption of its WS01 bonds maturing in December 2005.



Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2005

2. Property, plant and equipment

	Land R million	Works in RSA R million	Other R million	2005 Total R million	2004 Total R million
LHWP					
Cost as previously stated	–	1 975	11	1 986	2028
Accumulated depreciation	–	(9)	(5)	(14)	(10)
Carrying amount at the beginning of the year	–	1 966	6	1 972	2 018
During the year:					
• Additions	–	–	2	2	50
• Disposals	–	–	–	–	–
• Reclassifications	–	–	–	–	(87)
• Revaluation of depreciable portion	–	1	–	1	(1)
• Depreciation	–	(2)	(2)	(4)	(4)
• Prior year reclassification ⁽¹⁾	–	–	–	–	(4)
Carrying amount at the end of the year	–	1 965	6	1 971	1 972
Cost/depreciated replacement value	–	1 976	13	1 989	1 986
Accumulated depreciation	–	(11)	(7)	(18)	(14)
Carrying amount at the end of the year	–	1 965	6	1 971	1 972

⁽¹⁾ Prior year reclassification relates to land and buildings (R4 million) transferred from property, plant and equipment to investment property.

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

	Works capitalised 2005 R million	Works capitalised 2004 R million
BWP		
Carrying amount at the beginning of the year	34	14
Additions during the year	161	20
Carrying amount at the end of the year	195	34
	Works capitalised 2005 R million	Works capitalised 2004 R million
VRESAP		
Carrying amount at the beginning of the year	–	–
Additions during the year	8	–
Carrying amount at the end of the year	8	–

2. Property, plant and equipment (continued)

	2005 R million	2004 R million
TOTAL		
LHWP	1 971	1 972
BWP	195	34
VRESAP	8	–
	2 174	2 006

2.1 Works in RSA

LHWP

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

In terms of the accounting policy, TCTA has undertaken a full technical revaluation of the enduring benefit during 2003. The revaluation was performed by Peter Ramsden, an independent civil engineer. The results indicated that TCTA's annual revaluation based on Producer Price Index (PPI) was conservative and that no further adjustment was required to Works in RSA other than the annual PPI adjustment. At the end of the year a revaluation of the depreciable portion of the construction works in South Africa was calculated using year-on-year PPI.

2.2 Works capitalised

BWP

The works capitalised comprise costs incurred to date on the implementation of the project.

	LHWP		BWP	
	2005 R million	2004 R million	2005 R million	2004 R million
2.3 Works in RSA/capitalised works				
The carrying amount consists of:				
• Costs capitalised	2 207	2 207	259	60
• Levies/income received	(253)	(253)	(64)	(26)
• Depreciation	(11)	(9)	–	–
• Revaluation of depreciable portion	22	21	–	–
	1 965	1 966	195	34

	BWP	
	2005 R million	2004 R million
2.4 Costs capitalised		
BWP		
Costs capitalised comprise:		
• Engineering and construction	231	45
• Fixed assets	1	1
• Finance costs	12	3
• Directly attributable administration costs	15	11
	259	60

Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2005

3. Intangible asset

	2005 Total R million	2004 Total R million
Enduring benefit		
LHWP		
Cost as previously stated	12 847	11 912
Accumulated depreciation	(34)	(37)
Carrying amount at the beginning of the year	12 813	11 875
Additions	548	991
Reclassifications	–	87
Revaluation of depreciable portion	–	(5)
Depreciation	(12)	(11)
Prior year adjustment – cost allocation ⁽¹⁾	–	(75)
Prior year adjustment – Katse claim ⁽²⁾	–	67
Prior year adjustment – change in accounting policy ⁽³⁾		
• Revaluation of depreciable portion	–	(130)
• Reversal of excess depreciation in respect of revaluation	–	14
Carrying amount at the end of the year	13 349	12 813
Cost/depreciated replacement value	13 395	12 847
Accumulated depreciation	(46)	(34)
Carrying amount at the end of the year	13 349	12 813

The enduring benefit comprises water storage and the conveyance system and appurtenances in Lesotho. Costs capitalised during the year mainly comprise Phase 1B construction works.

⁽¹⁾ *Prior year adjustment – Cost allocation*

The cost allocation and cost to funding exercise, performed by the LHDA, which identifies the percentage allocation between RSA and Government of Lesotho (GOL) in terms of "Multipurpose Schemes" has fallen behind. PriceWaterhouseCoopers Inc. have been appointed to verify the exercise performed by the LHDA to assess the extent of liabilities between governments as a result of one party paying for the costs of the other. The exercise has been finalised up until 31 March 1996, indicating a liability by GOL of R57 million (capital) plus interest capitalised to end of construction of R18 million.

⁽²⁾ *Prior year adjustment – Katse claim*

A claim has been awarded by the Tribunal on contract 123 relating to construction of the Katse dam. The claim has been adjusted retrospectively, hence the prior year adjustment of R67 million.

⁽³⁾ *Prior year adjustment – Change in accounting policy*

During the current year, a change in the accounting policy with regards to enduring benefit was effected resulting in the enduring benefit being treated as an intangible asset instead of a tangible asset. This change necessitated the reversal of the revaluation reserve which in turn has the effect of reducing the accumulated depreciation. This change in accounting policy has been processed retrospectively resulting in a reduction in enduring benefit of R116 million as at 31 March 2004.

3. Intangible asset (continued)

	Carrying amount		Capitalised for the year	
	2005 R million	2004 R million	2005 R million	2004 R million
3.1 Enduring benefit				
<i>LHWP</i>				
Cost-related payments	7 391	7 119	272	953
Future cost-related payments	4 056	3 780	276	117
Capital market funds utilised by the LHDA	3 639	3 639	–	–
Levies received from DWAF	(1 435)	(1 435)	–	–
Protocol V refund on previously charged taxes	(256)	(256)	–	–
Depreciation	(46)	(34)	(12)	3
Revaluation reversal	–	–	–	(135)
	13 349	12 813	536	938

3.2 Cost-related payments

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

3.3 Future cost-related payments

LHWP

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

3.4 Cost control

LHWP

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

4. Investment property

	2005 Total R million	2004 Total R million
Land and buildings		
<i>LHWP</i>		
Carrying amount at the beginning of the year	4	–
Reclassifications	–	4
Depreciation	– ⁽¹⁾	–
Carrying amount at the end of the year	4	4
Cost/depreciated replacement value	4	4
Accumulated depreciation	–	–
Carrying amount at the end of the year	4	4

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

These assets have previously been reflected as property, plant and equipment but have been reclassified to investment property in terms of IAS 40: *Investment property*. The comparative figures for 2004 have been reclassified accordingly.

⁽¹⁾ Depreciation for the year is R525 700

Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2005

5. Financial instruments

	Short term (One year and less) 2005 R million	Short term (One year and less) 2004 R million	(1 to 5 years) R million	Long term (5 to 10 years) R million	(10 years and longer) R million
5.1 Financial market investments					
LHWP					
Foreign-currency hedges are held-to-maturity and are matched to underlying firm commitments					
Derivative asset	5	3	12	–	–
Other held-to-maturity financial assets	2 073	–	–	–	–
Repos borrows	176	332	–	–	–
	2 254	335	12	–	–
BWP					
Other financial assets	–	–	–	–	–
	–	–	–	–	–
Total financial market investments	2 254	335	12	–	–
5.2 Financial market liabilities					
LHWP					
Derivative liability	33	111	168	46	–
Local debt	5 965	1 859	1 238	3 239	8 816
Issued bonds	4 322	–	592	2 930	8 675
Other loans	1 612	1 782	646	309	141
Repo carries	31	77	–	–	–
Foreign debt					
Debt translated at spot rates	65	108	265	251	111
	6 063	2 078	1 671	3 536	8 927
BWP					
Local debt	116	39	10	25	65
Other loans	116	39	10	25	65
Total financial market liabilities	6 179	2 117	1 681	3 561	8 992
Net financial market liabilities and investments	3 925	1 782	1 669	3 561	8 992
5.3 Split: TCTA and LHDA					
LHWP					
TCTA	3 981	1 909	1 308	2 234	8 811
LHDA	2 082	169	363	1 302	116
Total	6 063	2 078	1 671	3 536	8 927
BWP					
TCTA	116	39	10	25	65
Total	6 179	2 117	1 681	3 561	8 992

* Of the R16 519 million bonds in issue, with TCTA being the legal issuer, R2 910 million has been allocated to the LHDA to meet their funding requirements.

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

Long term 2005 R million	Long term 2004 R million	Total 2005 R million	Total 2004 R million
12	8	17	11
-	934	2 073	934
-	-	176	332
12	942	2 266	1 277
-	-	-	-
-	-	-	-
12	942	2 266	1 277
214	178	247	289
13 293	15 329	19 258	17 188
12 197	14 161	16 519	14 161
1 096	1 168	2 708	2 950
-	-	31	77
627	681	692	788
14 134	16 188	20 197	18 265
100	-	216	39
100	-	216	39
14 234	16 188	20 413	18 304
14 222	15 246	18 147	17 027
12 353	15 146	16 334	17 054
1 781	1 042	3 863	1 211
14 134	16 188	20 197	18 265
100	-	216	39
14 234	16 188	20 413	18 304

Below are the graphs reflecting the different maturity periods for the net financial market liabilities and investments.

Figure 52: LHWP Net financial liabilities

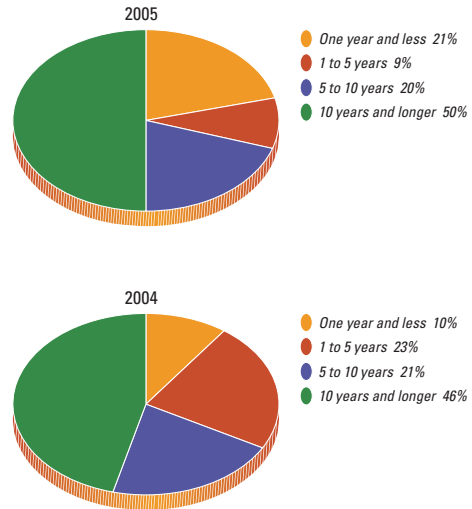
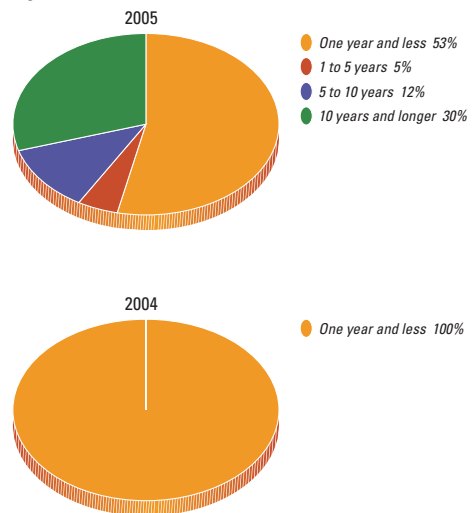


Figure 53: BWP Net financial liabilities



The graphs above reflect the liabilities net of the assets.

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

Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2005

5. Financial instruments (continued)

	2005	2004
5.4 Interest rates		
LHWP		
Loans bear effective interest at rates ranging from	5,4% to 21,6%*	7,2% to 19,1%*
TCTA funded at a weighted average rate of	11,17%	12,06%
Project funded at a weighted average rate of	11,31%	12,11%

*The interest rate applicable to one of the development funding foreign loans is 5,4%. This is a euro loan facility drawn as ZAR funding.

*The 21,6% relates to an export credit loan for the Mohale Tunnel, valued at spot at R67,9 million (2004: R71 million). The interest rate applicable to this loan is 5,73% however, due to Forward Exchange Contract costs, the overall effective interest rate on this loan amounts to 21,6% (2004: 19,1%).

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

	Fixed rate 2005 %	Fixed rate 2004 %	Variable rate 2005 %	Variable rate 2004 %
EURO	1	2	1	1
USD	-	-	1	1
RAND	72	70	25	26
Total liabilities	73	72	27	28

	2005	2004
BWP		
The project funded at a weighted average rate of	8,12%	11,22%

5.5 Bonds

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

Loan No	Type	Redemption date	Interest rate	Authorised nominal/ principal value R million	Nominal/ capital indexed issued R million
WS01	Nominal	1 December 2005	12,0%	5 000	4 360
WS03	Nominal	15 September 2010	13,0%	8 000	3 035
WS04	Nominal	30 May 2016	12,5%	7 000	4 675
WS05	Inflation indexed	1 August 2018	5,0%	2 500	2 300*
WS06	Nominal	30 April 2008	8,0%	2 500	600
WSP01	Nominal	28 May 2015	9,0%	400	300
WSP02	Nominal	28 May 2017	9,0%	400	300
WSP03	Nominal	28 May 2019	9,0%	400	300
WSP04	Nominal	28 May 2020	9,0%	400	300
WSP05	Nominal	28 May 2021	9,0%	400	300

* Inflation indexed bond reflected at CPI value

5. Financial instruments (continued)

Value of bonds	2005 R million		2004 R million	
	Fair value	Nominal	Fair value	Nominal
Authorised		27 000		21 500
Issued	19 204*	16 470**	16 508*	14 238**
Unrealised premium to be amortised over the life of the loan		555		455
Unrealised discount to be amortised over the life of the loan		(299)		(383)
Unrealised amortisation of CPI upliftment for WS05		(209)		(148)

* The fair value of the locally registered bonds issued is measured at the market price at financial year-end.

** The amounts in issue may not exceed the consolidated capital market guarantee of R21 000 million.

5.6 Guarantees

LHWP

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

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

Currency	Amount guaranteed million 2005	Amount utilised million 2005	Amount guaranteed million 2004	Amount utilised million 2004
TCTA loans:				
Euro	101	39*	101	50*
Rand	26 100	18 438	26 100	16 255
LHDA loans:				
US Dollar	51	16	51	19
Euro	94	74	94	76**
Rand	673	188	770	239

* Included in the Euro amount is the European Investment Bank facility which was drawn in rands, R315 million (2004: R339 million) and will be repaid in rands.

** Included in the Euro amount is the European Investment Bank facility which was drawn in rands, R296 million (2004: R289 million) and will be repaid in rands.

BWP

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

Currency	Amount guaranteed R million 2005	Amount utilised R million 2004
Temporary power supply for construction	—*	—*
Permanent power supply for construction of the dam as well as the Daspoort Tunnel	2	—

* The amount of the guarantee is R408 500.

Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2005

5. Financial instruments (continued)

5.7 Financial market investments

LHWP

The fair value of the investments in the redemption portfolio are measured at the prevailing market rate at the financial year-end.

	2005 R million	2004 R million
Carrying value	2 073	934
Fair value	2 304	1 043

5.8 Derivative exposures

LHWP

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

	2005 Contract values R million	2005 Fair value R million	2004 Contract values R million	2004 Fair value R million
Forward exchange contracts	969	(231)	1 675	(277)

Derivatives are used to hedge currency exposures.

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

5.9 Financial risk management

The various types of financial, treasury and operational risks pertaining to the project are identified, assessed, managed and monitored in a prudent manner, within a Board-approved risk tolerance framework. Appropriate treasury and accounting policies and procedures have been established to identify and monitor risks.

The overall financial risk of the project is managed using asset/ liability management principles. The aim, within certain defined risk parameters, is to match the duration of the liabilities to the duration of the free cash flow⁽¹⁾ in any given year.

A Finance Committee comprising of at least two non-executive directors, an independent treasury specialist and the CEO assists management and the Board in this regard, and in reviewing TCTA's funding and risk-management strategies and to maintain the optimal capital structure.

5.10 Liquidity risk management

Liquidity risk is the risk of defaulting on financial obligations as a result of insufficient funding capacity. It is managed by ensuring that sufficient funding is available to fulfil South Africa's obligations, in terms of the Treaty, for the LHWP. TCTA operates in the local money and capital markets as well as in the local South African and offshore loan markets. In order to meet the above obligations and future funding requirements efficiently, sufficient facilities in the required currencies are maintained.

Furthermore, the WS bonds are listed on the bond exchange and a panel of six market makers is used to increase liquidity in these bonds.

5.11 Interest rate risk management

Interest rate risk is the risk of adverse interest rate fluctuations impacting negatively on debt exposures, including the repricing of TCTA's floating rate debt obligations and the short-term rollover of maturing debt. A key focus area of the risk management policy is therefore to monitor and manage interest rate risk proactively.

To do this, TCTA not only hedges interest-rate exposure using approved derivative instruments, but also actively works towards achieving an optimal capital structure given the nature of the project. Part of this risk evaluation deals with appropriate fixed to floating ratios as well as the evaluation of foreign versus local funding and matching the duration of liabilities with that of free cash flow. Currently TCTA does not have any derivatives hedging interest rate risk.

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

5. Financial instruments (continued)

Figure 54: Interest rate exposure – LHWP

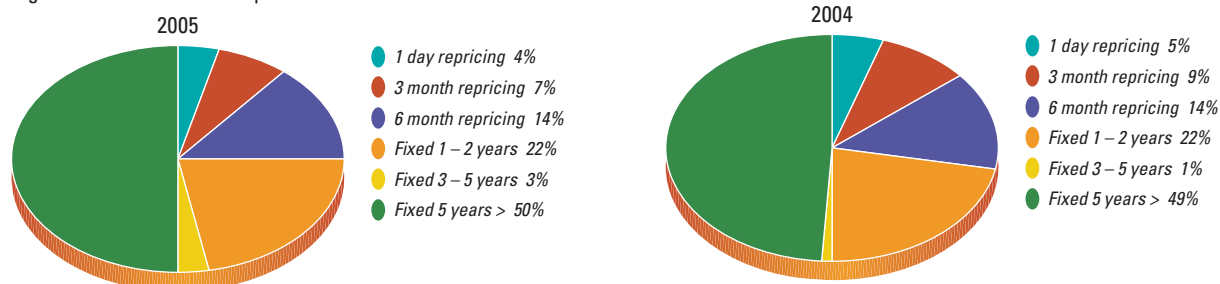
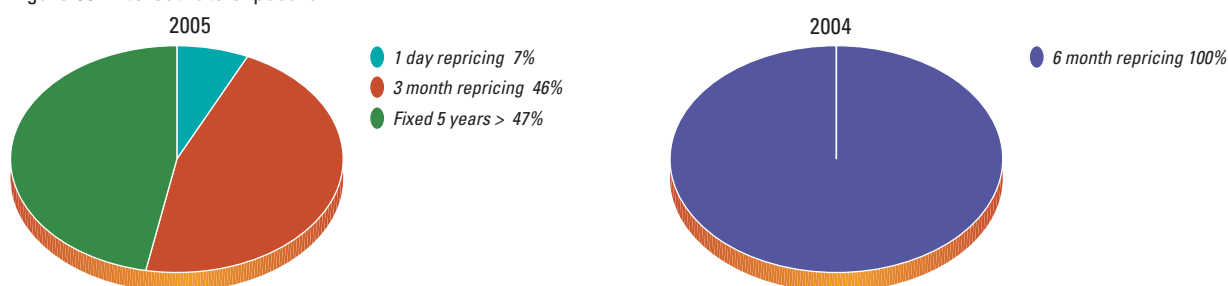


Figure 55: Interest rate exposure – BWP



Maturity periods: Interest exposure

	LHWP		BWP	
	2005 R million	2004 R million	2005 R million	2004 R million
Liabilities				
<i>Floating</i>				
<1 month	988	1 171	66	-
1 – 3 months	462	262	50	-
3 – 12 months	244	544	-	39
1 – 2 years	144	134	-	-
2 – 3 years	119	134	-	-
3 – 4 years	110	110	-	-
4 – 5 years	113	97	-	-
>5 years	2 637	2 180	-	-
	4 817	4 632	116	39
<i>Fixed</i>				
<1 year	4 383	95	-	-
1 – 2 years	169	61	-	-
2 – 3 years	256	3 811	-	-
3 – 4 years	666	160	5	-
4 – 5 years	65	290	5	-
>5 years	9 841	9 216	90	-
	15 380	13 633	100	-

Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2005

5. Financial instruments (continued)

Maturity periods: Interest exposure (continued)

	2005 R million	LHWP 2004 R million	BWP 2005 R million	2004 R million
Assets				
<i>Floating</i>				
<1 month	176	332	–	–
1 – 3 months	–	–	–	–
3 – 12 months	5	3	–	–
1 – 2 years	11	2	–	–
2 – 3 years	1	2	–	–
3 – 4 years	–	2	–	–
4 – 5 years	–	2	–	–
>5 years	–	–	–	–
	193	343	–	–
<i>Fixed</i>				
<1 year	2 073	–	–	–
1 – 2 years	–	934	–	–
2 – 3 years	–	–	–	–
3 – 4 years	–	–	–	–
4 – 5 years	–	–	–	–
>5 years	–	–	–	–
	2 073	934	–	–

5.12 Counterparty risk management

The risk of counterparties failing to deliver on their obligations is managed by the allocation of appropriate credit limits for each counterparty. TCTA deals only with reputable institutions and within the limits set for these institutions. Risk is proactively managed through liaison with credit rating agencies and the continuous monitoring of the financial standing of all counterparties. Credit limits are reviewed regularly and adjusted when deemed necessary.

In addition to ensuring strict compliance with approved credit limits, credit risk associated with derivative instruments is further mitigated by the use of master netting agreements as well as collateralisation arrangements.

The counterparty exposure is set out below:

	2005 %	2004 %
LHWP		
Short-term rating		
Other	23	–
A1	10	23
A1+	67	75
RSA government guaranteed	–	2
	100	100
BWP		
Short-term rating		
A1+	100	100
	100	100

5. Financial instruments (continued)

5.13 Foreign currency risk management

LHWP

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

TCTA is currently exposed to Euro and United States dollar exchange rate fluctuations but has been exposed to Pound Sterling and Japanese Yen in the past. The currency hedging policy is conservative and the various exposures are monitored on an ongoing basis.

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

Forward exchange contracts – recognised transactions

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

Foreign currency	Foreign amount million	Rand amount R million	Fair value Rand R million
2005			
USD	16	125	(5)
Euro	46	704	(208)
GBP*	–	–	1
2004			
USD	30	217	(23)
Euro	85	1 064	(204)
GBP	5	62	–

* The fair value of GBP relates to FECs that have been cancelled, but not yet settled.

Forward exchange contracts – anticipated transactions

These net forward exchange contracts do not relate to specific items on the balance sheet, but were entered into to cover foreign commitments not yet due. These are measured at fair value, with the resultant gains or losses recognised in the hedging reserve in equity.

The maturity dates of the current forward exchange contracts range up to 2013, and will be applied in the hedging of expected future loan capital and interest commitments due up to 2018.

Foreign currency	Foreign amount million	Rand amount R million	Fair value Rand R million
2005			
USD	4	31	(1)
Euro	7	109	(18)
2004			
USD	17	126	(14)
Euro	17	205	(37)

The split of the fair value on FECs between long and short positions has been disclosed in note 5.1 and 5.2.

Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2005

5. Financial instruments (continued)

	2005		EUR million	2004	
	EUR million	USD million		USD million	GBP million
Foreign exchange contracts maturity profile					
< 1 year	7	2	37	47	5
1 – 2 years	6	3	10	–	–
2 – 3 years	11	3	8	–	–
3 – 4 years	10	3	12	–	–
4 – 5 years	10	2	7	–	–
>5 years	9	7	28	–	–
	53	20	102	47	5

5.14 Exchange rates (closing rates)

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

Foreign currency	2005 Rand	2004 Rand
USD	6,226	6,364
Euro	8,083	7,787
GBP	11,746	11,671

5.15 Operational risk management

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

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

To date the G30* recommendation, the COSO** framework, Turnbull Internal Control Requirements of the Combined Code and the ACTSA*** Charter of Best Practice in Treasury Management have been evaluated and implemented where deemed appropriate.

* Group of 30 leading international banks.

** Committee of Sponsoring Organisation of the Treadway Commission.

*** Association of Corporate Treasurers of South Africa

6. Trade and other receivables

	LHWP		BWP		VRESAP	
	2005 R million	2004 R million	2005 R million	2004 R million	2005 R million	2004 R million
Current						
Water income receivables ⁽²⁾	315	288	9	3	–	–
Prepayments	–	–	52	1	2	–
Other debtors	5	2	3	–	–	–
Interest receivable WS01 redemption	219	92	–	–	–	–
Amount owing by Government of Lesotho (GOL) ⁽¹⁾	18	14	–	–	–	–
	557	396	64	4	2	–

⁽¹⁾ Amounts owing by GOL are as a result of cost-related reimbursement liability, in terms of Article 3 of Protocol IV. The full balance of R18 million was early repaid by GOL on 30 April 2005.

⁽²⁾ Water income receivable for LHWP is 60 days and BWP is 30 days.

	LHWP		BWP		VRESAP	
	2005 R million	2004 R million	2005 R million	2004 R million	2005 R million	2004 R million
Non-current						
Government of Lesotho ⁽³⁾	193	186	–	–	–	–
	193	186	–	–	–	–

⁽³⁾ Amounts owing by GOL relate to the cost allocation backlog which to date reflects a liability by GOL of R193 million (including interest of R136 million). A prior year adjustment of R169 million relating to the debt as at 31 March 2004, has been effected.

	2005 R million	2004 R million
Total		
Current		
LHWP	557	396
BWP	64	4
VRESAP	2	–
	623	400
Non-current		
LHWP	193	186
BWP	–	–
VRESAP	–	–
	193	186

Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2005

7. Non-distributable reserves

	2005 R million	2004 R million
LHWP		
Balance at the beginning of the year	(32)	24
Movement during the year	33	(56)
• Revaluation gains relating to hedges of future anticipated transactions	(21)	(64)
• Revaluation losses relating to hedges of future anticipated transactions	–	18
• Amounts released to deficit during the year	53	116
• Revaluation of depreciable portion of construction works in South Africa	1	(1)
• Prior year adjustment – change in accounting policy*	–	(125)
• Realisation of revaluation surplus	–	–
The balance comprises	1	(32)
Revaluation reserve	20	19
Hedging reserve	(19)	(51)

Revaluation reserve

Revaluation surpluses that arise are taken directly to the revaluation reserve except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the surplus is credited to the income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of an asset is charged as an expense to the extent that it exceeds the balance, if any, held in the asset's revaluation reserve relating to a previous revaluation of that asset.

Hedging reserve

The hedging reserve includes unrealised gains and losses on the fair value revaluation of hedging instruments designated as cash-flow hedges for future anticipated transactions.

* A change in accounting policy, with regards to enduring benefit, was effected. The impact was a reversal of the revaluation reserve pertaining to the enduring benefit, hence the R125 million adjustment in prior year.

8. Cumulative deficit

	2005 R million	2004 R million
LHWP		
Balance at the beginning of the year	(2 174)	(2 162)
Movement during the year	(637)	(12)
• Net deficit for the year	(638)	(76) ⁽¹⁾
• Prior year adjustment	–	64 ⁽²⁾
• Realisation of revaluation surplus	1	–
Balance at the end of the year	(2 811)	(2 174)

	R million
⁽¹⁾ Net deficit for the year per 2004 annual financial statements	(99)
Adjusted for 2004 cost allocation interest income	21
Adjusted for 2004 interest on Katse claim	(4)
Reversal of realised revaluation reserve	6
Restated deficit for 2004	(76)

⁽²⁾ Cost allocation interest income from 1 March 1999 to 31 March 2003 (refer note 3 above, intangible assets for further details)	72
Katse claim interest to 31 March 2003	(5)
Reversal of realised revaluation reserve*	(3)
Prior year adjustment	64

* A change in accounting policy with regards to enduring benefit was effected in the current year, retrospectively. The change in policy resulted in enduring benefit being treated on the cost basis rather than the revaluation basis, as was previously done.

Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2005

9. Trade and other payables

	LHWP		BWP		VRESAP	
	2005 R million	2004 R million	2005 R million	2004 R million	2005 R million	2004 R million
Interest payable						
• TCTA	483	340	–	–	–	–
• LHDA	38	96	–	–	–	–
Loan Account: LHWP	–	–	–	1	3	–
Other creditors	71	44	44	5	7	–
Royalties (see note 13)	36	31	–	–	–	–
Katse claim ⁽¹⁾	82	77	–	–	–	–
	710	588	44	6	10	–

⁽¹⁾ Katse claim

A claim has been awarded by the Tribunal on contract 123 relating to construction of the Katse dam. The claim has been adjusted retrospectively, hence the prior year adjustment of R77 million.

	2005 R million	2004 R million
Total		
LHWP	710	588
BWP	44	6
VRESAP	10	–
	764	594

10. Provisions

	LHWP 2005 R 000	BWP 2005 R 000	Total 2005 R 000
10.1 Provision for leave pay			
Balance at the beginning of the year	699	237	936
Leave accrued during the year	1 311	266	1 577
Leave utilised or paid	(436)	(148)	(584)
	1 574	355	1 929

In terms of TCTA's policy, employees are entitled to accumulate annual leave not taken to a maximum of 40 working days. Accumulated annual leave exceeding the maximum of 40 working days is forfeited on 30 June of the succeeding year.

11. Revenue

	Note	LHWP		UW		ORWRDP	
		2005 R million	2004 R million	2005 R million	2004 R million	2005 R million	2004 R million
Bulk raw water tariff	11.1	1 654	1 538	–	–	–	–
Umgeni Water recoveries	11.2	–	–	1	3	–	–
Olifants River recoveries	11.3	–	–	–	–	– ⁽¹⁾	–
		1 654	1 538	1	3	–	–
						2005 R million	2004 R million
Total							
LHWP						1 654	1 538
UW						1	3
Olifants River recoveries						– ⁽¹⁾	–
						1 655	1 541

11.1 Bulk Raw Water Tariff

Income is based on the part of the bulk raw water tariff due to TCTA at 122,4 cents per cubic metre (2004: 116,1 cents per cubic metre), based on 1 351 million cubic metres (2004: 1 325 million cubic metres) of water sales from the Vaal River system.

11.2 Umgeni Water recoveries

In terms of the Service Level Agreement with Umgeni Water, TCTA billed Umgeni Water on a monthly basis for the costs incurred in managing the treasury function. This treasury management function was handed back to Umgeni at the end of December 2004.

11.3 Olifants River recoveries

TCTA currently acts in an advisory capacity on this project.

12. Other income

	2005 R million	2004 R million
Interest income	229	224
Rental income	–	–
	229	224

Interest income

Interest income is mainly comprised of interest received from the WS01 redemption investments, repurchase agreements (repos) income and premium on WS bonds amortised.

Rental income

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

⁽¹⁾ Revenue from ORWRDP is R400 089 (2004: nil)

Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2005

13. Royalties paid

	2005 R million	2004 R million
LHWP		
Royalties are paid to the government of Lesotho in accordance with the Treaty for the benefit of receiving water from the LHWP. The variable royalties are based on 692,9 million cubic metres (2004: 687,0 million cubic metres) of water delivered.		
Fixed royalties	111	109
Variable royalties	117	99
	228	208

14. Operating expenses

	2005 R million	2004 R million
LHWP		
Operating expenses comprise:		
Operating costs for work in Lesotho*	30	28
Lesotho Highlands Water Commission (LHWC) costs	8	9
Depreciation and amortisation	16	8
Operating lease payments	1	1
Staff costs	17	15
Directors' emoluments (refer below)	3	3
Other operating expenditure	13	11
Total operating expenditure	88	75

Notes: Included in operating expenses are the following:

- Audit fee R546 575 (2004: R375 000)
- Berg Water Project cost allocation R4 367 992 (2004: R2 156 092)
- VRESAP cost allocation R956 830 (2004: nil)
- Costs incurred by LHWP staff on the Berg Water Project and VRESAP are charged to the project as follows:
 - Allocated project hours are billed at the actual staff rates.
 - A standard 25% cost allocation for BWP and 5% for VRESAP on the following costs:
 - o Office overheads
 - o Directors' remuneration
 - o Audit fees
 - o Annual report costs
 - o Training, seminars and conferences
 - o Local Area Network development
 - o Rental of computer systems
 - o Rental of lines
 - o Strategic workshops
- Time spent on ORWRDP is billed at 25% of actual cost.

* The operating costs relating to Phase 1 for the works in Lesotho are expensed to achieve matching of income and expenditure. As TCTA is responsible, on behalf of the government of South Africa, for meeting this expenditure, it is disclosed separately.

14. Operating expenses (continued)

Directors' remuneration:

Directors	Status	2005	2004
L Maasdorp	Chairperson	218 012	189 300
O Latiff	Vice Chairperson, Chairperson of Audit Committee	222 047	158 700
S Lushaba ⁽⁴⁾	Member	–	–
A Makwetla	Member, Chairperson of Human Resources Committee	197 225	180 844
C Maynard	Member, Chairperson of Finance Committee	204 137	172 300
R Mbwana	Member, Chairperson of BWP and VRESAP Technical Committee	240 577	175 900
Phakamani Hadebe ⁽⁴⁾	Member	–	–
M Muller ⁽⁴⁾	Member	–	–
Total non-executive directors	Note ⁽¹⁾	1 081 998	877 044
MJ Janse van Rensburg ⁽²⁾	Member, Chief Executive Officer	2 268 859	2 182 430
Total directors		3 350 857	3 059 474

⁽¹⁾ Remuneration paid to independent and non-executive directors employed outside the public service. Remuneration paid is based on the following:-

- R15 200 (2004: R12 400) monthly fee for the chairperson of the Board
- R13 200 (2004: R10 800) monthly fee for other Board members;
- R5 700 (2004: R4 200) attendance fee per meeting for the chairperson of the Board
- R4 600 (2004: R4 200) attendance fee per meeting for the chairperson of the sub-committee meetings
- R3 850 (2004: R3 500) attendance fee per meeting for Board and sub-committee meetings.

⁽²⁾ Remuneration paid represents the cost-to-company amount (TCTA does not have a medical, pension or insurance scheme) and a performance incentive accrued of R554 559 (2004: R582 030).

Business-related expenses are reimbursed at actual cost, within an agreed policy and no allowances are paid.

⁽³⁾ The CEO is a member of the Board for Johannesburg Water, a specialist member of the Audit Committee for Airports Company South Africa (ACSA) and a member of the Governing Committee of BESA. The CEO does not receive fees for these services in her individual capacity. Such fees are received directly by TCTA and amount to R59 650 (2004: R13 753) from Johannesburg Water and R99 000 (2004: R70 000) from BESA, for the year ended 31 March 2005.

⁽⁴⁾ TCTA does not pay remuneration to those non-executive directors that are in public service employment.

Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2005

15. Finance costs

	2005 R million	2004 R million
LHWP		
Interest expense and discount amortised:	2 077	1 444
• Locally issued bonds	1 756	1 154
• Other local debt	243	280
• Foreign debt	78	10
Net foreign exchange differences	129	114
• Foreign exchange contract gains	(87)	(27)
• Foreign exchange contract losses	149	166
• Translation gain	(47)	(105)
• Translation loss	114	80
Total finance charges	2 206	1 558
TCTA funded at an average rate	11,17%	12,06%

Note: The interest on foreign debt above is translated at the spot rate on transaction date, and the foreign exchange differences arising from utilisation of forward exchange contracts are included in net foreign exchange differences above.

16. Net deficit

As income is first used to cover operating expenditure, depreciation and royalties, the net deficit of R638 million (2004: R76 million) relates to the shortfall in covering interest costs. The prior year deficit has been restated. The project financing approach adopted means that this deficit was anticipated. In tariff setting, priority was given to setting a constant tariff in real terms, and the effect is that interest will not be covered by income for the first number of years of each phase.



17. Commitments

	Capital expenditure works in South Africa		Enduring benefit	
	2005 R million	2004 R million	2005 R million	2004 R million
Expenditure will be financed from borrowings and is expected to be incurred as follows:				
LHWP				
2005 – 2006	–	–	–	187
2006 – 2007	–	–	–	252
Total	–	–	–	439
BWP				
2005 – 2006	425	522	–	–
2006 – 2007	414	–	–	–
Total	839	522	–	–
VRESAP				
2005 – 2006	66	–	–	–
2006 – 2007	66	–	–	–
Total	132 ⁽¹⁾	–	–	–

⁽¹⁾ The total expected future expenditure on this project is R2,2 billion, however only R132 million relates to expenditure contracted as at 31 March 2005.

18. Contingent asset

18.1 Cost allocation

In terms of the Treaty, RSA bears all water transfer costs and GOL bears all hydropower and ancillary costs. Where cost allocations are not precise, eg, infrastructure costs, and costs are incorrectly borne by one of the parties, Protocol IV provides for recovery of such costs from the other party. Hence any costs borne by RSA which relate to hydropower are fully claimable from the GOL and vice versa.

The cost allocation between water transfer costs (TCTA) and hydropower costs (GOL) have been finalised for the period up to March 1996. Amounts relating to that period have been disclosed under non-current assets as a prior period adjustment. Refer to note 6 above. Amounts relating to post-1996 are still in the process of being verified and could probably result in further amounts owing by GOL to RSA. Hence no financial adjustment has been processed in these financial statements due to the uncertainty of the amount. Once more clarity has been obtained, a full adjustment will be processed to the annual financial statements.

18.2 Interest on royalties

In prior years, an error of R22 million overpayment in royalties, by TCTA to LHDA was detected and adjusted for. The interest component of R2,8 million is still being disputed by GOL as at the end of 31 March 2005.

Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2005

19. Operating leases

	<1 year R million	1 – 5 years R million	>5 years R million	Total R million
2005				
Buildings and equipment	1	2	–	3
Equipment	– ⁽¹⁾	1	–	1
Total	1	3	–	4

⁽¹⁾ Equipment lease amounting to R205 000

TCTA leases certain buildings and equipment. The lease terms negotiated for the premises are ranging from two years to an indefinite period. In some instances the leases contain an option clause entitling TCTA to renew the lease agreements for a period equal to the main agreement. In other instances, either the parties can come to a new agreement, or TCTA has the option to continue leasing the property on a month-to-month basis where both parties have to give each other one calendar month's notice in writing to terminate the lease.

The minimum lease payments under these agreements are subject to annual escalation, which range from 5% to 11%. The rental for the building occupied in Franschoek, escalates by the official repurchase percentage rate determined by the South African Reserve Bank.

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

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

20. Operations and maintenance

	2005 R'000	2004 R'000
Below is a statement of income and expenses relating to operations and maintenance for the works on South African soil. The amounts are included in the Income Statement on page 102. In terms of Protocol VI to the Treaty, signed on 4 June 1999, these amounts are separately identified and reported on:		
Revenue	633	434
Operating costs	633	434
	–	–

21. Retirement and medical aid benefits

TCTA does not contribute to any defined retirement or medical aid fund. It does not have a liability for the provision of retirement funding. The emoluments paid to individuals include a sum for the provision of their own medical aid and pension benefits.

22. Subsequent events

No events occurred after 31 March 2005 which materially impacts on the financial statements as at that date.

23. Going concern

The long-term solvency of TCTA is determined by its tariff methodology, income agreements and guarantees (explicit or implicit). TCTA's tariffing methodology seeks to provide a stable planning platform for the future by smoothing the tariff over the period of repayment which is significantly less than the project life and results in end user affordability. TCTA will thus show a deficit, after interest, in the first number of years after completion of an infrastructure project. However, when matched to the income stream, underwritten by government guarantees, both explicit and implicit, and the useful life of the project, it is clear that the organisation is a going concern.

24. Additional segmental information

	LHWP R million	UMGENI R million	ORWRDP R million	BWP R million	VRESAP R million	Total R million
Business segments						
2005						
Revenue						
Revenue from external customers	1 654	1	–	– ⁽²⁾	– ⁽²⁾	1 655
Less: Revenue from transactions with other segments ⁽¹⁾	–	–	–	–	–	–
	1 654	1	–	–	–	1 655
Operating profit/segment result						1 568
Finance costs						(2 206)
Deficit for the year						(638)
Other information						
Capital expenditure for property, plant and equipment	2	–	–	161	8	171
Capital expenditure for intangible assets	548	–	–	–	–	548
Depreciation and amortisation	17	–	–	–	–	17
Impairment losses and asset write-offs	–	–	–	–	–	–
Non-cash flow items	367	–	–	–	–	367
Assets and liabilities						
Assets	18 340	–	–	260	10	18 610
Liabilities	21 150	–	–	260	10	21 420

⁽¹⁾ There are no inter-segmental revenues.

⁽²⁾ Revenue on BWP, received during construction is capitalised (set off against capital expenditure) until end of construction. The same principle would apply to VRESAP once revenue is received.

Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2005

24. Additional segmental information (continued)

	LHWP R million	UMGENI R million	ORWRDP R million	BWP R million	VRESAP R million	Total R million
2004						
Revenue						
Revenue from external customers	1 538	3	–	–	–	1 541
Revenue from transactions with other segments ⁽¹⁾	–	–	–	–	–	–
	1 538	3	–	–	–	1 541
Operating profit/segment result						1 498
Finance costs						(1 574)
Deficit for the year						(76)
Other information						
Capital expenditure for property, plant and equipment	50	–	–	20	–	70
Capital expenditure for intangible assets	991	–	–	–	–	991
Depreciation and amortisation	15	–	–	–	–	15
Impairment losses and asset write-offs	–	–	–	–	–	–
Non-cash flow items	481	–	–	–	–	481
Assets and liabilities						
Assets	16 648	–	–	45	–	16 693
Liabilities	18 853	–	–	45	–	18 898

⁽¹⁾ There are no inter-segmental revenues.

List of terms and definitions

BESA

Bond Exchange of South Africa

BRC

Berg River Consultant

BWCC

Berg Water Capital Charge

BWP

Berg Water Project

CCT

City of Cape Town

CFRD

Concrete Faced Rockfill Dam

CPI-X

Consumer Price Index (excluding home loans)

DEAT

Department of Environmental Affairs and Tourism

DTN

Delivery Tunnel North

DTS

Delivery Tunnel South

DWAF

Department of Water Affairs and Forestry

EIA

Environmental Impact Assessment

EIB

European Investment Bank

EMC

Environmental Monitoring Committee

EMP

Environmental Management Plan

GAAP

Generally Accepted Accounting Practice

GBP

Pound Sterling

GOL

Government of Lesotho

HDIs

Historically Disadvantaged Individuals

IFRS

International Financial Reporting Standards

JPY

Japanese Yen

LHDA

Lesotho Highlands Development Authority

LHWC

Lesotho Highlands Water Commission

LHWP

Lesotho Highlands Water Project

m3

Cubic Metres

NWIA

National Water Infrastructure Agency

ORWRDP

Olifants River Water Resource Development Project

PAIA

Public Access to Information Act

PFMA

Public Finance Management Act

PPI

Producer Price Index

PPP

Public Participation Programme

ROD

Record of Decision

SAAWU

South African Association of Water Utilities

SARB

South African Reserve Bank

SLA

Service Level Agreement

SMME

Small, Medium, Micro Enterprise

SUP

Sustainable Utilisation Plan

TPCC

Third Party Capital Charge

USD

United States Dollar

UW

Umgeni Water

VRESAP

Vaal River Eastern Sub-system Augmentation Project

VRESS

Vaal River Eastern Sub System

WCWS

Western Cape Water System

ur People



Martie Janse
van Rensburg



Liza Visser



Maureen Mphatsoe



Hanje Botha



Sophie Mabogwane



Eric van der Merwe



Lebo Mokgalagadi



Eunice
Chimbalinga



Halima Nazeer



Gloria Mhlambi



Yeshmin Jugdiswar



Belinda Hogan



Gijimani Vezi



Alicia Keyser



Lynette Milne



Dustine Barnard



Karin Otto



Vernon Naidoo



Abdul Moses



Lanel Kotze



Pritesh Lakha



Annie Mkhuzanqwe



Gina Tosen



Buhle Ndlovu



Amanda Green



Bukiwe Ngwenya



Keromang Teko



Faizal Amod



Carina Bleeker



Roshanta Kolapen



Paul Siddall



Brenda Groenewald



Obakeng Moloabi



Jabu Sindane



Darshana Jeeva



Ronelle Singh



Shabier Adam



Gerda Swanevelder



Catherine Varner



Thami Sithole



Johann Claassens



Wynand Maartens



Ntsoli Maitetso



Tim Staples



Matsela Sikhwivhilu



Grant Anderson



Paul Bowes



Rochelle Nichols



Barend Smit



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