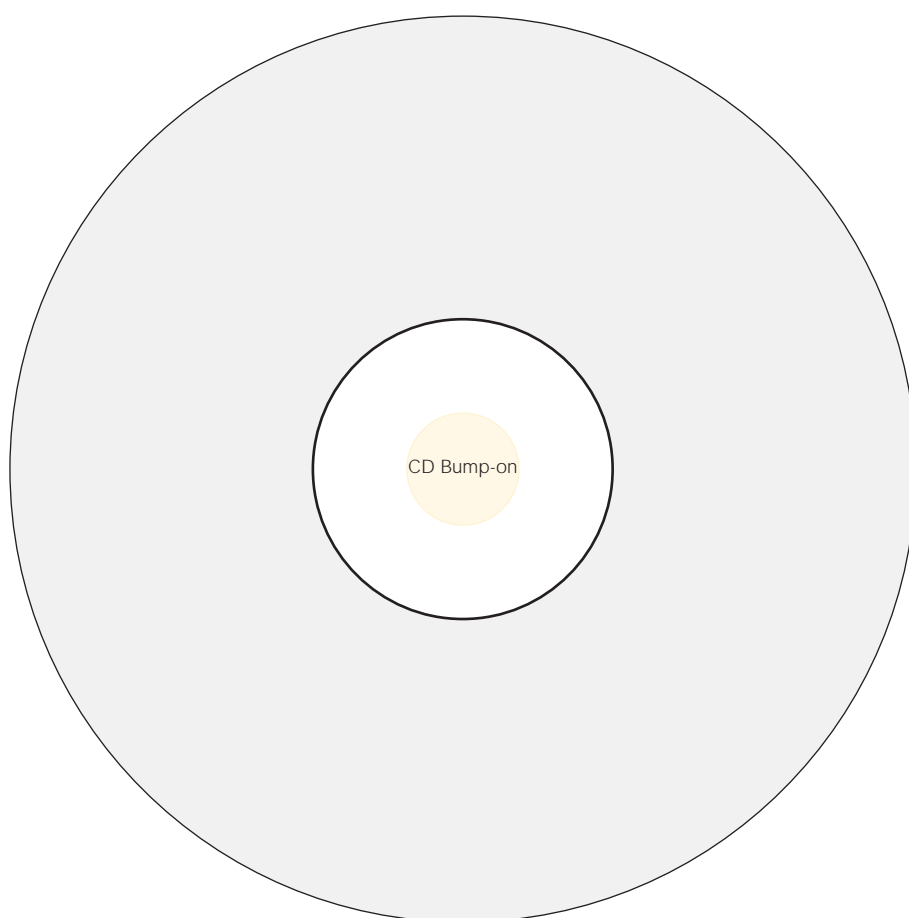


2004 Annual Report

"Behold our kaleidoscope; scintillating gems united in splendour"

Interactive Annual Report



Glossary

ALBI:	All Bond Index	GOL:	Government of Lesotho
ALCO:	Asset Liability Committee	IBRD:	International Bank of Reconstruction and Development
BESA:	Bond Exchange of South Africa	IEDF:	Integrated Environmental Development Framework
BRC:	Berg River Consultant	JPY:	Japanese Yen
BRD:	Working Title – Berg River Dam	JV:	Joint Venture
BWCC:	Berg Water Capital Charge	JW:	Johannesburg Water
BWP:	Berg Water Project	KLC:	Katse Local Catchment
CCT:	City of Cape Town	LHDA:	Lesotho Highlands Development Authority
CEO:	Chief Executive Officer	LHWC:	Lesotho Highlands Water Commission
CFO:	Chief Financial Officer	LHWP:	Lesotho Highlands Water Project
CFRD:	Concrete Faced Rockfill Dam	m ³ :	Cubic Metres
CPIX:	Consumer Price Index (excluding home loans)	NGO:	Non-Governmental Organisation
DBSA:	Development Bank of Southern Africa	OHM:	Organisational Health Monitoring
DEAT:	Department of Environmental Affairs and Tourism	PAIA:	Public Access to Information Act
DTN:	Delivery Tunnel North	PFMA:	Public Finance Management Act
DTS:	Delivery Tunnel South	PPI:	Produce Price Index
DWAF:	Department of Water Affairs and Forestry	PPP:	Public Participation Programme
EAP:	Environmental Action Plan	ROD:	Record of Decision
ECO:	Environmental Control Office	SAAWU:	South African Association of Water Utilities
EEP:	Employment Equity Plan	SARB:	South African Reserve Bank
EIA:	Environmental Impact Assessment	SLA:	Service Level Agreement
EIB:	European Investment Bank	SMME:	Small, Medium, Micro Enterprise
EID:	Employment Information Desk	SUP:	Sustainable Utilisation Plan
EMC:	Environmental Monitoring Committee	TPCC:	Third Party Capital Charge
EMP:	Environmental Management Plan	USD:	United States Dollar
ESSG:	Environmental and Social Service Group	UW:	Umgeni Water
EUR:	Euro	WCPLC:	Western Cape Provincial Liaison Committee
EXCO:	Executive Management Committee	WCSEA:	Western Cape Systems Analysis
FICA:	Financial Intelligence Centre Act	WCWS:	Western Cape Water System
FSL:	Full Supply Level	WSSD:	World Summit on Sustainable Development
GAAP:	Generally Accepted Accounting Practice	ZAR:	South African Rand
GBP:	Pound Sterling		

TCTA Annual Report 2004

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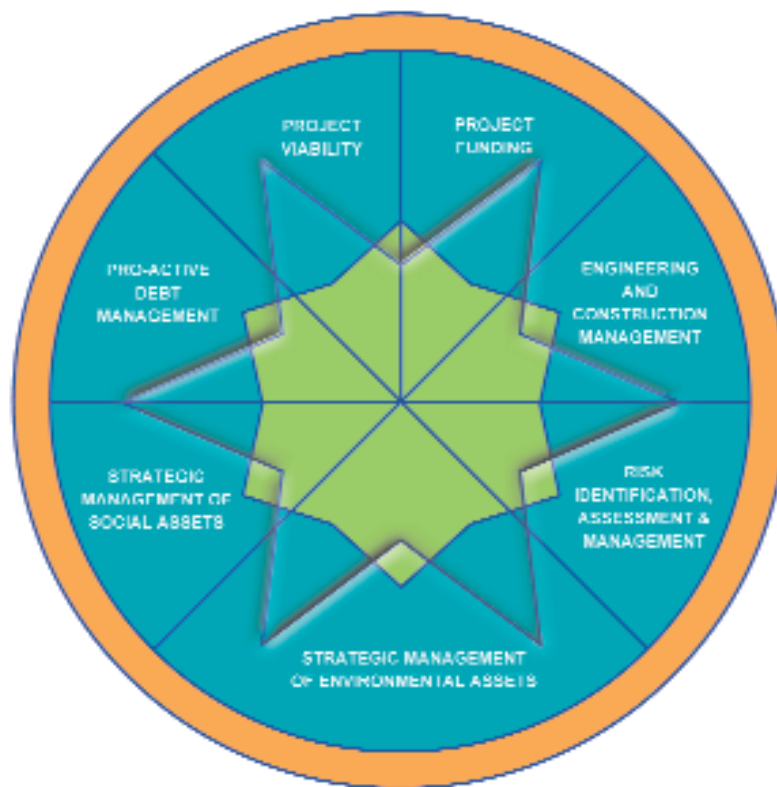


To the Minister of Water Affairs & Forestry

17th Annual Report, 31 March 2004

Established in terms of Government Notice 2631 of 12 December 1986;
revised by Government Notice 21017 of 24 March 2000, promulgated in
terms of Chapter 10 of the National Water Act, 1998.

LIABILITY MANAGEMENT



MISSION STATEMENT

TCTA is a specialised liability management body for bulk water supply development in the most cost-effective manner for the benefit of the water consumer.

“Behold our kaleidoscope; scintillating gems united in splendour”

TCTA is an entity that is much the same as a kaleidoscope, in that it is dynamically progressive and inspirational.

At TCTA, its people continuously work on evolving the splendid business of bulk infrastructure implementation and funding in South Africa.

Board of Directors

TCTA's affairs are directed and controlled by a Board of Directors appointed by the Minister of Water Affairs and Forestry. Directors are selected according to their experience as well as their managerial, technical and financial skills. Full-time executive staff manage the operational activities of TCTA.

The Chief Executive Officer was appointed in May 1998. With the publication of the revised Notice of Establishment on 24 March 2000, the CEO became an ex officio member of the Board. This position is the only executive position on the Board. Maintaining a balance of continuity and skills, as well as enlisting additional skills that focus on the increased activities of liability management, the Board was reconstituted on the 1 June 2002. It will serve a term of three years to 31 May 2005.

The Board of Directors consisted of the following members as at 31 March 2004:



Leslie Maasdorp*

Chairperson

- BA (Economics and Psychology) – University of the Western Cape
- MSc Economics – Public Finance, Money and Banking School of Oriental and African Studies, University of London
- South African Country Advisor on International Advisory Board of Goldman Sachs International
- Board Member of the Trade and Industry Policy Secretariat
- Board Member of the South African Weather Services.

Leslie has extensive experience in corporate strategy, privatisation of state assets and investment banking.

Angie Makwetla*

- BA (Social Work)
- Chief Executive of Makwetla & Associates, a new South Africa 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.

Carmen Maynard*

- MComm – University of the Witwatersrand
- Board Member and member of the Audit Committee of Sanlam Limited, Sanlam Life and Chairperson of Sanlam Investment Management Limited
- Member of the Policy Board for Financial Services and Regulation

Carmen has extensive experience in asset management, financial markets and economics.

Robert Mbwana*

- B.Sc. Eng.(Civil) – University of Malawi
- Chief of Party on a USAID funded Bushbuckridge Retail Water Distribution Project, employed by Chemonics International.

As a registered professional engineer, Robert has extensive water engineering experience and was involved in water supply management in Cape Town.

- * Independent Non-executive Directors
- + Non-executive Directors
- ▲ Executive Director



Simo Lushaba⁺

- B.Sc. Hons – University of Zululand
- MBA – Cardiff Business School, University of Wales
- Chief Executive of Rand Water
- Chairperson of the Board of Piki Tup
- Non-Executive Director of Harmony Gold
- Non-Executive Authority member of LGW Seta

Simo's areas of specialist interest are the water sector, engineering and the transport industry.



Mike Muller⁺

- M Sc (Civil Engineering)
- Director General of the Department of Water Affairs and Forestry.

Mike has extensive development policy and development finance experience as well as long involvement experience in the implementation of water supply and sanitation programmes. Mike is also a member of the VN Secretary General's millennium Development Task Force on water and sanitation.



Omar Latiff*

Vice-Chairperson

- B.Compt (Hons) CA (SA)
- H.Dip Tax
- Associate Professor at University of Natal, Pietermaritzburg.
- Non-Executive Chairperson of Umgeni Water and member of the Audit & Risk, Finance and Human Resources sub-committees.

Omar's areas of specialist interest are Tax and Estate Planning, Managerial accounting and Finance. Director of LMD Africa Chartered Accountants Inc., a firm of Chartered Accountants in public practice. Omar has extensive experience in the water services industry.



Martie Janse van Rensburg[▲]

- B.Compt (Hons) CA (SA)
- Chief Executive Officer
- Member of the Governing Committee of the Bond Exchange of South Africa and a member of the Audit and Risk sub-committees
- Non-executive Board Member of Johannesburg Water (Pty) Ltd and Chairperson of the Audit Committee, member of the Risk Committee
- Member of the National Task Team on Institutional reform in Water Services

Martie has extensive experience in financial advisory services, change management, funding, project implementation and liability management.

Chairperson's report



I have the pleasure to report on the business success of TCTA, an organisation characterised by a wealth of human capital effectively focused and harnessed to serve the citizens of South Africa with passion and dedication.

As we celebrate the first ten years of our democracy, the role of water in creating a sustainable, just society has become one of the most significant issues locally as well as globally. It has also been a thrilling decade in the relatively short history of TCTA in which it completed its infrastructure construction mandate on Phase 1 of the Lesotho Highlands Water Project (LHWP), introduced an imaginative and flexible funding model for water from the LHWP and elevated the concept of liability management to a fine art. TCTA has become a valuable asset synonymous with professionalism and innovation in both the water and financial sectors.

A new constitutional and legislative framework was introduced during the first five years of democracy. The right to the access of clean water was entrenched in the Bill of Rights, while the supply-driven philosophy of creating water sources for a privileged minority was replaced by an environmentally responsible demand-driven philosophy. This demand

management philosophy recognises both human and environmental needs and has been entrenched in the world's most progressive water legislation that is now driving service delivery in the water sector.

The Government's service delivery during the past decade centred on the provision of clean water to households previously deprived of that right. In 1994, around 14 million of our people did not have access to safe drinking water. In 2004 we celebrate the fact that the 10 millionth new user will receive clean, running water. The implementation of Phase 1 of the LHWP, which provides water for domestic use in six provinces of South Africa, has continued to achieve this milestone.

The completion of construction of Phase 1 of the LHWP was marked by an inspiring ceremony in March 2004 at Mohale Dam. President Mbeki stressed South Africa's ongoing commitment to relieve Lesotho of its poverty burden and promised support for the Lowlands Water Project as well as other poverty relief measures. He said that "the economic destinies of our people and countries are inextricably linked together", adding, "this project sparkles like a jewel in the crown of the Southern African Development Community (SADC) and the African Union, proving that we can, as Africans, accomplish sustainable development,

to the mutual benefit of neighbouring countries and is an example of projects that are needed all over our continent to achieve our renaissance". In a clear reference to TCTA, the President congratulated the project authorities who "gained valuable experience in debt and risk management, which can be used in future for other programmes".

It is clear that TCTA is destined and ready to play a pivotal role in more bulk water projects and other activities that require its liability management expertise, both locally and further afield. This process started when TCTA received recognition from the Cabinet for its excellent track record of service delivery on the LHWP by means of an enlarged mandate in 2000. This allowed Government to apply the organisation's skills and expertise on other projects, too.

Providing a treasury management service to Umgeni Water was the first new project mandated in 2001.

This was soon followed in 2002 by the mandate to implement and fund the Berg Water Project (BWP) in the Western Cape. The BWP is the largest water infrastructure project currently under way in SADC and will be funded off-budget without government guarantees. The BWP provides a South African launch pad for the highly participatory approach envisaged by the World Commission on Dams and has placed both TCTA and the community representatives on a learning curve that promises to create a model for future project implementation.

The construction of the BWP is set to begin in the winter of 2004 and to provide water to Cape Town in the summer of 2007. According to the planning schedule everything is on track to meet all the deadlines.

While service delivery is the cornerstone of development, the first decade of our new democracy has also addressed inequality in a meaningful way. In the transition, women are taking up their rightful place in business. TCTA has become a prime example of a modern South African organisation under the leadership of women and striving to address previous inequalities through innovation, training and a team-based approach. I have no doubt that TCTA will meet the ongoing social challenge in the next decade with equal passion. I believe that the attention given to creating synergies in the workforce will continue to pay huge dividends in the future.

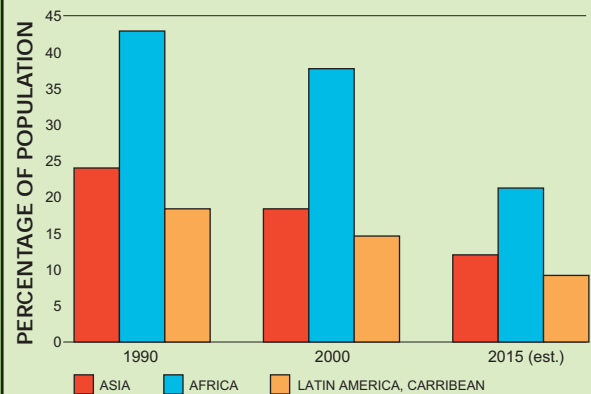
During the year under review I have been impressed by the successes achieved in service delivery on the BWP, LHWP and Umgeni Water. I have also been pleased by initiatives to strengthen diversity management within the organisation. I believe that this year's theme of "Behold our kaleidoscope; scintillating gems united in splendour" reflects the successes of the past year in a typically innovative TCTA way.

Unfortunately, during the year, non-executive director, Brian Molefe, left our board in order to concentrate on his new position as CEO of the Public Investment Commission. National Treasury are yet to make a replacement decision.

Clean water trends

Africa is the region most in need of safe drinking water. Asia has made the most progress in the past decade. But water use continues to grow at twice the rate of population growth.

Without safe drinking water



I wish to thank my Board for their support and enthusiasm during the past year. I would also like to thank the staff of TCTA, the management and executive for their commitment and dedication.

Leslie Maasdorp

Chairperson

Chief Executive's Report



I take pleasure in submitting this report, which reflects the strategic direction, creativity, dynamism and interactions of TCTA over the past year.

During this year we had to choose the most appropriate way to implement the Berg Water Project (BWP), taking into account the sophistication of technical, financial and environmentally sustainable perspectives. The decision-making was challenging, but rewarding, as it ensured the buy-in of our partners in a public-public agreement that serves the best interests of water users, and also ensures they receive value for money.

Underlying this new project has been an internal alignment process that was started in 2003/04. This process will continue to fully embed the changes so as to ensure the successful implementation of the BWP.

TCTA will continue to focus on the changes evolving in our external environment, specifically the institutional alignment required in water-resource development and the shortage of liability-management skills. We will continuously assess and adopt the most appropriate role for TCTA. We are well aware of the high expectations of our stakeholders, especially since our mandate has been expanded by Cabinet.

For this reason, we will position and equip ourselves pro-actively to ensure that we continue to deliver what is required to create an enabling environment for the realisation of the vision of a New Africa, where water is the top priority.

True to its mission, TCTA constantly endeavours to remain cost-effective, to the benefit of the water user. We intentionally align our specialisation, skills and size to ensure the right fit, executing our projects within budget, on time and to world-class standards.

During the past year TCTA's liability-management activities in the water sector increased substantially and this report endeavours to highlight these changes and their impact on the organisation.

Theme

Following our tradition, TCTA selects an annual theme that represents the focus of the specific year. The theme for this year is:

“Behold our kaleidoscope; scintillating gems united in splendour.”

We chose this because we would like our stakeholders to immerse themselves in the reflections of the past year, as a kaleidoscope freely generates infinite numbers of mandalic images and concentrates the mind upon these images.

We would like the readers of this report to take pleasure in our successes and marvel at the excellence of a diverse team of skilled individuals joined by a common purpose and a shared vision: “Play to Win.”

In TCTA – the container of the essence – the intelligence, skills and commitment of our team are united to provide exceptional service to our stakeholders within a constantly changing environment. At the same time each valued member remains a unique individual with splendid personal traits and talents.

TCTA SERVICES

Almost 90% of TCTA's activities are focused on liability management of bulk raw water infrastructure, while 10% deals with integrated treasury management services.

The delineation of services provided by TCTA can be graphically represented as:

LIABILITY MANAGERS FOR RAW BULK WATER 90 %	INTEGRATED TREASURY MANAGEMENT SERVICES 10%
<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 Government guarantee – project financed 	<p>UMGENI WATER</p> <ul style="list-style-type: none"> • Governed by Service Level Agreement <p>OTHER</p> <ul style="list-style-type: none"> • Tariffing and debt management services to other entities <ul style="list-style-type: none"> – Mhlathuze Water, Bloem Water

Lesotho Highlands Water Project

Following the completion of Phase 1B of the Lesotho Highlands Water Project (LHWP) the business cycles and focus have moved from construction to financing. Emphasis is placed on more sophisticated debt management within a conservative risk management framework. Currently, the LHWP stock of debt under management is R18 billion and this will grow to R23 billion by 2015. The total debt should be repaid by 2026. In the budgeting process TCTA clearly identifies the costs which are not directly under its control. These costs are controlled and approved by either the Lesotho Highlands Water Commission (LHWC) or the Department of Water Affairs and Forestry (DWAF).

Berg Water Project

The 2 May 2002 mandate to implement and fund the Berg Water Project (BWP) was further executed during the past year. As implementer of this water-resource development – 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 project sustainability. We recognise that this is an evolving process, and constant revision and alignment is required.

Umgeni Water

The successful intervention role to provide treasury management services to Umgeni Water, effective from 11 July 2001, continued. TCTA services have superseded merely providing treasury management services to Umgeni by including the review of business plans, strategic objectives and core focus areas. Subsequently, a model best suited to the medium to long-term business was developed. In terms of the Minister of Water Affairs and Forestry's directive, regular reports were submitted to him that included an opinion on risk exposures and financial stability.



GOVERNANCE

Board of Directors

The Board has met its fiduciary responsibilities with excellence and met frequently during the year to deal with TCTA matters in a responsible and transparent manner.

The Board successfully conducted a self-efficacy assessment during the past year. We were pleased to note that a high degree of effectiveness was achieved. No material aspects were highlighted. There was however a need to strengthen the Board's skills base in the financial and engineering areas. This will be achieved by filling two additional positions, an action which has already been approved by the Minister.

Risk-management framework

A key aspect of risk management is the identification, quantification and management of risk on an enterprise-wide basis. The focus in the past year was on integrating and strengthening the management assurance function within the organisation, while the focus in the next financial year will be on the roll-out of the enterprise-wide risk management function on a more integrated basis. (Refer to the Risk Management report which sets out the risk governance framework in detail, as well as how enterprise-wide risk is being identified, monitored and reported).

A risk identification workshop was held on 16 February 2004 with members of the Board, senior management and all persons involved in the management of risk in TCTA. The workshop validated the completeness of identified risks, as well as rating their likelihood and impact.

Credit rating

During the past year TCTA obtained a corporate credit rating from CA Ratings. The rating with and without an explicit government guarantee is zaAAA (long term) and zaAA+ (short term). The credit rating did not factor in the activities of the ring-fenced BWP. A separate project credit rating is being sought for the BWP.

WATER SECTOR CONTRIBUTION

TCTA is committed to providing a capacity-building service within the wider water sector at all levels of government. Currently, this is effected through either advisory or participatory roles and, if needed, could include facilitation or intervention roles.

TCTA is able to contribute its liability management skills to the water sector due to the specialist skills it developed by integrating areas of specialisation into a flexible structure. These areas include water-demand management, tariff setting, debt management, compliance, assurance functions, governance, project debt management, project implementation, sustainable management of social and environmental assets, public relations and risk management. These management skills have been integrated and developed to meet the challenges of different geographical areas within South Africa, as well as to adapt to legislative changes. We appreciate the recognition received in this regard from DWAF, National Treasury, various water utilities and funding agencies such as the European Investment Bank.

The current drought cycle has highlighted the need for water supplies at a reasonable level of assurance. The effect has been that certain new water resource developments have been advanced, while the refurbishment and upgrading of existing works are receiving higher priority. Developments that are bankable projects where the user pays, require urgent review of the institutional arrangements. TCTA is working with its stakeholders to determine what its role should be, taking account of policy and the need for a long-term sustainable solution.



The water resource development projects currently under consideration are:

- Phase Two of the Olifants River Development;
- Augmentation of water conveyance systems in the Eastern Vaal subsystem.

TCTA has been involved with Mhlathuze Water and Bloem Water to develop longer-term debt management and tariff models. Any additional role that TCTA can play will depend on cost recovery methods where structures cannot afford the advisory service.

TCTA is consulting DWAF in this regard. The new directive issued by the Minister on 9 May 2004 strengthens this activity.

TCTA has joined the South African Association of Water Utilities (SAAWU) as an observer member. This will allow TCTA to play a more active, strategic role in developments in the water sector.

STRATEGIC DEVELOPMENTS AND CORE INITIATIVES

During 2003, TCTA initiated a process to identify and strengthen key initiatives required to take the organisation forward. This process will continue into the next financial year. It focuses on four areas: integrated resource management, cost-effective processes, internal partnerships and organisational development.

Integrated Resource Management

As the number of projects and diversity of contracts increases, TCTA management is applying resources and tailoring its methodologies to suit each project. However, to ensure that we continue to build on our strengths, we have embarked on a process to integrate the systems, methodologies, resources and processes used across the board.

Cost-Effective Processes

Cost-effective solutions and service delivery have always been the cornerstone of our business. To achieve this continuously, all issues are thoroughly interrogated at management, executive management and Board levels. We also ensure the continuous alignment of divisions within the organisation so that they serve the business goals. To this end, both resources and processes are analysed.

The analysis is underpinned by regular reporting with careful attention to benchmarking and performance measurement. While TCTA makes use of independent specialists to enhance the business processes, we use them with discretion and make sure that internal capacity-building takes place and that skills are developed within the organisation.

Internal Partnerships

The increased range of our business calls for a strengthening of individual accountability and responsibility through all levels of the organisation with the emphasis on attitude, good governance, accountability and participation. In addition, it requires the implementation of sophisticated, integrated business-critical systems that produce reliable, timely information. This also necessitates management training to develop more critical and analytical thinking as the challenges of the internal and external environment increase.

Organisational Development

To create internal partnerships and achieve integrated resource management and cost-effective processes requires ongoing internal organisational development. Obviously, this is somewhat restricted by cost and the fact that current capacity is fully utilised.

External organisational development to attract new projects is likewise restricted by the scarcity of specialised resources, the need to ring-fence different projects and the increased costs (especially where potential clients are not able to pay for services).



BUSINESS HIGHLIGHTS

More detail of our highlights for the year is provided in the sustainability report.

Lesotho Highlands Water Project

On 16 March 2004, King Letsie III hosted the inauguration of Phase 1 of the LHWP at Mohale Dam. The event, which celebrated the completion of Phase 1, was attended by President Mbeki. Ministers and senior officials from both Government, the financial community and the water sector.

In November 2003 the LHWP received the prestigious award for "Project of the Century" from SAICE (South African Institution of Civil Engineering).

TCTA's responsibilities in relation to the LHWP increased with the growing financial debt under TCTA's management amounting to R18 billion at year end. 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 within an active risk-management framework where asset- and liability-matching and duration management are key.

With the completion of construction of Phase 1 of the project in Lesotho, the process of right-sizing both the LHDA and the LHWC in Maseru is under way, to prepare them for the scope of activities for the future.

Both these project structures enjoy TCTA's full support in their re-alignment and risk management.

The LHWP remains a core focus area where specialisation, market developments, resource allocation, legislative changes and compliance, are monitored and managed actively.

Besides government, TCTA was the largest issuer of bonds in the local capital market during the year under review. We participate actively and influence market developments as issuers of debt (capital market bonds and commercial paper). We are actively involved in:

- The Bond Exchange of South Africa;
- The dematerialisation of the money market; and
- The Debt Issuers' Association.

Bribery and corruption

TCTA commends the Government and authorities in Lesotho for pursuing the prosecution of the parties that played a role in payment of bribes in the corruption investigation on the project in Lesotho. The potential for corruption exists during the implementation of large infrastructure projects, and this is an excellent example of how it can be controlled and avoided.

The action taken by the authorities in Lesotho included the prosecution of not only the receivers of bribe money, but also the multinationals that made payments to individuals in the hope of securing contracts for the implementation of works by the LHDA in Lesotho.

The persistence and resilience displayed by the authorities of a developing country over the past 10 years set new standards in the global fight to eradicate bribery and corruption.

Berg Water Project

This project is an important benchmark of TCTA's success. The full responsibility for implementation and funding rests with TCTA and, unlike LHWP, this project will be funded without Government guarantees.

The ground-breaking agreements between TCTA and DWAF, and DWAF and the City of Cape Town (CCT) were signed on 15 April 2003. The two agreements were:

- An Implementation Agreement between DWAF and TCTA and
- A Raw Water Supply Agreement between DWAF and CCT.

These are the first public-public agreements of their kind in South Africa that guarantee service delivery between public entities. The agreements provide a sound basis to obtain a favourable credit rating for the project and offer a model to other similar projects in Africa.



The design and supervision consultants were appointed in December 2002. An agreement was reached with the consultants and DWAF whereby DWAF staff could be seconded to the consultants with the aim of transferring commercial skills and capacity. Although this arrangement was not fully exploited due to changes in DWAF staffing, it provided a sound basis for future capacity-building on similar projects.

Since the review and approval of the appropriate dam type, TCTA has completed the design of advanced infrastructure development, compiled a shortlist of pre-qualified construction contractors for the Berg River Dam (BRD) and issued tender documents to them.

The tender-evaluation process is under way. The award of the BRD construction contract should be completed by the end of May 2004. Construction should start by June 2004. The construction of the advanced infrastructure will also be completed during this year.

A decision on the timing of implementation of the Supplement Scheme will be taken during the next financial year. Further investigation is required on the impact it may have on the salinity and water quality in the Berg River.

Examination of the extent of the original environmental approval issued in 1999 indicated that additional Environmental Impact Assessments (EIAs) were required for the advanced infrastructure components such as housing and access roads.

The DWAF Construction Unit was appointed to implement the advanced infrastructure construction and mobilised in January 2004. The participation of DWAF was agreed at Board level and flows from the directive issued by the Minister to utilise DWAF technical resources. It also allowed TCTA to make up time lost in obtaining the additional environmental approvals mentioned above. Both the financial value and additional risks, by not transferring risks to the contractor, are within an acceptable limit.

The process of preparation, approval and inception of an integrated Environmental Management Plan (EMP) was the focus of socio-environmental activities during the year under review. Following the July 2003 endorsement of the EMP by the Environmental Monitoring Committee (EMC) – a representative forum of interested and affected

parties – the Department of Environmental Affairs and Tourism (DEAT) gave its approval in October 2003. This facilitated the start of the construction of project.

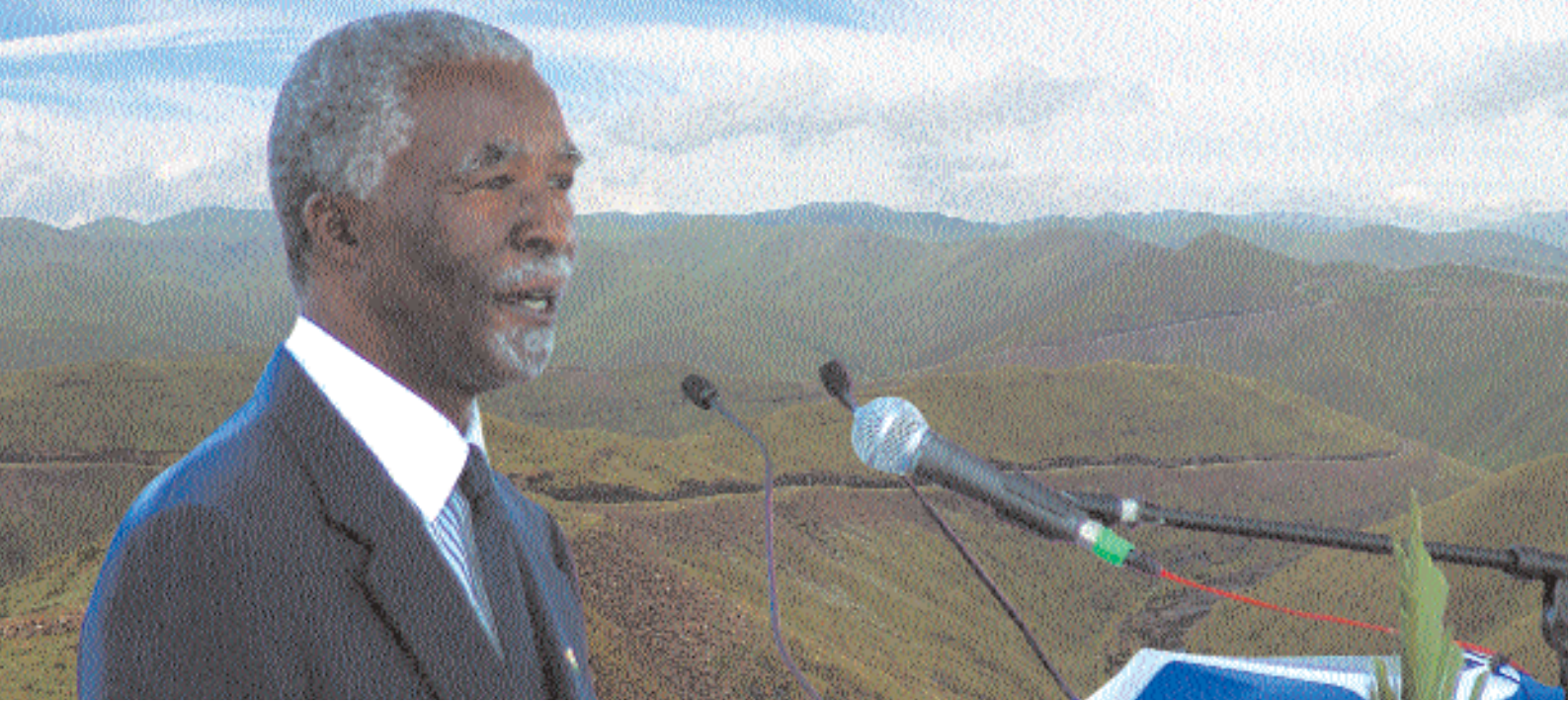
The EMC brought the issue of individual liability to the fore and this led to the re-naming of the committee (from 'management' to 'monitoring'), while the entire liability issue has been taken up by Government. The decision will affect the role of all similar bodies on future projects.

An independent EMC secretariat, that will operate in a self-regulatory framework, has been established in the La Motte Village near Franschhoek. It will include the Environmental Control Officer (ECO) who reports to the EMC. The ECO will monitor compliance policies and procedures.

TCTA approached development financing institutions to provide long-term funding for the project. Following various reviews (technical, environmental, financial, governance, etc) the funding was approved subject to a guarantee. The development funding agency believe that the project could provide an example and break new ground in the way it is implemented.

Going forward, TCTA will address:

- Impact-mitigation strategies in both the natural and social environment.
- Finalisation of the Working for Water contract with DWAF to clear alien vegetation in the previous Assegaibos State Forest, which includes the future dam basin.
- Finalisation of the tri-partite agreement between TCTA, Stellenbosch Municipality and the community of La Motte regarding the transfer of ownership of project housing to local government on completion of the project. The financial benefit derived from the sale of the properties will be shared with the other communities in the greater Franschhoek Valley.
- Continued roll-out of the public-participation strategy to ensure appropriate involvement of all communities from source to sea along the Berg River.
- Development of a Sustainable Utilisation Plan (SUP) for the BWP.



Umgeni Water Treasury Management Services

Following the Minister's directive to provide treasury management services to Umgeni Water (UW), TCTA signed a two-year Service Level Agreement (SLA) with UW starting 11 July 2001. The SLA was extended for a further two years (or earlier termination by mutual agreement) where the primary deliverables were to re-engineer the UW balance sheet, simplify treasury operations and build capacity within UW.

In 2001 and 2002 TCTA successfully completed the first two key deliverables of the SLA, which were:

- Extensive take-on activities, including due diligence reviews, review of tariffing methodology as a key building block to establish financial sustainability, tariff predictability within an acceptable debt management profile, and
- Evaluation of a new treasury model after approval of a broad treasury model by the Board of UW.

In 2003 the following Phase 3 deliverables were achieved: specific strategies to simplify the balance sheet and financial asset and debt structure to suit the business, as well as the development of a redemption strategy for refinancing sizeable maturities. This included:

- A simplified balance sheet.
- UW exited from market-making in the UG55 and UG65 bonds.
- An appropriate redemption portfolio was established for the redemption of UG55 and the remaining structured loans.
- Further unwinding of structured loans.
- Suitable alignment of the asset /liability structure.

The final deliverables under Phase 3 focused on the simplification of the treasury function and capacity building. A timetable for extensive capacity building at a strategic level, as well as the necessary capacity within the structures, is in the process of being finalised. Hand-over of the activities to UW with the focus on effective cash management and

maintaining a treasury operation to meet the needs of the business should be finalised in 2004.

TCTA and UW have agreed to alter TCTA's role from one of intervention to a more commercial arrangement, as issued in a new directive granted by the Minister of Water Affairs and Forestry.

EXECUTIVE MANAGEMENT

TCTA's flat management structure increases individual responsibility and relies on the individual's abilities, skills and expertise.

TCTA's strategic and business issues are handled by an Executive Management Committee (EXCO). Its composition reflects the inclusive approach and development focus in our management style. EXCO consists of the Chief Executive Officer, Chief Financial Officer, Treasury Manager, Financial Controller, IT Manager, Public Relations Manager, Human Resources Manager, Head Corporate Affairs, Corporate Services Manager, Projects Manager and Projects Engineer.



AWARDS

An Employee of the Year award for service excellence was introduced in 2002. It was split into two separate awards for professional and support. Staff were invited to nominate candidates. Paul Bowes was awarded the professional staff award, while Hanje Botha won the support staff award.



FUTURE

In the evolving water sector, TCTA will continue to play an active role in building liability management capacity and strengthening governance, in compliance with the relevant legislative and regulatory frameworks. We will continue to influence development in both the financial and water sectors of South Africa by seeking innovative solutions, practical partnerships and effective answers to the challenges that face us as a nation.

We welcome the opportunity to meet the new challenges of implementing the BWP within a tight timeframe and to support the efforts of the LHDA and LHWC in ensuring the successful implementation of the sound socio-environmental plans and practices that have been developed. We believe that the continued relationship with UW will be fruitful and capacitating. We are encouraged by the recognition of TCTA as an asset for Government that can be used in the development and funding of scarce water resources.

As a developing organisation, TCTA will continue to align its business structures and processes with the challenges at hand to ensure international best practice in financial, engineering and social aspects of our projects.

As an organisation we aspire to evolve and continually push the boundaries in the environment in which we operate. The changes in the past year and focus on the alignment of our capacity to our business requirements led to a process of re-confirming our "brand blueprint" and examining the organisational DNA. This involves the alignment of values, culture and interaction with all stakeholders as defined in the "TCTA way". This internal process will direct the external focus and content to build the base for congruent brand identification.

Our success will be judged by our stakeholders in such a way that, given our particular and selective strategic image, we are given the space to build our business, increase our capacity and broaden our scope.



Name of Property / Business	Date paid	Expropriation Offer	Compensation Claim
Duleda Family Trust (owner)	26 February 2004	R8 384 700 (VAT inclusive)	R15 565 000 (VAT inclusive)
Dewdale Farms (Pty) Ltd (owner)	30 April 2004	R9 906 600 (VAT inclusive)	R35 705 000 (VAT inclusive)
Dewdale Trout Farm and Fly Fisheries (Pty) Ltd (Lessee)	In process of preparing expropriation offer		R22 022 838 (VAT inclusive)

POST BALANCE-SHEET EVENTS

Expropriation of land

TCTA has expropriated two private properties and a lease in respect of one of the properties in order to secure land required for the construction of the Berg River Dam. Both properties and the lease are located in the upper reaches of the Berg River Valley.

Notices of expropriation were given in December 2003. The statutory negotiation process in respect of the amounts of compensation payable in terms of the Expropriation Act is under way. Payment to the two property owners of the amounts offered have been made based on the provisions in the Expropriation Act. The negotiations or possible litigation proceedings will not hamper the start of construction of the dam as it is currently planned.

Change in Mandate

The Minister issued a directive on 9 May 2004 to enable TCTA to deliver liability management services in the wider water sector, including the Department of Water Affairs & Forestry. This directive paves the way to redefine the relationship with Umgeni Water to that of a commercial nature, in light of the excellent progress achieved by TCTA and Umgeni Water to stabilise the treasury function.

Award of dam contract

On 1 June 2004 TCTA announced the award of the R550 million construction contract for the Berg River Dam to the Berg River Project Joint Venture (BRPJV) a consortium of leading South African construction companies. The consortium comprises Grinaker-LTA, Group 5, WBHO and an empowerment group known as Western Cape Empowerment Contractors (WCEC).

Berg Water Project Credit Rating

At the end of June 2004, Fitch Ratings assigned a AA+(zaf) national long-term rating and F1+(zaf) short-term rating to the BWP which proves large scale infrastructure development, previously funded by government, can be funded off-budget by the private sector.

In 2003 TCTA joined Proudly SA. Meeting the requirements of being South African-owned and employing a majority of South Africans, we felt it was important to be recognised for this achievement. The Proudly SA movement is a great way of recognising truly South African organisations.

I wish to thank:

- My Board for their support and guidance during the past year.
- Our stakeholders and partners in the public sector for constructive relationships that have paved the way for a new method of implementing infrastructure projects.
- My work colleagues for their dedication, passion and energy – surely a team that plays to win!

TCTA is small in number, but great in heart, and I'm confident that we will meet our challenges this year and in the years to come.

TCTA, the first choice in liability management!



Martie van Rensburg

Chief Executive Officer



Performance Measurement



STRATEGIC AND OPERATIONAL FUNCTIONS

The table below compares TCTA's performance against its objectives for the year under review.

OBJECTIVE	PERFORMANCE
<p>To enhance the long-term health and efficiency of TCTA</p>	<ul style="list-style-type: none"> • Further strengthened governance by: <ul style="list-style-type: none"> ▶ Increased capacity within the assurance function. ▶ Increased the legal capacity and focus within TCTA. ▶ Renewed the terms of reference of the Audit and Risk Committee to include enterprise-wide risk management. ▶ Implemented a formal Board effectiveness framework. • The Board efficacy review did not reveal any items of concern. • Conducted, through an independent consultant, a detailed enterprise-wide risk assessment of all financial and non-financial risks, whereby all risks were identified and prioritised according to likelihood and severity. • Further strengthened the risk-management function through improved technology and capabilities in the area of asset/liability matching and sensitivity and scenario analysis. • Fully compliant with relevant legislative regulatory frameworks such as the Public Finance Management Act (PFMA), the National Water Act and TCTA's Notice of Establishment.

OBJECTIVE

PERFORMANCE

- Through the implementation of the Front Arena treasury system, TCTA has:
 - ▶ Enhanced trading and pricing capabilities.
 - ▶ Introduced straight-through processing and reduced treasury operational risk.
 - ▶ Improved segregation of duties and increased internal controls from a front-, middle- and back-office perspective.
- Submitted the annual Corporate Plan to the Department of Water Affairs & Forestry (DWAF) and National Treasury.
- Complied with the Board's approved policies and internal control procedures.
- TCTA was rated za AAA (the highest rating attainable on a national scale basis) for long term and za AA+ for short term, by CA-Ratings, with and without its explicit Government guarantee. The rating did not factor in the activities of BWP. The credit rating (based on a thorough due diligence) is confirmation of the following:
 - ▶ A high level of corporate governance and compliance to regulatory requirements was 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 relationships with key stakeholders such as National Treasury, DWAF, investors and market-makers.
 - ▶ 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 targeting tariff increases linked to inflation, the tariff for 2004/05 increased by 5,4%, which is within the SARB's inflation target of 3% to 6%.
- Successful monitoring and management of the Ash River continued through the River Management Plan in conjunction with DWAF.

To achieve effective organisational structure

- In terms of developing the organisational structure in order to enhance effectiveness and meet stakeholder aspirations, TCTA has, through people, systems and skills development, pursued the following strategies:
 - ▶ Promoted and developed a team culture based on the "TCTA Way".
 - ▶ Empowered staff through a culture of joint recognition and liability.
 - ▶ Developed strong, integrated working relationships between all functional areas within TCTA and within the organisations to whom services are rendered.
 - ▶ Evaluated ways of bringing about greater operational efficiencies and better quality management information through integrated systems and staff development.
 - ▶ Applied international best practice in all areas of liability management.
 - ▶ Promoted a learning culture within TCTA to ensure the right compliment of skills at the right time.
 - ▶ Employed specialists in the treasury, engineering and support fields.



OBJECTIVE

PERFORMANCE

To support Black Economic Empowerment

- As a public entity TCTA fully supports and is committed to black economic empowerment initiatives in South Africa and is compliant with all relevant black economic empowerment legislation.
- TCTA’s philosophy in support of black economic empowerment extends to our Employment Equity Plan, procurement, recruitment, learning and development and the Skills Development Plan.
- In the spirit of our commitment to black economic empowerment, TCTA gives preference to local goods and services to strategically support SMMEs and broad-based empowerment initiatives.

To strengthen relationships with key stakeholders and strategic partners

- TCTA has maintained regular and constructive interaction with both National Treasury and DWAF as key stakeholders.
- Conducted numerous site visits, investor visits and presentations during this financial year in order to share information and develop relationships with financial market stakeholders.
- Made a strategic contribution to Johannesburg Water (JW) through the Chief Executive’s involvement as Non-Executive Director at Board level.
- Maintained relationships with Parliament through the National Committee of Provinces’ committees on both Environmental Affairs and Water Affairs & Forestry, and the Free State Department of Environmental Affairs and Tourism.

LESOTHO HIGHLANDS WATER PROJECT

Liability Management

To manage funding pro-actively in order to achieve the lowest effective cost within acceptable risk parameters

- Raised gross funding of R2,6 billion, increasing total outstanding debt to R18,3 billion.
- Raised R1,7 billion for funding activities and R0,9 billion for redemption of the WS01 bond which matures in December 2005.
- The net total amount raised through TCTA’s locally registered LHWP WS-bonds was R1,6 billion for the year. An amount of R0,9 billion and R0,1 billion was raised through the commercial paper programme and European Investment Bank loans respectively.

OBJECTIVE

PERFORMANCE

	<ul style="list-style-type: none">• Achieved a funding rate of 12,06% on the stock of debt against a benchmark rate of 12,09%.• Operated within authorised borrowing limits on the various funding instruments.• TCTA launched its first split maturity capital market bond valued at R1 billion (nominal), WSP1-WSP5 in May 2003, which matures between May 2015 and May 2021.• Improved asset/liability matching and hence a lower interest rate and refinancing risk, with the issue of the WSP1 to WSP5 split maturity bond.• The WS01 buy-back auction of R600 million confirmed TCTA's ability to pro-actively manage large debt redemptions.
Strategically position and further enhance TCTA's positive reputation in the financial markets	<ul style="list-style-type: none">• 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 pushes the envelope in search of excellence as liability managers.• 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 with both the depth and breadth of the investor base having increased.• TCTA's turnover on the commercial paper programme, which includes repo activities, amounted to R24,5 billion.• All of TCTA's nominal bonds are in the All Bond Index (ALBI) with turnover in the capital market for the year at 12,4 times (WS01), 6,1 times (WS03), 5,1 times (WS04), and 1,0 times (WS05) 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

Liability Management

OBJECTIVE

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

PERFORMANCE

Funding:

- Raised all short-term funding requirements for the advance infrastructure through a bridging facility.
- Started the evaluation process in terms of selecting a rating agency to assign a national long-and short-term rating to the project.
- Embarked on the process of evaluating long-term project financing options for the project. This evaluation process has included funding sources from development funding institutions and various other financial institutions.
- Through site visits and presentations, TCTA has significantly increased awareness amongst the investor community regarding the salient features and funding requirements of the project.

Engineering:

- Completion of the tender design for the Berg River Dam (BRD) comprising a concrete-faced rockfill dam with a multi-level intake tower and outlet works sized to allow environmental floods of up to 230 m³/s to mitigate the impact of the dam on the environmentally sensitive foothill section of the Berg River.
- Substantial completion of the tender design for the Supplement Scheme, comprising a diversion weir, abstraction works and a balancing dam in the Berg River below the confluence with the Dwars River as well as a 10km pipeline to the BRD.
- Completion of the tender design for access roads and award of the construction contract to the DWAF Construction Unit. Construction of this 3,5km road, including a bridge across the Franschoek River, commenced in February 2004 and is scheduled for completion in October 2004.
- Completion of the prequalification and tender process for the BRD contract. Contract award is expected in May 2004 and commencement of construction in June 2004. Water delivery is scheduled for 2007 in accordance with the original project programme.

OBJECTIVE

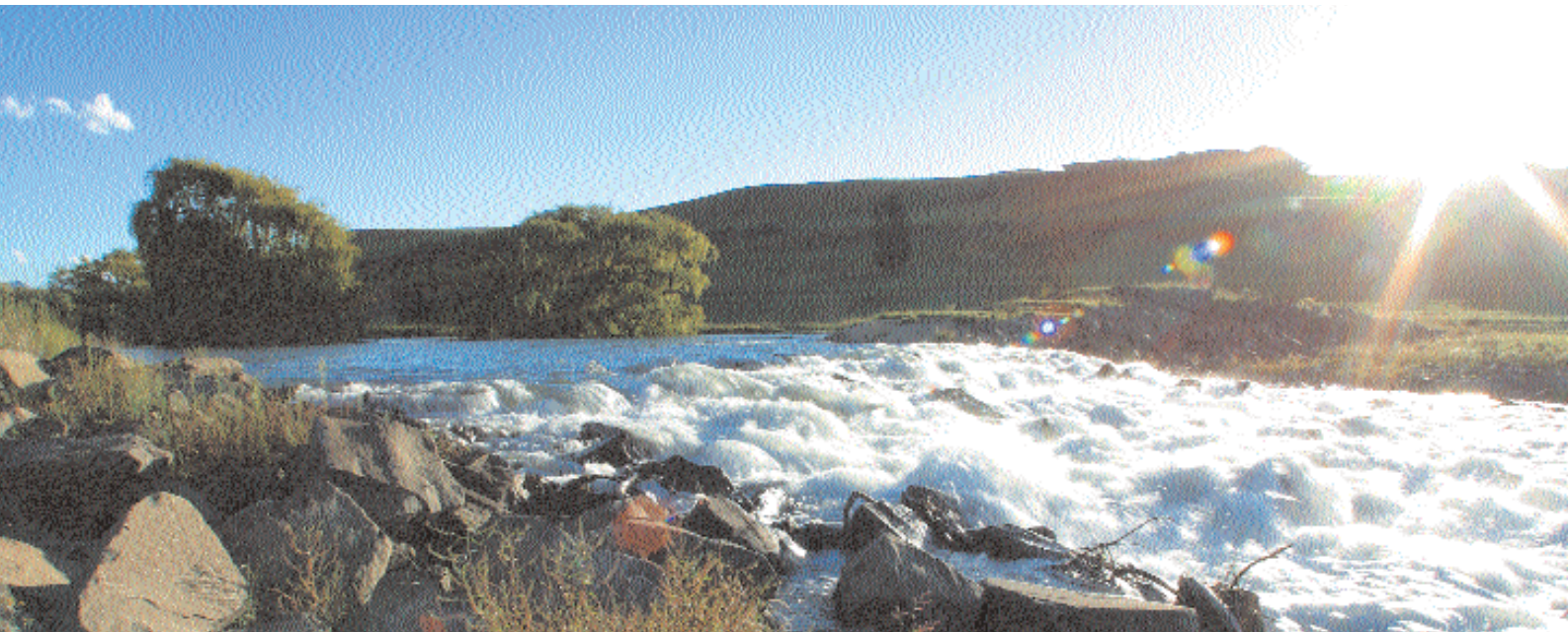
PERFORMANCE

Environmental (natural and social):

- Completion of the Environmental Management Plan (EMP) in consultation with the Environmental Monitoring Committee (EMC) and obtained approval from DEAT on 3 October 2003, allowing construction to commence on the BWP.
- Ongoing functioning of the EMC through regular meetings of the committee, including the establishment of sub-committees to consider and provide input into areas of particular interest. The independent Chairperson of the EMC was appointed in May 2003.
- Obtained further environmental authorisations necessary for the implementation of the access road to the BRD and the construction housing at La Motte. The Record of Decision for the access road was issued on 7 October 2003, and the authorisation for the construction housing is imminent.
- The tender-evaluation process for the appointment of the Environmental Control Officer (ECO) is under way and the appointment, in consultation with the EMC, is planned for the end of May 2004.
- The establishment of an Employment Information Desk responsible for providing various support services during the construction period, notably: maintenance of project databases, facilitation of training programmes and the identification of candidates for employment and procurement opportunities.
- Inclusion of minimum employment, training and procurement targets in the tender documentation for the construction contracts, thereby ensuring the implementation of the related socio-economic strategies.
- Completion of the skills survey within the project area and the establishment of an employment database to maximise employment opportunities within the local communities in accordance with the Franschhoek First Policy.
- Establishment of a SMME database to enhance the procurement opportunities for local small business.
- Initiate the procurement of a specialist social consultant to assist TCTA with the implementation of the socio-economic strategies contained in the EMP. Appointment is planned for mid-June 2004.
- Through a public-participation process, commence with the exhumation and reburial of some 29 graves in the Driefontein graveyard located in the dam basin of the BRD.
- An eight-year SLA with DWAF which, through its Working for Water Programme, will be responsible for the clearing of alien vegetation from the Berg River catchment and project areas. This labour-intensive project is expected to create 170 job opportunities per annum for local communities.

Project Governance:

- Monthly meetings of the Project Co-ordination Committee established to ensure effective communication on project implementation between relevant parties, notably: TCTA, DWAF (National and Western Cape Region) and the CCT.
- Regular meetings of the Technical Committee established to consider and approve all technical matters and to make recommendations to the Board. (Membership includes DWAF and CCT).



OBJECTIVE

PERFORMANCE

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

- Introduced a process for developing a knowledge base.
- Developed a draft communication strategy.
- Initiated regular interaction with NGOs.
- The commencement of the construction of the access road was marked by a sod-turning event attended by the local municipal authorities and other stakeholders.
- Facilitated various site visits for stakeholders, including the specialist review panel, prospective contractors and financiers.
- Presentations on project status and progress were made to the National Government groups, local municipalities and Lower Berg River municipalities during this review period.
- Presentations to local communities on project timeframes, employment and business opportunities.

UMGENI WATER PROJECT

Liability Management

To deliver integrated and holistic treasury management services

- During this financial period the TCTA/UW service level agreement (SLA) was extended from July 2003 to July 2005 or earlier as agreed by the parties.
- Having completed Phases 1 and 2 of the SLA, TCTA successfully re-engineered the UW balance sheet and treasury operations in terms of Phase 3. The benefits of this re-engineering process are as follows:
 - ▶ On 28 November 2003 UW successfully exited market-making, thereby removing the contingent cash-flow risk associated with this activity and freeing up financial assets for redemption purposes.
 - ▶ UW treasury operations have been simplified with the closure of the market-making portfolios.
 - ▶ The capital structure (fixed/floating ratio) of UW has been re-engineered to a more optimal level with a shift from 85% fixed, 15% floating to 77% fixed, 23% floating.

OBJECTIVE

PERFORMANCE

- ▶ The liability profile of UW has been re-aligned to achieve greater asset/liability matching and hence reduced re-investment and refinancing risk.
- The tariff model created during the previous financial period was further integrated into the UW business processes.
- In terms of procuring new funding for UW, TCTA successfully negotiated a R829 million long-term amortising loan with the DBSA and actively raised funding through UW's R600 million commercial paper programme.
- Daily and long-term cash flow, debt management, accounting, treasury reporting and portfolio management services were rendered to UW.
- The exposure to structured transactions was further minimised.
- The risks associated with liquidity, solvency, interest rates, credit and operational risk were managed within the TCTA enterprise-wide risk management function.

Capacity building and hand-over

- Having successfully simplified the Umgeni treasury operations, TCTA and UW are now engaged in Phase 4 of the SLA, where the focus is on building capacity and handing back treasury operations to UW.
- The balance sheet re-engineering and simplification of treasury operations means that the TCTA/UW relationship can now move from an intervention role to a role governed by a commercial contract. In terms of this contract, TCTA's primary purpose will be to provide strategic oversight.

Corporate Governance



CORPORATE GOVERNANCE STATEMENT

Sound corporate governance is fundamental to TCTA's business. It characterises our behaviour, principles, processes and practices. We aspire to adhere to benchmarks of international standards and best practice.

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

TCTA subscribes to the corporate governance principles of accountability, responsibility, equity, transparency, discipline and social responsibility in all of its business undertakings with its various stakeholders.

TCTA complies with the Code of Corporate Practices and Conduct contained in King II and always aims to conduct its business with integrity and in accordance with generally accepted corporate practices.

TCTA ensures that its processes and practices with regard to corporate governance and compliance are comprehensively reviewed on a continuous basis to ensure compliance with all legal obligations.

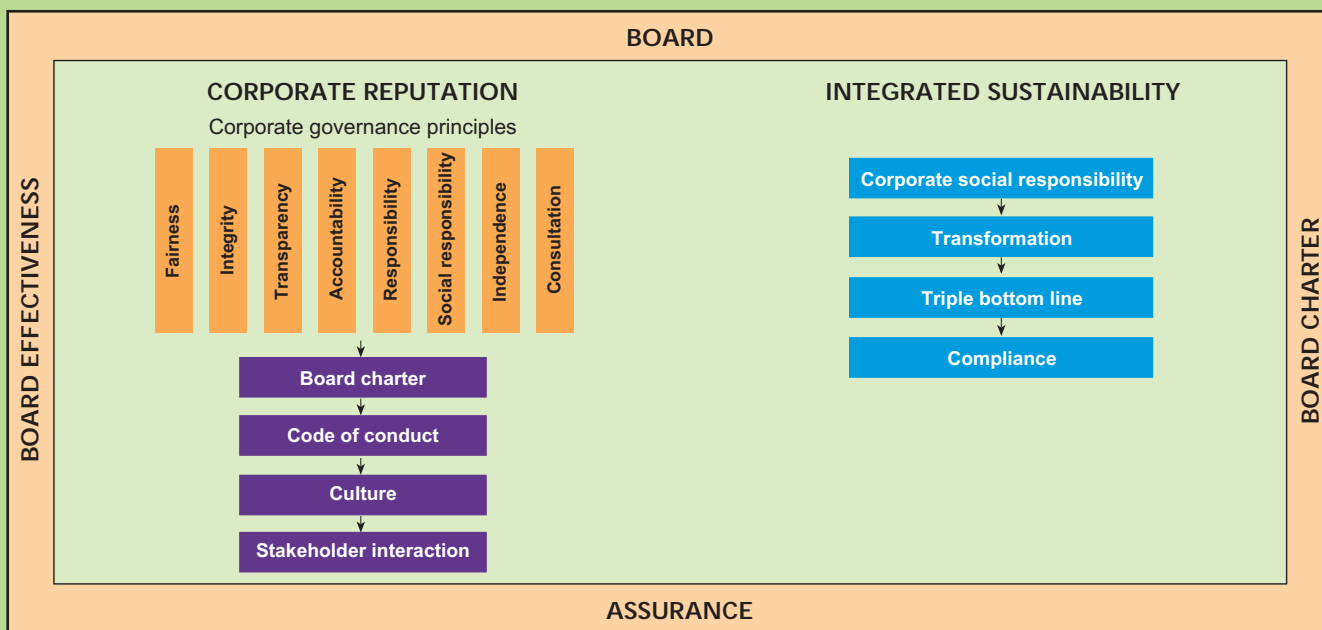
TCTA recognises that good corporate governance practices add value to the organisation and assist in achieving integrated sustainability, which contributes to TCTA's relationship with its stakeholders and strengthens its viability.

TCTA's directors, management and employees are committed to transparent, sound and ethical business practices as expressed in TCTA's Code of Conduct. TCTA's Code of Conduct applies to its Board and staff and is clearly communicated at all levels within the organisation. A Board Charter has been established for the Board of Directors, and includes the Directors' Code of Conduct.

Full compliance with legislation

TCTA fully complies with the following legislation:

- National Water Act 1998 (Notice of Establishment, 2000)
- Public Finance Management Act, 1999
- King II
- Treaty and Protocols
- Directives
- Labour legislation – various
- Preferential Procurement Policy Framework Act, 2000
- Public Access to Information Act, 2000
- Financial Intelligence Centre Act, 2001



BOARD OF DIRECTORS

Composition of the Board

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

The Board comprises:

- 5 Independent Non-Executive Directors
- 3 Non-Executive Directors (1 vacancy)
- 1 Executive Director

The Non-Executive Directors are appointed for a three-year term, which expires on 31 May 2005. The CEO, appointed in May 1998 on a permanent basis, remains the only Executive Director on the Board.

The replacement of a non-executive director in the vacancy created by Brian Molefe, after being appointed CEO of the Public Investment Commission (PIC) in the second quarter of 2003, has not yet been made by National Treasury.

Directors' Induction and Orientation

TCTA's Board members are all taken through a strategic induction programme before commencing their duties as Directors. This programme was designed to enhance each Director's understanding of TCTA's legislative framework, its governance processes and its business nature and operations.

Board Charter

A Board Charter has been developed for the Board of Directors and includes the Directors' Code of Conduct.

TCTA's Board is fully committed to maintaining the standards of integrity, accountability and openness required to achieve effective

corporate governance. The Board Charter substantially defines the role, powers and responsibilities of TCTA's Board and assists it in being able to add value and reduce risk within the organisation, through good corporate governance. The Board Charter has become the standard against which the Board assesses its performance.

Role and Function

As the Board is the Accounting Authority of TCTA in terms of the PFMA, its role embraces the following functions:

- Providing strategic direction and leadership.
- Ensuring the preparation of annual financial statements in accordance with Generally Accepted Accounting Practice (GAAP).
- Appointing independent auditors to review and report on annual financial statements.
- Ensuring adequate and effective internal controls.
- Monitoring and reviewing performance and effectiveness of controls.
- 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.

Board effectiveness

TCTA recognises that its Board is the focal point of the Corporate Governance System at TCTA. The Board operates within an established structure that ensures there are adequate processes in place to monitor its operation.

Assessment of the effectiveness of both the structure and processes of the Board is vital to the achievement of TCTA's objectives.

All members of TCTA's Board completed an efficacy assessment in November 2003. The assessment examined the following areas:



- Board role, agenda setting, monitoring performance and strategic planning.
- Size, composition and independence of the Board.
- Directors' orientation and development.
- Board leadership, teamwork and management relations.
- Board meetings and sub-committees.
- 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 & 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 a monthly retainer, and Board meeting attendance fee, including attendance at sub-committees.

The Minister of Water Affairs & Forestry approved a remuneration policy in 2003 which ensures that remuneration of Directors is linked to the

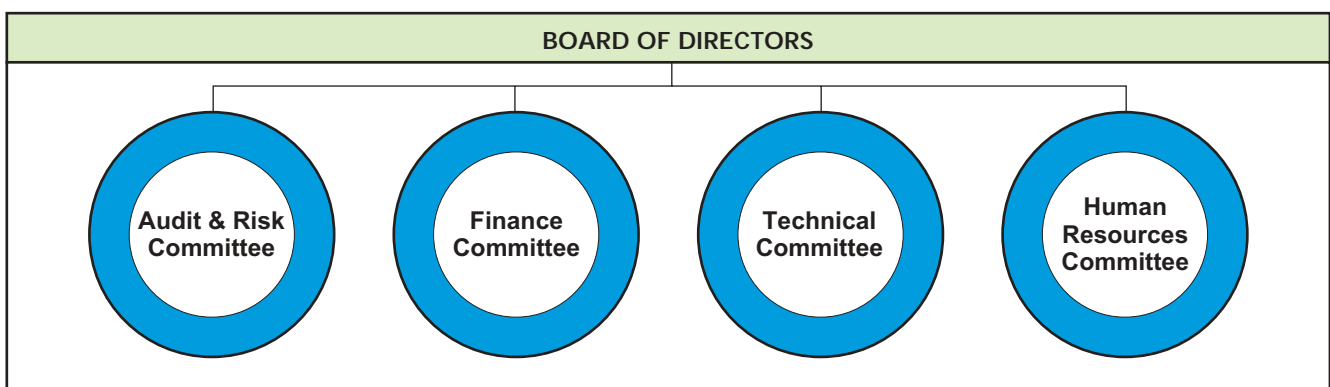
level, skill and expertise required from Board members and with current market practices. (See details of Director's remuneration as stated in Note 4 to the Annual Financial Statements.)

Independence of the Board

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

- The Minister of Water Affairs & Forestry appoints the members of the Board for a term of three years.
- The positions of Chairperson and CEO are kept separate.
- The Chairperson is an Independent Non-Executive member of the Board.
- All the Board sub-committees are chaired by Non-Executive members and specialist skills are provided to the committees by advisors who are members of the committees.
- The CEO 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.

BOARD COMMITTEES





COMPOSITION

FUNCTION

Audit and Risk Committee

- **Two Non-Executive Directors**
- **Independent Audit Expert**
- **CEO**

Invited Members:

- **CFO**
- **Head of Internal Audit**
- **External Auditor**
- **Risk Manager**
- **Financial Controller**
- **Legal Compliance Officer**

- Ensures that:
 - ▶ Adequate and appropriate internal, financing and operating controls are in place.
 - ▶ Enterprise-wide risk management is effectively managed and integrated within the organisation.
 - ▶ Appropriate standards of governance, reporting and compliance are in operation.
- Reviews:
 - ▶ Annual financial statements and accounting policies.
 - ▶ Effectiveness of management information and other systems of internal control.
 - ▶ Identified weaknesses in controls and systems.
- Risk:
 - ▶ Compliance cycles for financial year taking into account high-risk areas and their impact on external and internal audits.
 - ▶ Enterprise-wide risk assessment, and monitoring framework.
 - ▶ Significant matters of risk management.
 - ▶ Compliance to all relevant legislation.
- Responsible for review and recommendation to the Board for the approval of Annual Financial Statements.
- Recommend appointment of external auditors.

Three meetings were held during the financial year.

COMPOSITION

FUNCTION

Finance Committee

- **Two Non-Executive Directors**
 - **Independent Specialist Advisor**
 - **CEO**
- Invited Members:**
- **CFO**
 - **Treasury Manager**
 - **Financial Controller**

Provide assurance to the Board that:

- Financial and treasury 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.
- Award tenders within delegated authority.

Six meetings were held during the financial year.

Technical Committee

- **TCTA**
 - **Two Non-Executive Directors**
 - **CEO**
 - **Independent Specialist Advisor**
- **CCT**
- **DWAF**
 - **DWAF and CCT may have more than one representative but shall have only one vote**

Invited Members:

- **Engineering specialists**
- **Independent technical panels review and advise on certain issues as and when required**
- **Project Manager**
- **CFO**
- **Project Engineer**

Ensures that:

- ▶ Adherence to the terms of the mandate to fund and implement the BWP.
- ▶ Appropriate policies are in place to ensure the award of tenders and contracts for capital works together with any variation orders.
- ▶ Adherence to policies for capital expenditure.
- ▶ 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.
- ▶ Award tenders falling within delegated authority for BWP.

Seven meetings were held during the financial year.



COMPOSITION

FUNCTION

Human Resources Committee

- **Two Non-Executive Directors**
- **CEO**
- **Independent Advisor**

Invited Persons:

- **Independent remuneration consultants and performance management consultants as and when required**
- **CFO**
- **Head Corporate Affairs**
- **Human Resources Manager**

- This committee also acts as the Remuneration Committee. TCTA's philosophy is to reward appropriately where performance is based on achievement of business strategies and goals.
- Ensures that:
 - ▶ The human capital of TCTA is appropriately managed and developed.
 - ▶ Labour law is adhered to, specifically in relation to employment equity and skills development.
 - ▶ Management and staff receive market-related remuneration – where independent opinion and advice are obtained on remuneration and incentive reviews and are appropriately applied in the organisation.
 - ▶ Human Resource Policies are adhered to and reported.
 - ▶ Succession plans exist and are appropriately reviewed and implemented.
 - ▶ Executive management reports on progress in relation to the business plans and general human capital development and management.

Four meetings were held during the financial year.

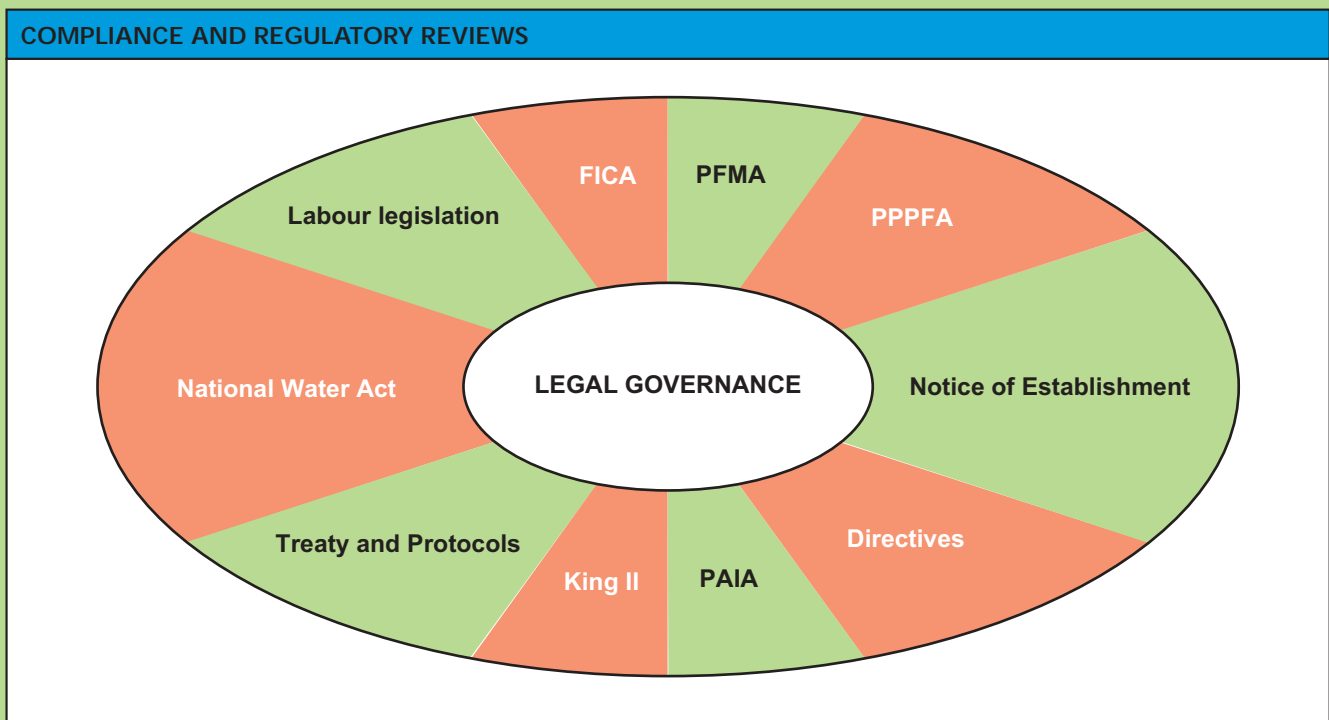
INTERNAL, FINANCIAL AND OPERATING CONTROLS

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. The TCTA Audit and Risk and Finance Committees review these matters regularly on behalf of the Board.

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.

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

To ensure that the business practices are conducted in a manner that is 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 function of the internal controls, procedures and systems has occurred during this period.



Public Finance Management Act (PFMA)

TCTA has implemented governance structures and processes to enable compliance with the provisions of the PFMA.

Regular compliance reviews are conducted with regards to compliance with the provisions of the PFMA. Such findings are reported to the Audit and Risk committee.

No irregular, fruitless or wasteful expenditure was reported for the financial year in question.

TCTA fully complies with the PFMA.

King II

- An annual compliance review is conducted with regards to compliance with King II. TCTA substantially complies with King II.
- TCTA's company secretariat is unique in structure and not completely aligned to the traditional role of a company secretary as set out and envisioned in King II. TCTA, however, is satisfied that this function is adequately performing its role within the organisation.



Procurement

Regular compliance reviews are conducted to ensure compliance with TCTA's procurement guidelines. TCTA is obliged to comply with the Preferential Procurement Policy Framework Act of 2000 (PPPFA). The PPPFA prescribes which procurement policies and scoring systems TCTA must use for the procurement of services. TCTA applies these policies and scoring systems to all procurement processes within TCTA and has structures to ensure application and compliance thereto. TCTA keeps abreast of recent developments in procurement legislation and policy.

Labour Legislation

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

- Employment Equity
- Recruitment
- Learning and Development
- Skills Development Plan

Notice of Establishment

The Notice forms part of the National Water Act 1998. TCTA fully complies with its directives, treaty and protocols.

Public Access to Information Act (PAIA)

The TCTA complies with PAIA and is in the process of placing its PAIA manual on the official website.

Financial Intelligence Centre Act (FICA)

TCTA has a zero-tolerance approach to fraud and corruption. TCTA is in the process of training staff to ensure awareness of the organisation's reporting and identification obligations under FICA. TCTA has implemented procedures and appointed a FICA Compliance Officer in terms of FICA.

INTERNAL AUDIT

The internal audit is an objective assurance and consulting activity designed to add value and improve an organisation's operations. Internal audit assures management and the Audit and Risk Committee of the effectiveness of the internal controls and systems within the organisation.

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

- Reliability and integrity of financial and operational information.
- Reliability and integrity of operational information.
- Effectiveness and efficiency of operations and systems, specifically financial discipline and control.
- Safeguarding of assets.
- Compliance with laws, regulations and contracts.
- Organisational ethical culture.
- Prevention and detection of fraud.



Standards and Best Practices

The internal audit function aspires to adhere to international standards and best practice, including the Standards for the Professional Practice of Internal Auditing. The Head: Internal Audit is a member of the Institute of Internal Auditors (IIA) South Africa, and upholds the professional code of ethics which prescribes the following principles:

- Integrity
- Objectivity
- Confidentiality
- Competence

Purpose, Authority and Responsibility

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 of Directors.

The Head: Internal Audit is accountable to the CEO, with the delegated responsibilities to the CFO and has free and unrestricted access to the Chairperson of the Audit and Risk Committee and the Chairperson of the Board of Directors.

External Liaison

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

Umgeni Water Treasury Management

The internal audit function performs compliance services for Umgeni Water and reports periodically to the UW Audit Committee.

The TCTA internal audit and UW internal and external audit functions liaise on audit coverage to maximise assurance on financial, operational and compliance treasury controls and minimise duplication of effort.

COMMUNICATION WITH STAKEHOLDERS

The principles of regular, relevant, open and factually correct communication with stakeholders is upheld in all targeted or general communications by TCTA in its interaction with its stakeholders. TCTA believes that in order 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 is an ongoing process during the year, and is addressed through various channels depending on the needs of various stakeholders.

All relevant TCTA-related information is freely available on the TCTA website or by request from TCTA offices. The willing disclosure of information reflects TCTA's core business values of transparency and consultative relationships, in the spirit of PAIA.

SOCIAL AND TRANSFORMATION ISSUES

More detail of the highlights for the year is provided in the sustainability 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, in the past. The recently completed social-development initiative in the eastern Free State was a learnership programme involving young black adults, facilitated through a service provider.

A house is made available in Clarens for training disabled people, and site offices used during construction are in the process of being transferred to the Free State Government, for educational purposes.



Black Economic 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 its Employment Equity Plan, procurement, recruitment, learning and development and the Skills Development Plan. In the spirit of its commitment to black empowerment, TCTA gives preference to local goods and services to strategically support SMMEs and black economic empowerment.

Given the uniquely specialised nature of TCTA and in alignment with its strategic objectives, TCTA capacitates within the organisation as and when required. Recruitment and selection is implemented in terms of the targets set out in the Employment Equity Plan and TCTA's culture.

TCTA is compliant with the provisions of the PPPFA and is fully committed to the principles of social transformation and the underlying black economic empowerment principles.

Employment Equity

The management of TCTA is committed to developing all staff and to creating access to equal opportunities in the workplace for all employees. TCTA is an equal-opportunity employer and includes an affirmative-action programme in its business plan.

TCTA also offers its staff internal study assistance and external scholarship programmes, to create expertise in the financial services sector.

TCTA's Employment Equity Plan (EEP) sets out the affirmative-action process in a holistic manner, emphasising the appointment of suitably qualified individuals to appropriate positions and providing scope and opportunity for other staff to grow, thereby developing a pool of suitably qualified capacity.

TCTA BOARD COMMITTEE MEMBERS AND ATTENDANCE

APRIL 2003 – MARCH 2004

Audit and Risk Committee

Designation	Name	Meetings Held	Meetings attended
Chairperson (Independent Director)	Omar Latiff	3	2
Member (Non-Executive Director)	Mike Muller	3	2
Member (Specialist Advisor)	Alison Beck ⁽²⁾	3	3
Ex Officio Member (Executive Director)	Martie Janse van Rensburg	3	2
Alternate member (Independent Director)	Robert Mbwana ⁽³⁾	3	–
Alternate member (Independent Director)	Angie Makwetla ⁽³⁾	3	3

⁽¹⁾ Skills of Board members are set out in the Board of Directors section of the Annual Report.

⁽²⁾ BComm, CA, CAIB (SA) MCT. Partner in Financial Services Advisory Group KPMG. Extensive experience in financial markets, corporate treasury and assurance investigations.

⁽³⁾ Invited members who are required to attend when a quorum has not been reached, and then carry voting powers in such capacity.

Finance Committee

Designation	Name	Meetings Held	Meetings attended
Chairperson (Independent Director)	Carmen Maynard	6	5
Member (Specialist Advisor)	Louis Kingma ⁽²⁾	6	6
Member (Non-Executive Director)	Vacant Position ⁽³⁾	6	0
Ex Officio Member (Executive Director)	Martie Janse van Rensburg	6	6
Alternate member (Non-Executive Director)	Mike Muller ⁽⁴⁾	6	1
Alternate member (Independent Director)	Omar Latiff ⁽⁴⁾	6	1
Invited member (Independent Director)	Leslie Maasdorp ⁽⁴⁾	6	2

⁽¹⁾ Skills of Board members are set out in the Board of Directors section of the Annual Report.

⁽²⁾ FCIS. Extensive experience in banking and commerce, project finance of major projects (IDC) and risk management. Serves on credit committees of a major financial institution.

⁽³⁾ This position on the Board, which is nominated by National Treasury, has been vacant for the year.

⁽⁴⁾ Invited members who are required to attend when a quorum has not been reached, and then carry voting powers in such capacity.

Human Resources Committee

Designation	Name	Meetings Held	Meetings attended
Chairperson (Independent Director)	Angie Makwetla	4	4
Member (Non-Executive Director)	Simo Lushaba	4	4
Member (Specialist Advisor)	Maura Jarvis ⁽²⁾	4	2
Ex Officio Member (Executive Director)	Martie Janse van Rensburg	4	4
Alternate member (Independent Director)	Carmen Maynard ⁽⁴⁾	4	–
Alternate member (Non-Executive Director)	Vacant Position ⁽³⁾	4	–

⁽¹⁾ Skills of Board members are set out in the Board of Directors section of the Annual Report.

⁽²⁾ BA (Industrial Psychology), PDM (Human Resources), DPLR (Labour Relations). Extensive experience in strategic human resource development and management at Director level.

⁽³⁾ This position on the Board, which is nominated by National Treasury, has been vacant for the year.

⁽⁴⁾ Invited members who are required to attend when a quorum has not been reached, and then carry voting power in such capacity.

Technical Committee

Designation	Name	Meetings Held	Meetings attended
Chairperson (Independent Director)	Robert Mbwana	7	7
Member (Non-Executive Director)	Simo Lushaba	7	5
Member (DWAF Representative)	Willie Croucamp ⁽²⁾	7	7
Member (City of Cape Town Representative)	Mike Marsden ⁽³⁾	7	-
Ex Officio Member (Executive Director)	Martie Janse van Rensburg	7	7
Member Specialist Advisor	Paul Roberts ⁽⁵⁾	7	7
Alternate member (Independent Director)	Omar Latiff ⁽⁶⁾	7	-
Alternate member (City of Cape Town Representative)	David Brook ⁽⁴⁾	7	6
Alternate Member (Non-Executive Director)	Leslie Maasdorp ⁽⁶⁾	7	1

⁽¹⁾ Skills of Board members are set out in the Board of Directors section of the Annual Report.

⁽²⁾ B.Sc (Hons) (Civil Engineering). Manager Strategic Co-ordination, DWAF. Extensive experience in mega water resource development project implementation and dam safety.

⁽³⁾ M.Sc (Engineering). Executive Director, Trading Services: City of Cape Town. Extensive experience in municipal engineering and municipal management.

⁽⁴⁾ Pr. Eng. Executive Director: Engineering and Planning City of Cape Town. Extensive experience in municipal engineering.

⁽⁵⁾ D Sc (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. Services as a non-voting specialist member of the technical committee.

⁽⁶⁾ Invited members who are required to attend when a quorum has not been reached, and then carry voting powers in such capacity.

Board

Designation	Name	Meetings Held	Meetings attended
Chairperson (Independent Director)	Leslie Maasdorp	6	6
Vice-Chairperson (Independent Director)	Omar Latiff	6	5
Member (Independent Director)	Carmen Maynard	6	6
Member (Independent Director)	Robert Mbwana	6	5
Member (Independent Director)	Angie Makwetla	6	5
Member (Non-executive Director)	Simo Lushaba	6	5
Member (Non-executive Director)	Mike Muller	6	4
Member (Executive Director)	Martie Janse van Rensburg	6	6
Member (Non-executive Director)	Vacant Position ⁽¹⁾	6	-

⁽¹⁾ This position on the Board, which is nominated by National Treasury, has been vacant for the year.

INDEPENDENT AUDITORS

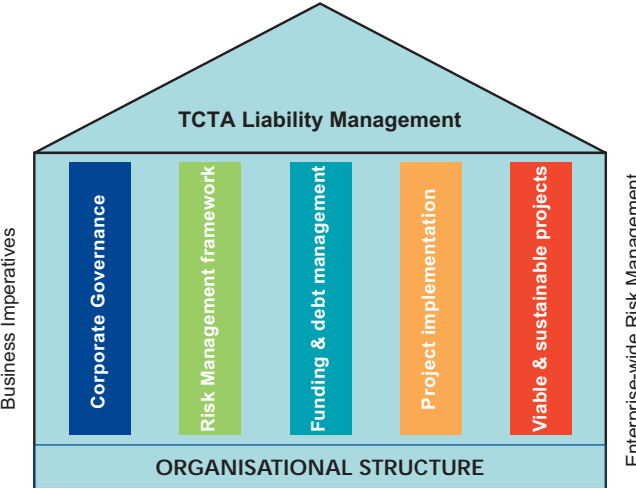
Deloitte & Touché, Woodmead, Johannesburg

Risk Management



INTEGRATED RISK MANAGEMENT

As illustrated in the diagram below, TCTA has identified key business imperatives which contribute to its success as a specialised liability manager.



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 all-encompassing enterprise-wide risk-management framework.

Enterprise-wide risk management and philosophy

The Board acknowledges its responsibility for establishing appropriate risk and control policies and ensuring that adequate risk-management processes are in place throughout the organisation. In order to address risk mitigation and management, TCTA has created the all-encompassing enterprise-wide risk-management framework.

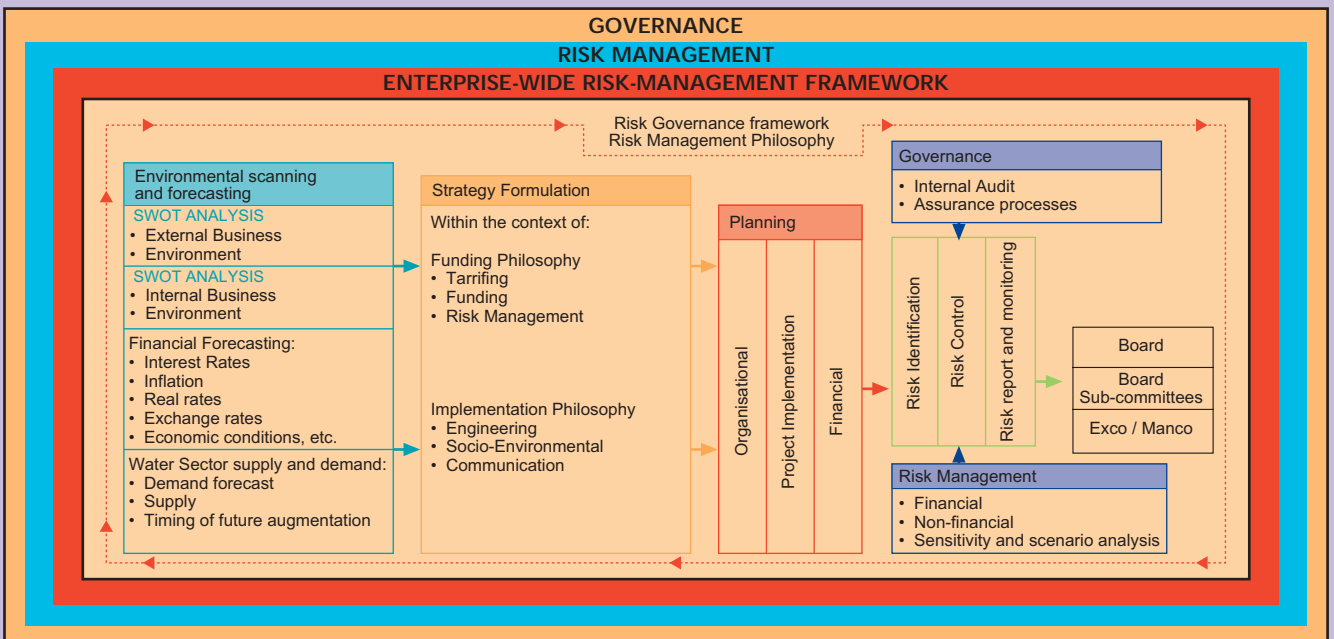
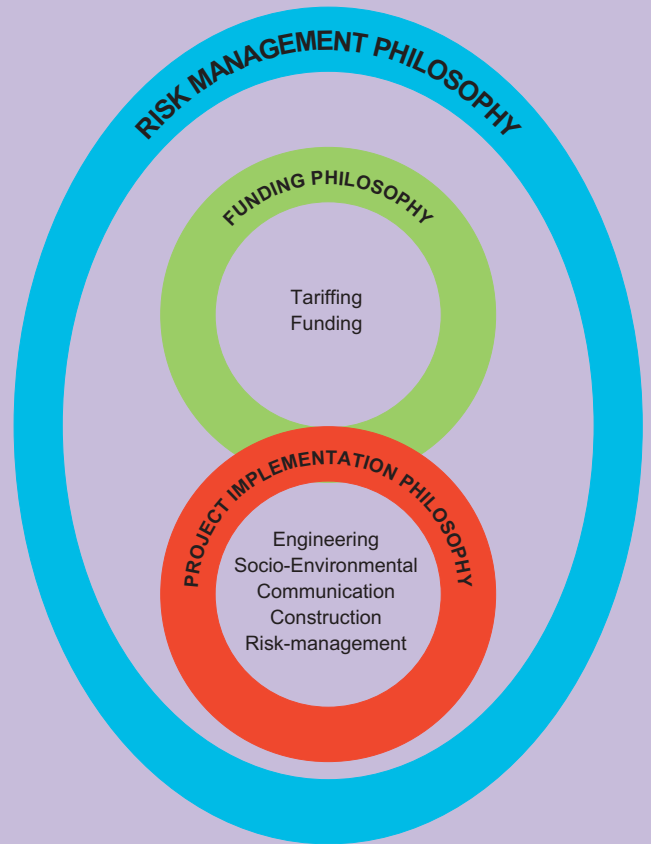
Enterprise-wide risk management is a formal response to corporate risk and is a structured, systematic process woven into existing management responsibilities. It is a continuous process that responds to every type of risk in all parts of the organisation.

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.

By embedding this philosophy into policies and a strategic framework, TCTA aims to minimise risk in both non-financial, or 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 and funding, 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.





The enterprise-wide risk-management framework 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 enhance the risk-management function further. 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 upsides and downsides of risk on a prioritised basis.

Identification and monitoring

Identification is comprehensive in that 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 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, reputational and strategic areas.
- Project risks including social and 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 the compliance to approved policies and procedures.

For each risk identified, an accountable person, the control strategy, the early warning mechanisms and the 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 in 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 the identified risks and the controls to address them.

Furthermore, international pronouncements on risk management are evaluated on an ongoing basis and, where appropriate, used to provide benchmarks to ensure continued compliance with international best practice. TCTA adheres substantially to the G30 recommendations, COSO framework, Turnbull Internal Control requirements, FIDIC, and the Charter of Best Practice in Treasury Management.

TYPES OF FINANCIAL RISK

The major features of the risks to which TCTA is exposed are covered in detail in Note 9 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 the local money and capital markets, as well as in the local and offshore loan markets. In order to meet the above obligations and future funding requirements efficiently, sufficient facilities are maintained in the required currencies.

Government Guarantee

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 R17 362 million (2003: R15 510 million). Details are reflected in Note 9 to the financial statements.

•BWP

TCTA is in the process of obtaining a credit rating for the BWP. Furthermore, TCTA is negotiating development funding that will be used to refinance the bridging facility. TCTA has limited exposure to liquidity risk on the BWP at present.

Foreign Currency Risk

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

TCTA is exposed to Euro (EUR), Pound Sterling (GBP) and United States Dollar (USD) exchange rate fluctuations. The currency hedging policy is conservative and the various exposures are monitored on an ongoing basis.

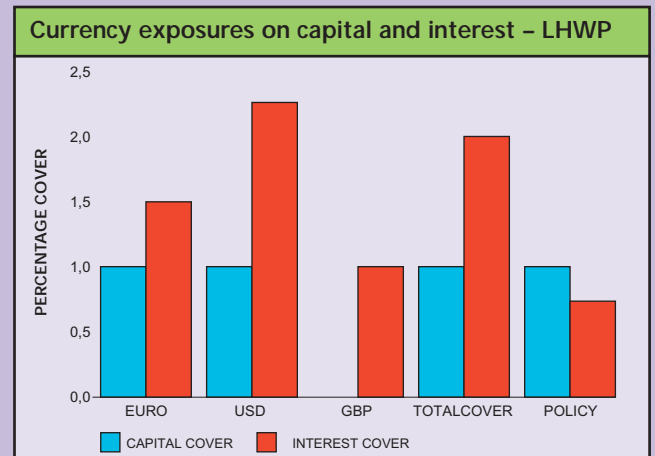
•LHWP

TCTA is within the policy framework (100%) for taking out forward cover on capital exposures; however it exceeds the policy (75%) for forward cover on interest and fees. The reasons for this are:

- Lower and slower than anticipated drawdowns on the facilities.
- The variable interest rates dropping from between 7% and 5% to around 2% during the life of the foreign loans.
- 20% of the Phase 1B International Bank of Reconstruction and Development (IBRD) USD loans being cancelled due to under-utilisation.

•BWP

TCTA is not currently exposed to foreign exchange rate fluctuations on the BWP.



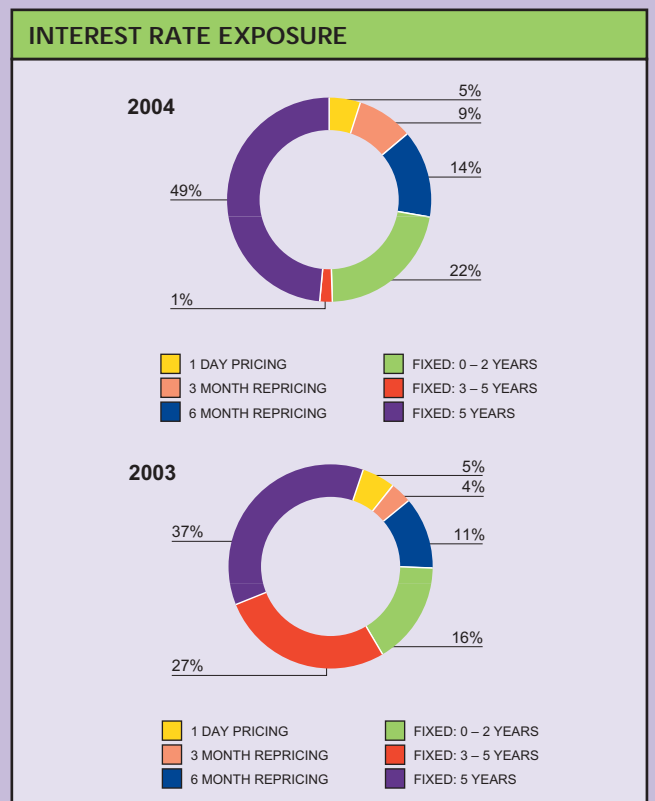
Interest Rate Risk

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 pro-actively.

To do this, TCTA not only hedges interest rate exposure using approved derivative instruments, but 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



The increase in the fixed interest rate exposure for 2004, in the 0 – 2 years is due to WS01 previously reporting in Fixed: 3 – 5 years.

Risk Management (continued)

•BWP

TCTA's funding on the BWP is currently at a floating interest rate.

Counterparty Risk

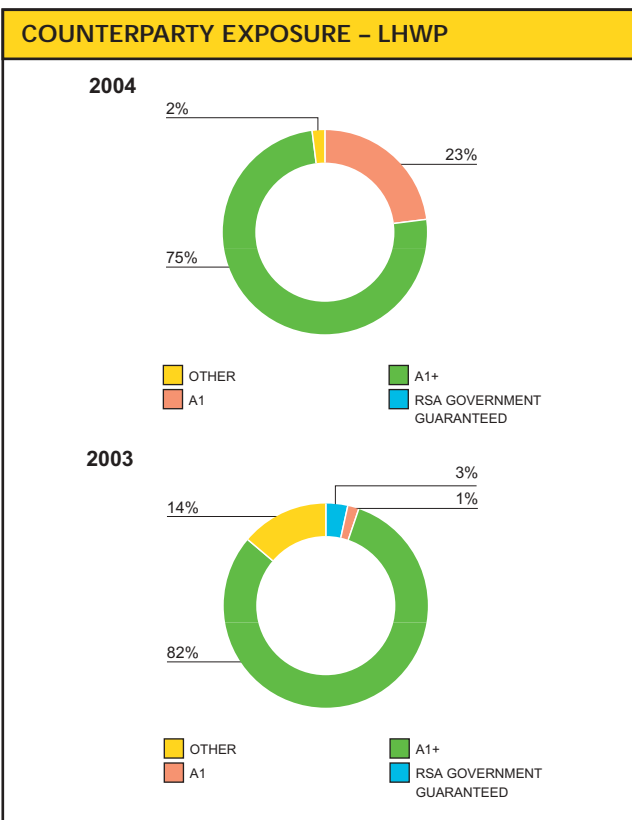
The risk of counterparties failing to deliver on their obligations is managed by the allocation of appropriate credit limits for each counterparty. TCTA deals only with reputable institutions and within the limits set for these institutions. Risk is pro-actively managed through liaison with credit-rating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

In addition to ensuring strict compliance with the 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 below.

•LHWP

The increase in exposure to A1 related counterparties is due to the down rating of one of the local banks from A1+ to A1 during the year under review.



•BWP

TCTA is not exposed to counterparty risk on the BWP at present.

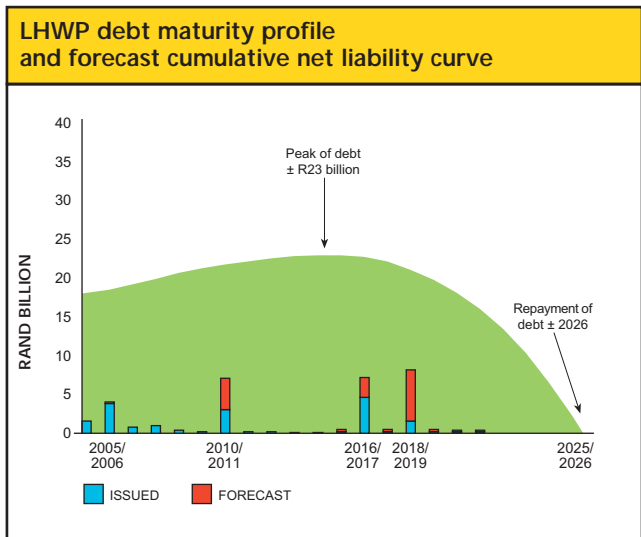
Funding Risk

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

•LHWP

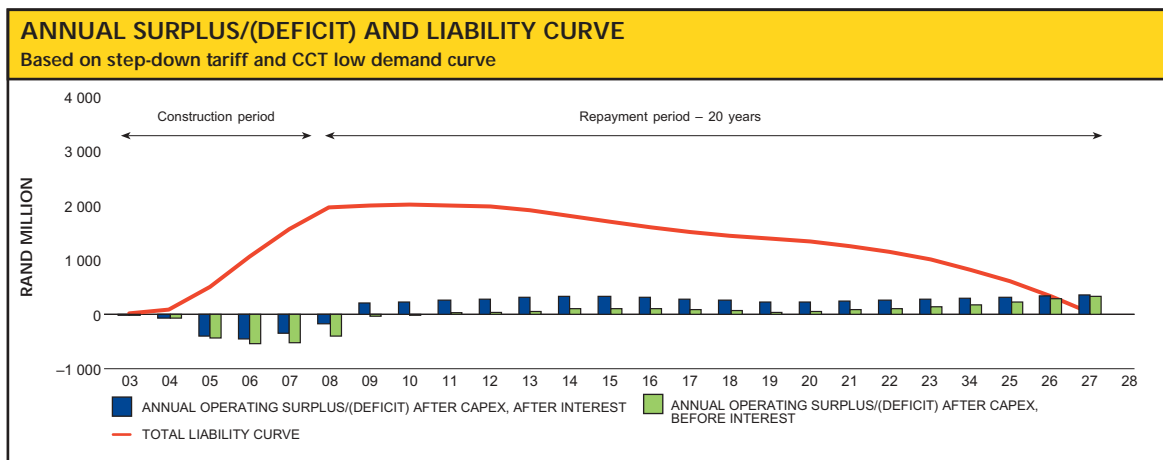
These risks are minimised or mitigated through asset/liability matching and sensitivity analysis and scenario planning.

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

The graph on page 41 illustrates the same principles applied to asset/liability matching taking account of the construction period and debt repayment period.



PROJECT IMPLEMENTATION RISK

Natural social and environmental risk

This risk relates to the risk of non-compliance with social and environmental objectives.

- Appropriate Environmental Assessments to ensure all environmental impacts are identified and assessed to lead to a licence to implement the projects by the Department of Environmental Affairs and Tourism in a consultative manner with appropriate public participation.
- Appropriate Environmental Management Plans compiled and approved to ensure that all environmental impacts as identified and assessed are mitigated, managed or compensated.
- Appropriate Environmental Monitoring Committee established to ensure interested and effective parties are represented in the environmental monitoring functions and Environmental Control Officer to perform.
- Appropriate contractual obligations have been written into the contracts with contractors, imposing strict penalty arrangements in the case of non-compliance.
- Appropriate procedures have been established to monitor the impact of the project and implement risk mitigating strategies.

Engineering risk

- Engineering risks are mitigated through the outsourcing of 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 has been appointed to review design and monitor the implementation of the project.
- Contract management inhouse supplemented by independent design and supervision consultants overseeing implementation by contractors.
- Geo-technical considerations are addressed by prior investigations advising on dam type selection decisions.

Procurement risk

Procurement risks are mitigated through a pre-qualification process ensuring the identification of technically competent tenderers, together

with a competitive procurement process ensuring cost efficiencies. TCTA further adheres to the Franschoek First Policy, whereby communication, procurement and employment benefits for the local and regional community are promoted.

Governance risk

- Independent design and supervision consultants have been 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 the Annual Report.
- Full compliance to applicable legislative requirements.
- Established commercial policies and procedures.
- Enterprisewide risk-management framework to ensure integrated risk-management.

Contractual arrangements

Contracts consist of standard conditions as detailed and prescribed by the International Federation of Consulting Engineers (FIDIC).

Contractors'/consultants' performance

The performance of contractors and consultants is managed through contractual agreements providing remedies in the case of non-performance, e.g. performance bonds, retention monies and professional indemnity insurance.

Geo-technical considerations

Geo-technical considerations are addressed by prior investigations advising on dam type selection decisions.

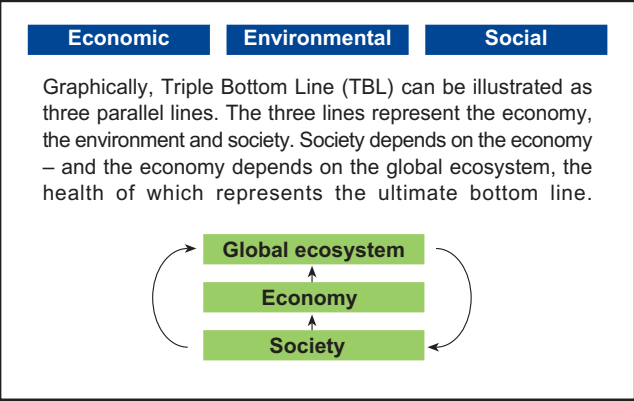
Construction works

- 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.

Sustainability



Economic, environmental and social aspects interact dynamically to ensure an organisation's sustainability. During the year under review, the combined impact of the environmental and social aspects was directly responsible for the financial success achieved.



ECONOMIC PERFORMANCE

The economic aspects of TCTA are linked to the projects it has been mandated to implement. TCTA's core function is liability management. This area of the business will continue to grow and drive the sophistication of our management practices. Since TCTA is an entity with multiple project mandates, consolidated as well as segmental reports are prepared.

Liability Management Function	Construction Commence	Construction Complete	Debt Repaid
LHWP	1990	2004	2026
BWP	2004	2007	2027

Treasury Management Services	SLA Started	SLA Ends
UW	2001	Earlier than July 2005 or on completion of Phase 3 deliverables

Until construction of a project is complete, costs are capitalised. For this reason, BWP has no Income Statement. UW, on the other hand is a treasury management contract performed on a cost-recovery basis, therefore the costs and the recovery are reflected in the Income Statement.

TCTA was recently rated za AAA (the highest rating attainable on a national scale basis) by CA-Ratings with and without its explicit government guarantees. The za AAA corporate rating of TCTA without an explicit government guarantee is confirmation of the rating agency's high regard for the manner in which TCTA is managed as a business.

Lesotho Highlands Water Project

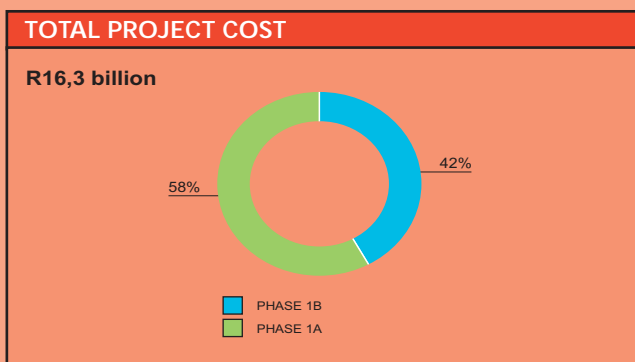
The LHWP is termed a sustainable, bankable bulk infrastructure project in that it will be fully paid for by the water users. In this regard, the LHWP is dependent on the revenues generated by water sales from the Vaal River System. Water has been transferred to South Africa since 1998. The available water in Katse Dam has been supplemented by the Matsoku Weir (Phase 1B) since October 2002 and Mohale Dam in 2004.

Sound economic performance is required to sustain development and ensure the livelihood of communities in the long term.

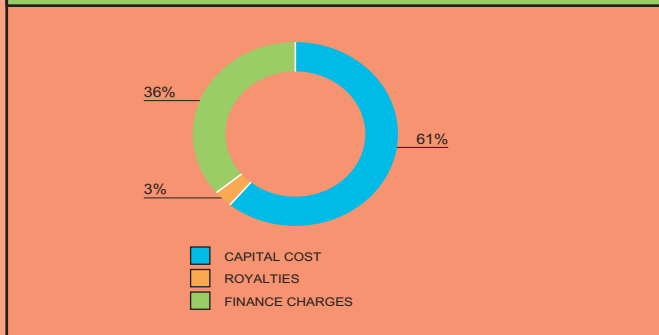
What does the project cost?

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 R16,3 billion total project cost of the two phases is split 58:42. (Refer to the diagram below.)

The full water transfer costs, incurred by both TCTA and LHDA, are the responsibility of the South African Government and are therefore included in TCTA's Balance Sheet. See note 9 of financial statements for a split of the debt.



Phase 1A
As at 31 March 2004, the total cost of R9,5 billion, at completion of construction in 1998.



What is the 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 R18,3 billion as at 31 March 2004.

Based on the current debt curve, it is estimated that the outstanding liabilities will peak in 2015 at R23 billion and that all debt will be repaid by 2026.

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

What are the operating results?

TCTA reports an operating surplus of R1 252 million (2003: R1 045 million) for the year under review. A net deficit for the year amounting to R99 million (2003: R53 million) has been realised, and reflects a shortfall in covering interest. Included in the net deficit for the year is a net loss of R122 million* (2003: net gain R109 million) resulting from the accounting treatment as required by AC133 and AC112. The unrealised loss for the period included in these amounts are:

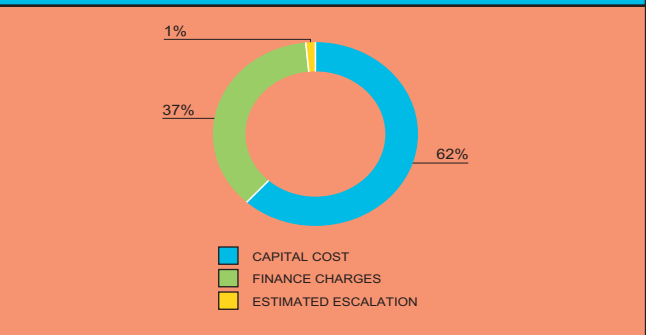
2004: unrealised loss	R148 million
2003: unrealised loss	R 53 million

*Included in the loss is a transfer of R115 million unrealised loss from Equity to the 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. With construction completed and the final contract claims due to be finalised by June 2004, it is anticipated that this excess cover will be cancelled as soon as TCTA is certain that it has no contingent foreign liabilities.

In terms of TCTA's accounting policy on the revaluation of the enduring benefit, revaluations are carried out annually on the depreciable portion, based on the average Producer Price Index (PPI). In 2003 the year-on-year PPI was 5,1% versus -1,2% in 2004.

For this reason an excess of R6 million was written back from Equity to the Income Statement.

Phase 1B
As at 31 March 2004, the total cost of R6,8 billion, at completion of construction.



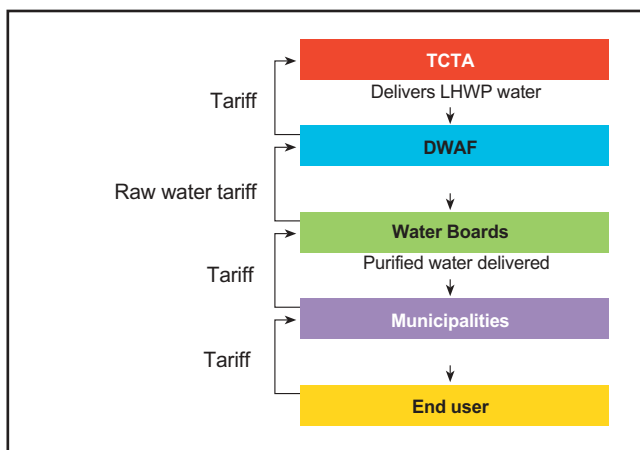


The net deficit after interest is a result of keeping water tariffs constant in real terms, taking into account the impact of future water demand, as well as the future timing and cost of augmentation schemes. Income generated in the future should be sufficient to repay all water-transfer costs within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

How is the project paid for?

The revenue generated from the sale of water from the Vaal River System should be sufficient to pay for the project in full.

The water supply chain in the Vaal River System can be illustrated as follows:

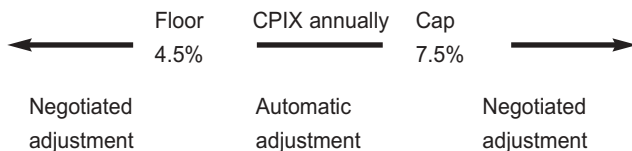


The revenue generated by the sale of 1 325 million cubic metres (2003: 1 258 million cubic metres) of raw water amounts to R1 538 million (2003: R1 329 million). This revenue is based on a bulk raw water tariff of 116,1 cents per cubic metre (2003: 105,6 cents per cubic metre) for the year under review. The higher revenue is due to an increase of 5% in volume of water sold and a 9,9% increase in the water tariff.

TCTA has successfully managed debtors' recoverability to strictly 60 days in accordance with the Income Agreement with DWAF.

How is the tariff determined?

TCTA entered into an Income Agreement with DWAF in August 2001 where the determination of the Vaal River Raw Water Tariff for augmentation schemes was formulated. 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 as follows:



Should CPIX fall between the floor and the cap level of 4.5% and 7.5% respectively, the tariff will be adjusted automatically. However, should CPIX be below 4.5% or above 7.5%, TCTA will be entitled to a negotiated adjustment to the tariff.

Other tariff review triggers include:

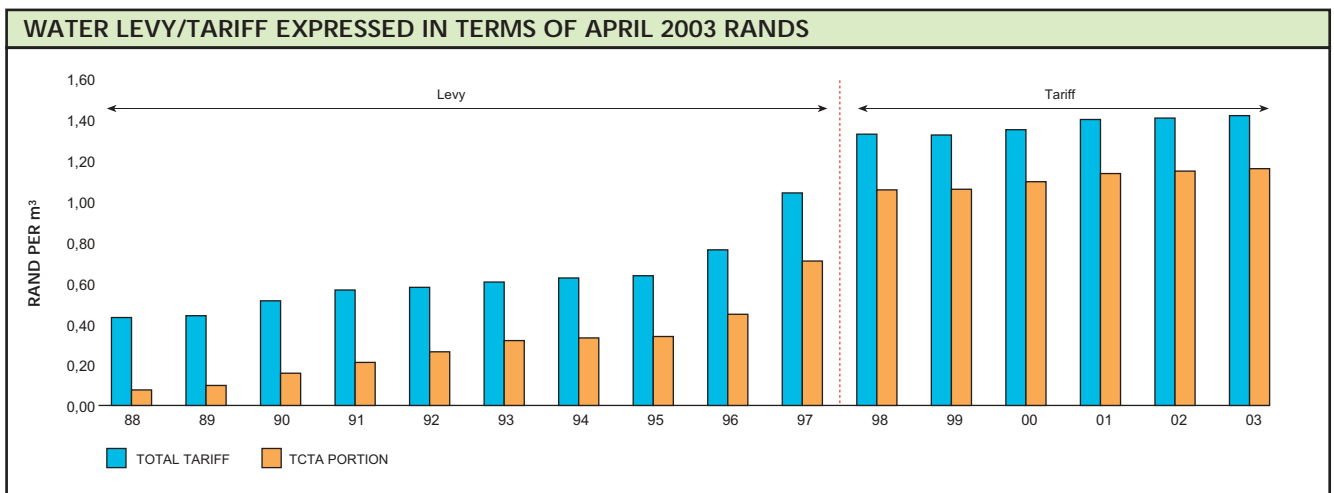
- Adjustment for changes in demand.
- Adjustments for further augmentation (yield, timing, cost and construction period).
- Operations and maintenance charge after redemption of debt.
- Change in input assumptions that increase/decrease final repayment date.

During the 2000/01 tariff determination, the yield of the Vaal River System was determined to be lower than originally anticipated by DWAF. This resulted in an under-recovery in the tariff of 6.71 cents per cubic metre, which triggered a negotiated adjustment to be phased in over a three-year period.

The tariff adjustments since the change in yield were as follows:

Vaal River Tariff for Augmentation Schemes	Increase c/m ³	% Increase Due to CPIX	% Increase Due to triggers	Total % Increase
2000/01 Tariff:	88.14			
Phase in portion one	2.11		2.39%	
CPIX adjustment	7.05	8.00%		
2001/02 Tariff:	97.30			10.39%
Income Agreement signed August 2001				
Phase in portion two	2.33		2.39%	
CPIX automatic adjustment	5.97	6.00%		
2002/03 Tariff:	105.60			8.53%
Phase in portion three	2.57		2.43%	
CPIX negotiated adjustment capped	7.93	7.50%		
2003/04 Tariff:	116.10			9.93%
CPIX automatic adjustment	6.30	5.40%		
2004/05 Tariff:	122.40			5.40%

The graph below indicates the raw-water tariff expressed in 2003 values. Apart from the phased-in correction in the tariff from 2002 to 2004, the tariff has remained flat in real terms:

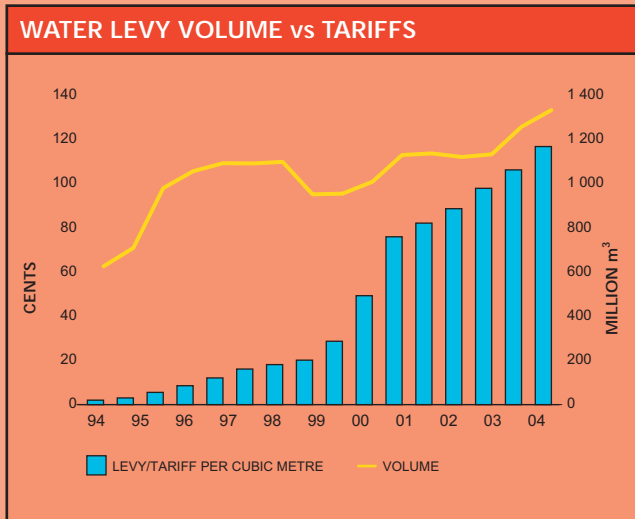


In 1988 a levy was introduced to fund a part of the development costs of the LHWP until it started to deliver water in 1998. The levy partially financed costs during the initial construction period and started at

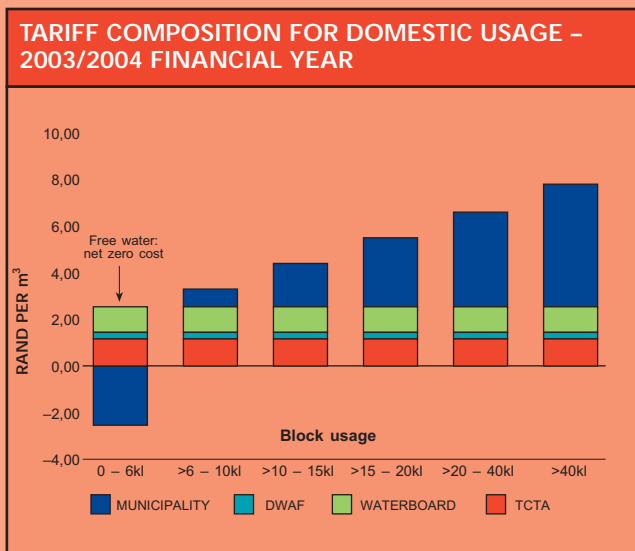
2 cents per cubic metre in 1988. The total revenue generated to date in levies was R1 688 million and in tariffs to date is R6 728 million (2003: R5 190 million).

Sustainability (continued)

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



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



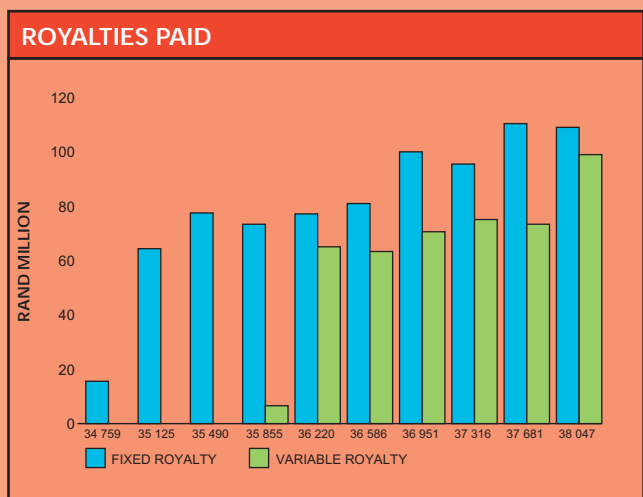
How much water is delivered and what royalties are paid to the Government of Lesotho?

Royalties payable to Lesotho are one of the components of water transfer costs. The royalties are payable to the Government of Lesotho (GOL) in accordance with the Treaty for receiving water from the project.

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. The royalty comprises a fixed component (based on calculated capital-cost savings) and a variable component (based on calculated operating-cost savings). South Africa benefits from the reduced investment and operating costs.

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

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



The total amount of royalties paid to date to the GOL is R1 255 million (2003: R1 047 million).

During the financial year, 687 million (2003: 585 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 3 550 million cubic metres.



How was the project funded in 2004?

A net amount of R2,7 billion was borrowed during the year to meet funding requirements. The following table indicates the composition of funding:

Funding Requirement	R' million
Incremental	688
Refinancing	1 031
Redemption (WS01 maturing 1 December 2005)	934
Total	2 653

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	686	934	1 620	9.8%
Money Market	923	0	923	10.2%
FX Funding (EIB)	110	0	110	8.4%
Total	1 719	934	2 653	9.9%

• Capital Market

TCTA launched its first split maturity capital market bond, WSP1-WSP5 with a value of R1 billion (nominal), in May 2003, which 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 – being 2016 to 2026. The bond was issued at only four basis points above the WS-bond benchmark curve at an average yield of 9.8%.

Split Maturity Bond	Maturity Date	Coupon	Nominal R' million 31 Mar '04	Authorised Amount
WSP1	28 May '15	9.00%	200	200
WSP2	28 May '17	9.00%	200	200
WSP3	28 May '19	9.00%	200	200
WSP4	28 May '20	9.00%	200	200
WSP5	28 May '21	9.00%	200	200
TOTAL			1 000	1 000

During the year, TCTA successfully bought back R600 million (nominal) WS01 bonds at an average spread of 35 basis points above the Government benchmark funding curve. The buy-back also formed part of the redemption strategy for WS01. The amounts shown in the table above are amounts funded, net of the buy-back of R600 million.

The total capital market bonds in issue as at 31 March 2004:

Nominal Bond	Maturity Date	Coupon Nominal	Nominal R' million 31 Mar '04	Authorised Amount
WS01	1 Dec '05	12.00%	3 860	5 000
WS03	15 Sep '10	13.00%	3 035	8 000
WS04	30 May '16	12.50%	4 575	5 000
WS05	1 Aug '18	5.00%	1 768 ⁽¹⁾	2 500
TOTAL			13 238	20 500

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

Next to Government, TCTA was the largest issuer of bonds in the local capital market for the financial period ending March 2004. R1,1 billion (nominal) was raised using TCTA's locally registered bonds through the panel of market-makers, and R1 billion was raised through private placement.

Sustainability (continued)

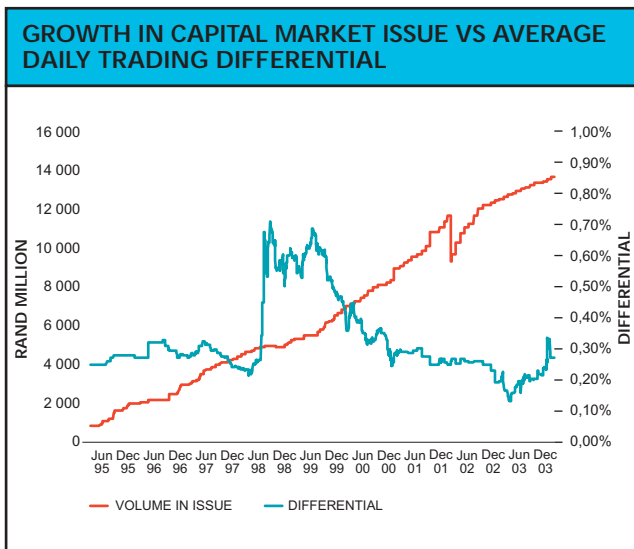
The panel of market makers consists of:



TCTA's domestic capital market performance and funding is illustrated by the graphs below:

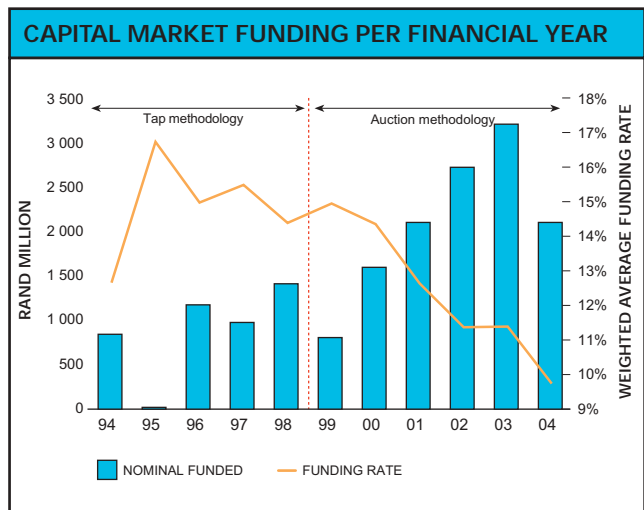
This graph indicates:

- The growth of debt in issue over the past eight years; and
- The trading differential above the Government benchmark bond.



This graph indicates:

- The volume of funding raised per annum;
- The funding rates achieved over the past 10 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.



- Commercial Paper Programme

Short- to medium-term funding in the domestic market is also accessed by means of the commercial paper programme and other local loans. As at the end of March 2004 TCTA had issued R2,017 billion against an authorised amount of R4 billion.

The Commercial Paper Programme is used by TCTA to fund over night to 5 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 was drawn as ZAR funding (R110 million) through EIB's variable spread pool. This funding is applied directly to the costs of construction on Phase 1B.

- Funding Performance

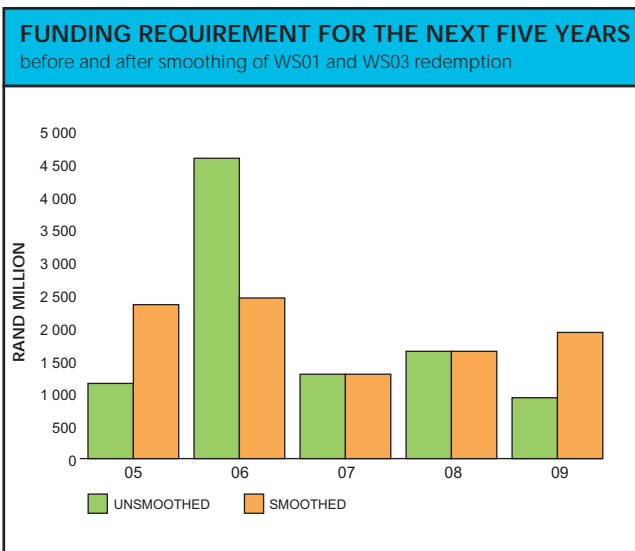
The average annual borrowing rate achieved during the year was 12,06% (2003: 12,5%) on the stock of debt and 9,55% (2003: 11,6%) on incremental funding. The project as a whole achieved a rate of 12,11% (2003: 12,6%), which includes LHDA's water transfer debt.

What is the medium-term funding requirement?

TCTA will raise R2,4 billion in 2004/05 as follows:

Funding Requirement	R' million
Incremental	970
Refinancing	182
Redemption (WS01 maturing 1 December 2005)	1 207
Total for 2004/05	2 359

On average, TCTA expects to raise R2 billion a year over the next five years. This includes provision for the redemption of locally registered bonds on maturity. Funds are raised as and when required.



Berg Water Project

The Berg Water Project (BWP) is termed a sustainable, bankable bulk raw water infrastructure project in that it will be fully paid for by the water users.

In this regard the BWP is dependent on the revenues generated by water sales from the Western Cape Water System (WCWS).

How will BWP be paid for?

In terms of the National Water Pricing Policy (1997), water-development projects should be funded by the users, if possible. The water users in the City of Cape Town (CCT) will repay this economically viable scheme through a Berg Water Capital Charge (BWCC) to be added to the tariff charged by DWAF on water supplied from the WCWS.

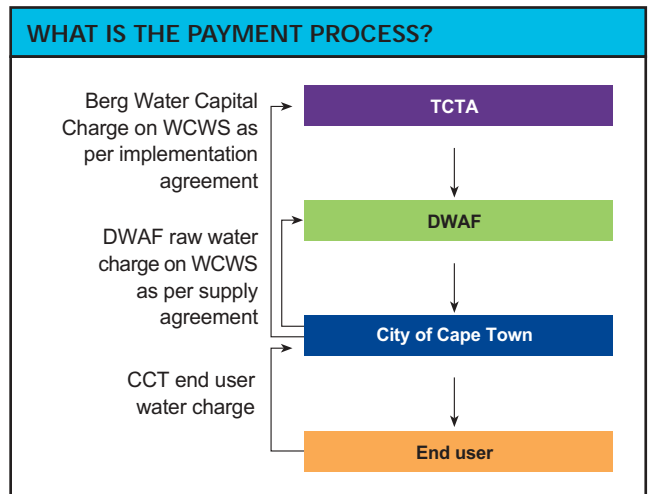
TCTA will receive the Capital Charge from DWAF to cover the costs of, and repay the loans obtained to fund, the implementation of the BWP.

How is the tariff determined?

- 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 debt profile and acceptable growth and level of debt of the project.
 - ▶ The anticipated funding requirements of the augmentation of the WCWS.
 - ▶ Within an affordable structure to the end-users of CCT water services.

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

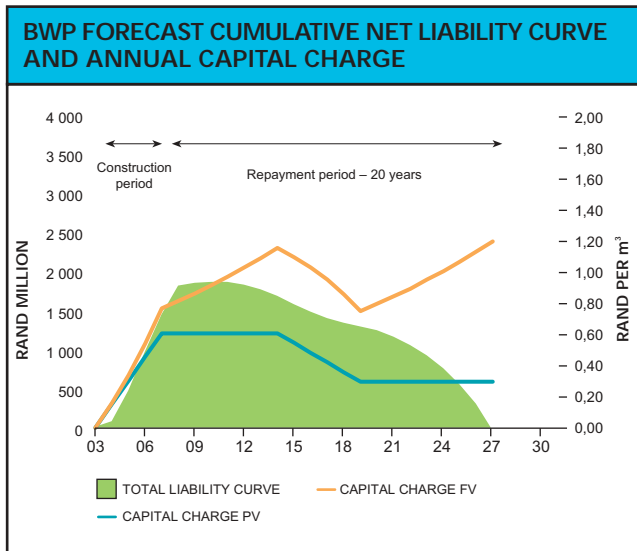
- The tariff payable by DWAF to TCTA is to redeem development costs and excludes operations and maintenance costs.
- The BWCC is phased in over a four-year period, commencing 1 July 2003 on a straight-line basis to 30 June 2007, and will continue until the project is fully repaid.
- The BWCC is based on the projected low water-demand growth of CCT 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.



Sustainability (continued)

- Annual adjustment to the charge will be made according to the CPIX, changes in water demand, changes in interest cost and allocation of water to third-party users. An upper and lower limit of the CPIX index will be determined after the completion of construction.

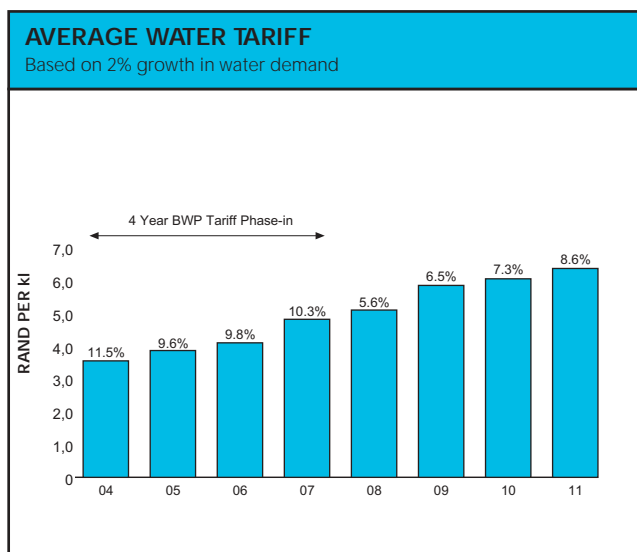
The debt curve, as well as the tariff charged (BWCC) with and without inflation, is illustrated below:



Do we make provision for users other than the City of Cape Town?

Yes, in addition to the BWCC, a third-party capital charge (TPCC) will be levied by DWAF to any user other than the CCT for water allocated or deemed to be allocated from the BWP, 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 BWP.

The following graph shows the impact on end users:



What will the project cost?

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

Date	Values July 2002 R'million	Escalated Value* July 2002 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	1 877.1

*Escalated at 6%

What has been expensed and capitalised to date?

The costs incurred and capitalised on the BWP to date amount to R60 million (2003: R14 million). These include engineering, environmental, administration and finance costs and will be capitalised up to completion of construction. Income generated since 1 July 2003 amounts to R25 million, following the introduction of the phased Berg Water Capital Charge (BWCC) as per the Implementation and Funding agreement. This results in a net capitalisation of costs to date of R34 million (2003: R14 million).

What project components will be built?

Dam

The tender design of the dam on the Berg River was completed during the year. Geo-technical investigations for the proposed dam and related structures determined the foundation conditions as well as the suitability of material to be used in the construction of the embankment. The results confirmed the decision to build a concrete-faced rockfill dam as the foundation conditions proved to be variable.

Hydraulic model studies were conducted to confirm the performance of the intake tower, outlet works and the side channel spillway. Minor modifications to the designs were required to optimise the hydraulic performance of the structures. The inlet tower and outlet works have been sized to abstract water from the reservoir through multi-level intakes to release environmental floods of up to 230 m³/s-1 through a bottom radial gate, in order to mitigate the impact of the dam on the sensitive foothill section of the Berg River.

Supplement Scheme

The tender design of the Supplement Scheme, consisting of a diversion weir and abstraction works in the Berg River below the confluence with the Dwars River, a balancing dam and the Drakenstein pump station as well as a 10km 1,5m-diameter pipeline to the dam has been substantially completed. The Supplement Scheme will divert run-of-river flows in

excess of the instream flow requirements during the wet winter months to the balancing dam, from where it will be pumped to the BRD.

At the BRD there is a further pump station and a 2,5km pipeline to the Dasbos Adit, connecting the Berg Water Project with the existing Riviersonderend-Berg River Tunnel System.

Advanced Infrastructure

The design of infrastructure to provide access to the dam site on the Berg River and to accommodate staff of the consultants and contractors has been completed. The provision of these facilities was not included in the original environmental impact assessment (EIA) and environmental authorisation for the project. Separate EIAs were completed for these two infrastructure components and submitted to the environmental authorities for approval. The environmental authorisation was obtained for the construction of the dam access road however, concerns over the capacity of existing municipal services are delaying the environmental authorisation for the housing to be constructed at La Motte Village.

Power at the dam construction site is to be supplied by Eskom and at the Drakenstein site by the Drakenstein Municipality, which will be responsible for providing the required sub-stations and distribution lines to the respective sites.

Consultation and Review

All tender designs have been completed in consultation with DWAF, the eventual owner and operator, as well as CCT, which pays for the project. TCTA's Engineering Review Panel, consisting of experienced dam engineers and specialist technical advisors, participated on a regular basis by reviewing the designs and documentation to ensure compliance with international best practice.

Do we support Black Economic Empowerment?

Main Contractor

In order to promote black economic empowerment, as a pre-qualification the dam contractor is required to establish a joint venture (JV) that should include a black enterprise as a JV member to a level of at least 20%. The Black Enterprise equity ownership in the JV must be on a real ownership profile of the business/enterprise and must continue for the duration of the contract period.

Employment Targets

The following designated groups expressed as a percentage of the total workforce to be employed on all other contracts, including the main dam contract, shall be at least:

Local (Franschhoek and Dwars River Valleys)	75% – 80%
Western Cape Region	5% – 10%
HDI (including women, youth and disabled)	80% – 90%

Procurement Targets

The value of goods and services procured from sources external to the JVs shall, depending on the nature of the contract, be at least:

Black Enterprise	15% – 20%
Black Empowerment Enterprise	20%
Local Enterprise	5% – 10%
SMME	10% – 15%

The above parameters are set out as contractual conditions, which will trigger either penalties or withholding of amounts due, should the conditions not be satisfied.

Does TCTA support competitive bidding?

Yes, all contracts are procured on a competitive basis, except those that have been allocated to the DWAF Construction Unit. This allocation of work is in accordance with the Ministerial Directive to TCTA to utilise DWAF resources in the technical field, subject to certain conditions, during the implementation of the BWP. DWAF Construction has been identified as contractor for the access road to the dam as well as for the engineering services for the La Motte Village. DWAF Construction will also be constructing a part of the Supplement Scheme abstraction works and civil works for the pump stations.

Dam

The procurement of a contractor for the construction of the BRD started with a pre-qualification process. Invitations were issued internationally to interested contractors to apply for pre-qualification. Nine submissions were received and, following an intensive evaluation process, three contractors were deemed suitably qualified and experienced to be invited to submit tenders for contract of BRD.

The Contract will be awarded in May 2004 and construction of the dam will start in June 2004. This should enable compliance with the TCTA Ministerial Directive with regard to the commencement of water delivery by 2007.

Supplement Scheme

Tender documents for the Supplement Scheme have been substantially completed and the work has been packaged in the following contracts:

- Contract TCTA-B021A: Dasbos pump station and Dasbos Adit civil works, Drakenstein abstraction works, balancing dam and pump station
- Contract TCTA-B021B: Dasbos and Drakenstein pipelines
- Contract TCTA-B021C: Mechanical and electrical works to Dasbos and Drakenstein pump stations

It is anticipated that the tender process will commence towards the end of 2004.



What is the performance on construction to date?

Construction of the dam access road by DWAF Construction started in February 2004 following the award of the contract amounting to R18 million. The 3,5km road, including a bridge across the Franschoek River, has a seven-month construction period and should be completed in October 2004. As the BRD contractor will start to mobilise in June 2004, arrangements have been made to ensure passable access to the site so that construction of the dam can begin on time.

The June 2004 date for the start of dam construction is later than originally scheduled. However a concrete-faced rockfill dam provides construction flexibility, and therefore the impoundment of the reservoir should still commence in May 2007, as originally envisaged.

What is the performance in programme timing and related cost to date?

In terms of the TCTA Ministerial Directive, the Berg River Dam is to commence water supply to the Western Cape Water System in 2007, while the Supplement Scheme delivery date is June 2006. CCT in consultation with TCTA has reviewed the necessity for the Supplement Scheme to deliver water a year in advance of the dam. The review concluded that the impact on surety of water supply would be minimal but that substantial cost savings will be generated due to the delay in capital expenditure. CCT has therefore recommended to DWAF that

the delivery date of the Supplement Scheme be delayed for a year.

To achieve the target dates, the construction of the dam was originally scheduled to start in January 2004, while the construction of the Supplement Scheme would have commenced in April 2004. The construction of the dam will however only start in June 2004. Assuming the Minister amends the target date for water supply from the Supplement Scheme, construction thereof will commence in April 2005.

The delay in the implementation of the advance infrastructure works resulted from the requirement to obtain additional environmental approvals.

Separate EIAs for the dam access road and La Motte Village were conducted and submitted to DEAT for approval.

The access road's licence to construct was issued and no appeal was received. The La Motte Village Record of Decision has not been issued as DWAF objected to the use of the La Motte Sewage Treatment Works by the proposed development of 80 project houses. Stellenbosch Municipality accepted responsibility for providing bulk services as required by the TCTA development, but as the current effluent from La Motte Treatment works into the Franschoek River does not meet the special limit imposed by DWAF, DEAT has refrained from issuing a RoD for the construction of the village. TCTA is considering alternatives to overcome this delay.

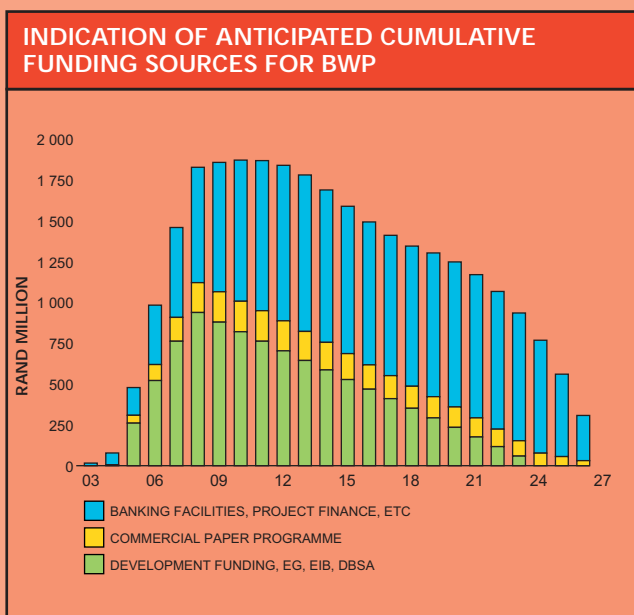
How will the project be funded?

Bridging Finance

A 12-month loan facility of R150 million was concluded in January 2003. The facility, which is extendable for a further six-month period, will be sufficient to cover project costs until July 2004.

Long-Term Funding Sources

In terms of funding the Berg Water Project, TCTA plans to use a combination of Development funding (eg: EIB, DBSA), capital market funding, amortising bank loans and a commercial paper programme. The cumulative requirement in terms of each source of funding is illustrated below:



Umgeni Water

On what basis did TCTA perform the treasury management services for Umgeni Water?

In July 2001 the Minister of Water Affairs and Forestry directed TCTA to execute the treasury management services for Umgeni Water as an intervention. The objective was to enable long-term viability and financial solvency. During the past period TCTA successfully completed the Phase 3 deliverables of which the main objective was to exit market-making and re-engineer the Balance Sheet to suit the business of a water service provider.

SOCIAL ASPECTS

The social aspects of TCTA depend largely on the economic performance of TCTA and are covered separately under:

- Corporate, being TCTA the organisation. All costs are allocated to the mandated projects.
- LHWP, where activities in both Lesotho and South Africa are covered.
- BWP.

Corporate

TCTA's ability to sustain the consistently high levels of performance it has achieved to date is due to the calibre and resilience of its staff. 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 training and development; and
- 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 and business issues are handled by an executive management committee (EXCO). Its composition reflects the inclusive approach and development focus in our management style. EXCO consists of the Chief Executive Officer, Chief Financial Officer, Treasury Manager, Financial Controller, Information System Manager, Public Relations Manager, Human Resources Manager, Head Corporate Affairs, Projects Manager and Projects Engineer.

Sustainability (continued)

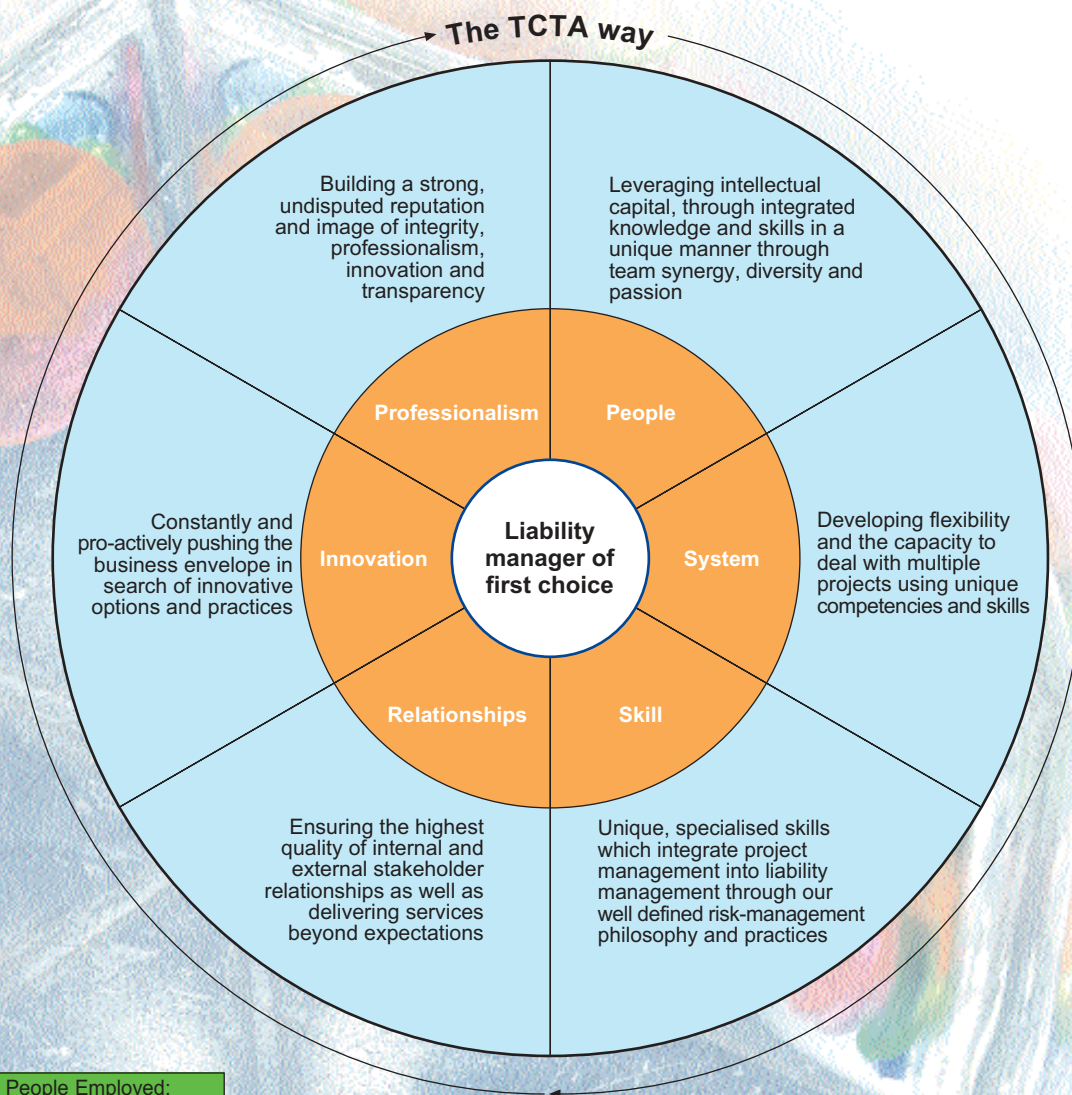
What is the TCTA Way?

More specifically TCTA's formula for success is encapsulated within the "TCTA Way" which seeks to ensure that TCTA is reviewed as the benchmark public-sector entity within South Africa and liability manager of first choice. The "TCTA Way" focuses on people, systems, skills, relationships, innovation and professionalism as a means to ensuring the highest level of professional and ethical standards.

To illustrate this refer to the diagram below:

TCTA is an equal-opportunity employer that applies the principles of equity and affirmative action in the appointment and development of its staff across the board to enhance operations. Particular attention is being given to the sharing of these principles with new staff.

The increasing level of specialisation within the business and the addition of the BWP have necessitated an increase in the number of employees. Certain members of staff who worked in Maseru on the LHWP have been redeployed to work on the BWP. The employment opportunities on the BWP offer a regional development opportunity for using the skills of individuals trained on the LHWP.



Number of People Employed:		
	2004	2003
Full-time	39	33
Part-time	1	2
	40	35
South Africa	36	30
Lesotho	4	5
Total	40	35



CATEGORY	BLACK MALE*	BLACK FEMALE*	WHITE MALE	WHITE FEMALE	TOTAL
Executive	1	3	4	3	11
Management	1	3	5	2	11
Professionals	3	3	0	5	11
Support	0	5	0	2	7
TOTAL	5	14	9	12	40

* Black includes African, Indian and Coloured.

Employment Equity

TCTA's philosophy on organisational diversity and transformation is embedded in the three-year Employment Equity Plan and Business Strategy. The organisational strategic intent is to promote equal opportunities, diversity and transformation for all in the workplace with particular emphasis on the designated groups.

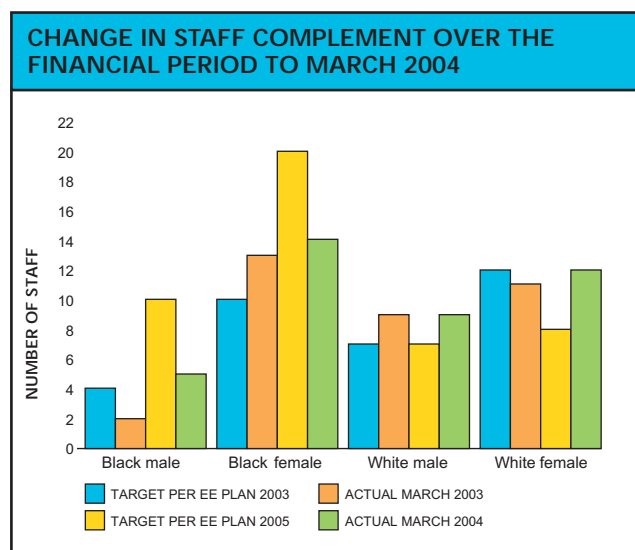
A review of all the employee policies and practices has been conducted to ensure that there is no discrimination in the workplace. Our consultative Employment Equity Forum (EEF) consists of elected representatives and a management representative. The EEF contributes to the successful management of diversity in the organisation and meets at least once a quarter. During the period under review, it met four times.

An analysis of the degree of representation has also been undertaken and used to set targets for a three-year period, taking into account the national, regional and available skills pool in South Africa. Affirmative-action measures have been instituted to increase the level of representation of designated groups at senior level, supported by training and development initiatives to assist with the organisation's transformation.

The table above shows the demographics of TCTA staff. This excludes specialist services that are contracted in, from time to time.

Given the uniquely specialised nature of TCTA and in alignment with its strategic objectives, TCTA capacitates within the organisation as and when required. Recruitment and selection is implemented in terms of the targets set out in the Employment Equity Plan and TCTA's culture.

The following is a graphic representation of the organisation's change in demographics over the reporting period:



Sustainability (continued)

Staff turnover and growth have presented an opportunity to increase the level of organisational diversity, not only in terms of race and gender but also in terms of professional disciplines and innovation. Induction and succession plans have been implemented to enhance and preserve the organisation's corporate memory. When the targets were set in 2001 for designated groups in the EEP, TCTA staff seconded to Maseru were not included, but changes in the tax legislation during 2001 necessitated their inclusion and the targets and actual numbers were adjusted to reflect the inclusion of the six employees.

The new EEP has been submitted, setting targets for 2005. Due to expansion, redeployment of staff and a scarcity of certain strategic skills required, not all targets have been achieved – five vacancies have not yet been filled. The categories where major differences occur are black males and black females.

A number of corrective measures have been introduced into the three-year plan, including:

- Internships to recruit senior-level staff on a fast-track development programme in specialist areas that include treasury and engineering.
- Future recruitment to be limited to the designated groups.

The overall organisational turnover as a percentage of staff complement, is 17% (2003: 29%), made up as follows:

- Natural attrition of fixed-term contracts: 5% (2 people)
- Resignations: 12% (5 people)

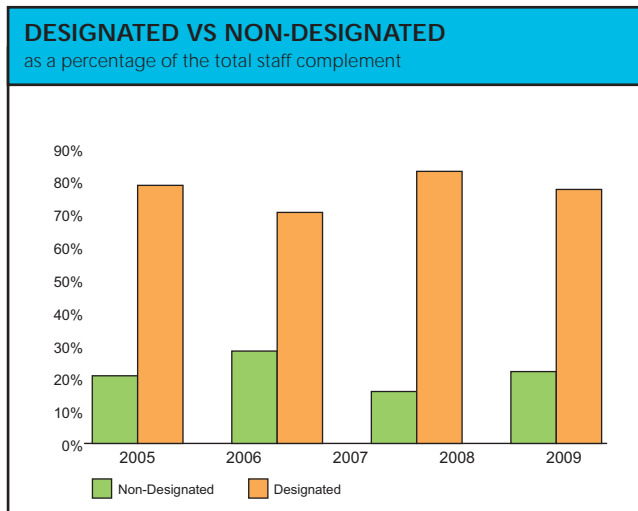
The table below indicates the turnover per category:

Reason	Management	Professional	Support	Total	Black	Coloured (Designated Group)	White Female	White Male
Other work opportunity	2	1	2	5	2	2	1	0
End of Contract	0	1	1	2	0	0	0	2
TOTAL	2	2	3	7	2	2	1	2

TCTA's philosophy is to maintain its core sophistication in its client-service and project teams. Commitment is ensured via strong retention, succession and back-up policies as well as continual alignment of our core competencies (within our client service teams) to the growth, specialisation and stakeholder expectations of the organisation.

Where focused, dedicated, non-core specialisation is required, it is sourced on a contract basis to ensure that focus and specialised service delivery of the highest standard is attained.

Our progress in terms of the EEP is:



Training and Development

TCTA has continued its training and development programmes both formally and informally to increase competencies and skills for current and future requirements.

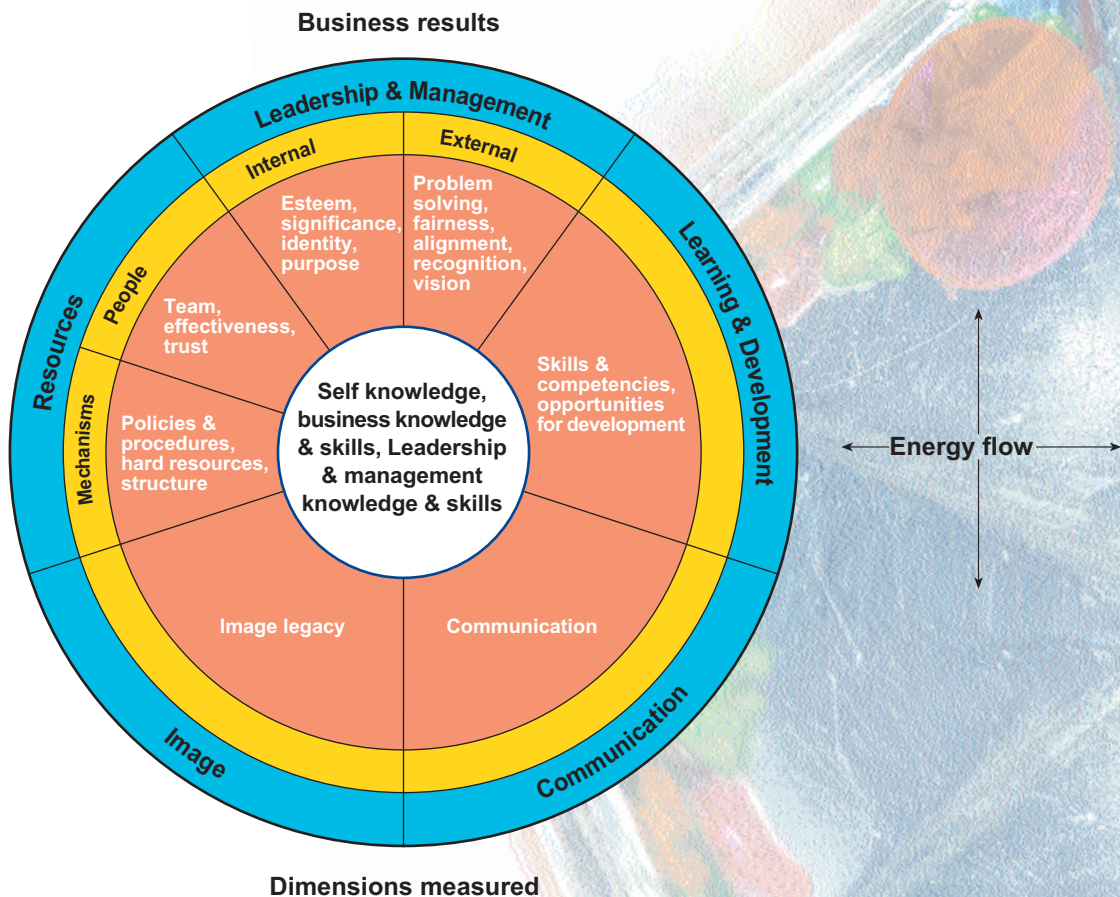
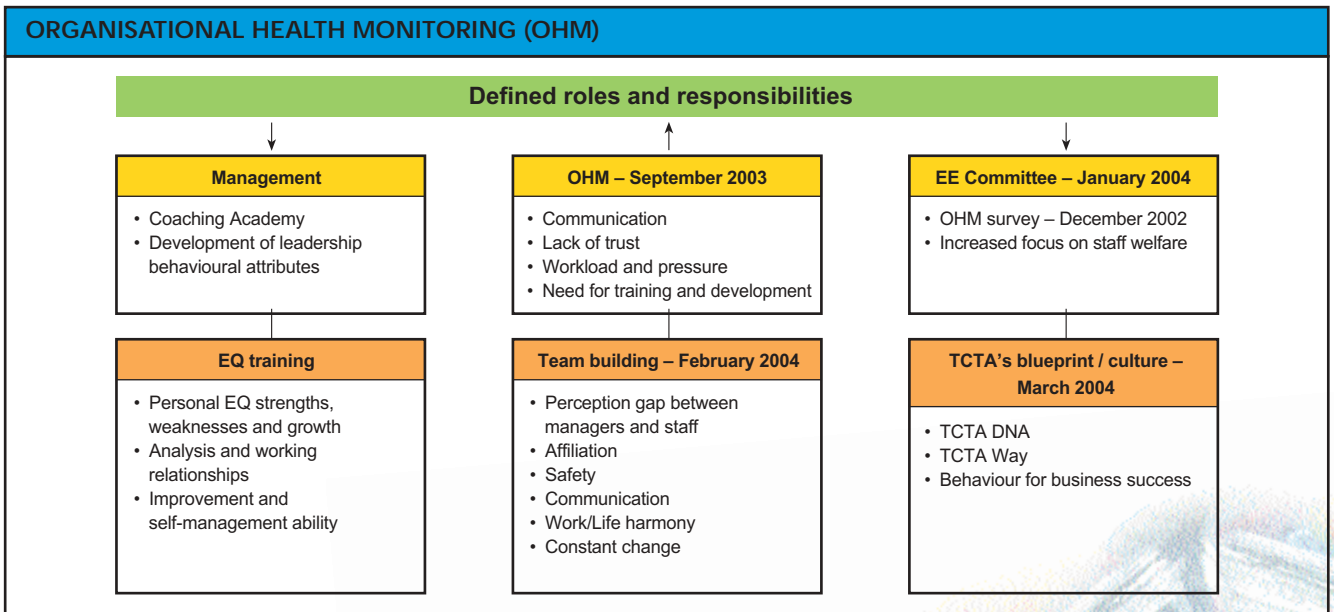
These programmes are aimed at improving both our organisational effectiveness and our employee skills base. The development programmes expand technical and personal skills to assist managers in the demanding and ever-changing business environment.

Training has been presented on the job, through individual coaching, motivational sessions and team development. Formal development programmes have also been undertaken through external professional organisations and learning institutions. The employee study assistance programme has also made it possible for employees to obtain formal qualifications in relevant fields.

Organisational Health Monitoring

TCTA conducts annual organisation health monitoring (OHM) surveys to measure the level of employee satisfaction in a number of dimensions, including perceptions about effectiveness of diversity management in the company.

The Human Resources Manager together with the Employment Equity Forum facilitates the process of action plans to address issues and recommendations to increase the OHM energy flow.





Succession Planning Processes and Procedures

The Talent Capability Training Tool, used for talent mapping, identifies each individual's strengths and weaknesses in each divisional area. During personal development planning sessions, individuals who are on the succession plan have a specific learning and development programme and timelines to achieve such development areas based on the formal programme and on-the-job training. TCTA has a coaching system for those identified individuals.

Dreaded Diseases

Dreaded diseases are a reality facing employees today, and TCTA acknowledges that the organisation bears a responsibility in this regard.

TCTA has embarked on an extended support programme for staff members and their families. The support programme provides specialist services such as, but is not limited to:

- Psychological support and counselling.
- Flexible working hours.
- An adaptive working environment in the form of separate offices for people with low immune function as well as flexible sick-leave cycles.

TCTA has also implemented a programme in relation to HIV/AIDS to:

- Increase knowledge of HIV/AIDS among employees.
- Encourage voluntary testing as well as counselling (pre- and post-testing) through an external registered psychologist.
- Reduce the spread of HIV/AIDS as far as possible.

Diversity Management

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

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, 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.

Systems

The internal systems implemented and managed by TCTA are of a minimum baseline far exceeding the industry high-water mark. Full compliance is achieved in the following key areas:

- Data integrity and source validity.
- Multi-tiered and multi-layered security controls and mechanisms, encompassing the perimeter and local networking structures as well as the wide-area network.



- Effective multiple backup and data-redundancy controls.
- Multi-layered, fully redundant operational systems.
- Effective backup contingency plan and disaster recovery systems.
- Reviewed bi-annually to ensure the best-of-breed methodologies, systems and partner relationships.

Skill sets are provided across several layers to ensure resource cross-skilling and capacity availability well outside the standard 24/7/365 parameters. A combination of internal and outsourced vendor resources are utilised, managed by strict SLAs and commitment to service delivery.

Lesotho Highlands Water Project

Introduction

It must be noted that the implementation of the project is done by TCTA (RSA soil) and LHDA (Lesotho soil). These two organisations take on the responsibility to roll out a successful project in a sustainable manner.

Learnerships – Eastern Free State

South Africa

Sixteen of an initial group of 20 learners successfully completed their training as tourist guides in Clarens and Ladybrand. Two have become partners in a tourism business, one is employed by the Ficksburg Tourism Forum, one is employed full-time in a guesthouse (front desk) and four others are working in the hospitality industry. While the remainder are employed ad hoc at the moment, plans are under way to use their services in structured tours to the LHWP. Tragically, three learners lost their lives due to separate accidents and illness during the course.

Tourism Initiatives – Eastern Free State

South Africa

TCTA continued its involvement on the Executive Committee of the Maloti Route and in supporting tourism development in the towns and villages bordering Lesotho. New permanent exhibitions were erected in Fouriesburg and Ficksburg, following the establishment of representative tourism forums and the acquisition of suitable buildings. TCTA has also contributed towards the re-establishment of a representative tourism forum in Clarens.

Facilities donated to support education

South Africa

TCTA has donated the Pietersdal building situated in Clarens to the Department of Public Works, which shall retain ownership of the building, but it will be utilised by the Department of Education for educational purposes.

It is anticipated that transfer to the Department of Public Works will be effected within two months.

Facilities donated to assist disabled people

South Africa

TCTA has donated one house situated in Kgubetswana, for use by disabled people.



Compensation

Lesotho

While compensation of affected households and communities will remain a priority, it is vital that the encouraging signs of sustained social development be nurtured.

Unfortunately, the adverse weather conditions that prevailed for the greater part of the year had a severe impact on subsistence farmers. Late rain, poor harvests and a critical food shortage increased poverty in rural areas and many people depended on food-aid for their survival.

The lack of rain impeded the implementation of the environmental action plan (EAP) by the LHDA. However, major aspects of the plan were implemented successfully.

Compensation payments to 2 509 households in cash and in kind in the Phase 1A area were completed according to plan. In the Phase 1B area, 902 households received their annual compensation, while disturbance allowances were paid to some 200 newly resettled families. In addition, more than R500 000 was paid to 66 households in Phase 1B for the loss of garden land, R2 million for the loss of fuel trees (223 households), and some R236 000 for the loss of fruit trees. Minimum threshold payments amounted to more than R500 000 made to 174 households.

Resettlement

Lesotho

Altogether, 208 households have been resettled in Phase 1B.

During the year under review, 25 households were resettled, while eight of the 10 remaining households will receive their houses by April 2004, and the other two households, which have opted for cash, will settle elsewhere.

Meanwhile, data collection for Stage Three resettlement (after completion of the reservoir) is under way, a provisional budget has been approved in principle and criteria for resettlement are being finalised.

Two new schools were relocated and furnished. Seven school-infrastructure projects at existing schools, comprising 20 classrooms, six staff rooms, four kitchens, 86 VIP latrines and water supply were completed in the foothill resettlements. In the Highlands, funds were approved for the construction of seven schools. One school has been completed, another school is due for completion in April 2004 and a third is underway. Mobilisation for the construction of the remaining schools has started.

Inter-community access

Lesotho

High quality inter-community access around the major infrastructure projects (Katse and Mohale Dams) is provided by feeder roads and vehicular bridges that connect surrounding villages, as well as footbridges that allow pedestrians to cross steeply incised valleys. The Phase 1B feeder roads and bridges were due for completion by March 2004 and this



was substantially achieved. Altogether, 24km of earthworks and side drains, 56km of roadbed and 30km of layer works were completed. Vehicular bridges were completed at Jorodane and Bokoaneng, while pedestrian bridges were completed at Raloti and Bokong.

This labour-intensive construction project has not only provided income to families of villagers along the route, but also created a corps of trained and skilled road builders who could provide services in other rural communities.

Community compensation

Lesotho

Funds created through community compensation for lost assets due to project construction are made available once the communities have created the necessary infrastructure and provided acceptable plans for local projects.

At Katse, one co-operative has started construction of a petrol filling-station and garage; another has started construction of offices, while another has purchased a hammer-mill. Other plans awaiting approval include a cultural village, coffin production and a greenhouse. Thirty members of a co-operative have been trained in the production of petroleum jelly, cream and sweets. Their products are selling well.

Two co-operatives at 'Muela are operational: one is providing agricultural products and the other has installed a mill.

Ten co-operatives in Mohale have started operations while more than a dozen others are finalising their registration. It is envisaged that 29 more co-operatives will be created.

Food security

Lesotho

This programme, aimed at providing food security to the most vulnerable families in the project areas, has progressed well during the past year, despite the prolonged drought that delayed and reduced production.

In the Katse Local Catchment (KLC), these farmers planted 120ha of maize, 25ha of wheat, 50ha of beans, 30ha of potatoes, 30ha of peas, 30ha of other vegetables and 700 fruit trees. They also ordered 300 pullets. The harvest is due to be completed by June 2004.

At 'Muela the farmers planted 40 000 cabbage seedlings. Maize and bean crops are reported to be promising.

At Mohale, more than 1 000 farmers are involved. They have planted 450ha of maize, 50ha of potatoes and more than 70 000 heads of cabbage. Chicken farming is on the increase with current numbers around 635.

Commercial agriculture

Lesotho

A variety of crops are being planted with increasing commercial success, especially in the 'Muela irrigation area. Garlic, asparagus, maize, fruit, pig, poultry and dairy production are doing very well. Ten tons of asparagus were exported to South Africa.

In the KLC, poultry farming has grown markedly, but maize seed production stopped when the crops technical officer retired. Eight tree nursery farmers are ready to sell winter seedlings in 2004.



In the Phase 1B area, commercial agriculture is taking off well. Thirty two farmers produce fruit, while 21 farmers are part of a co-operative at Ratau that has developed a community orchard. Poultry production is also increasing. More than 9 000 broilers were sold during the past year and more than 2 000 layers are in production. About 450 tons of seed potatoes were harvested in the 2003 season; 300 tons were marketed and the remainder used as seed. Project officials are supervising more than 100 garlic producers.

Village water supply, health and sanitation

Lesotho

In the Mohale area 28 out of 42 water-supply systems have been completed, 19 are in progress and 24 are at site-preparation stage. The delay was caused by a longer-than-anticipated public-participation process. Further, 639 VIP latrines were completed, 91 are in progress and 185 are at site-preparation stage; and 393 refuse systems were completed, 76 are in progress and 161 are at site-preparation stage.

Meanwhile, shortages in trained staff have impeded the transfer of health facilities to the Lesotho Government. The Minister of Health and Social Welfare in Lesotho has requested that the project authorities train staff at Katse and Mohale to facilitate the continuation of services. The Minister is holding regular co-ordination meetings with LHDA to ensure a smooth transition.

Ombudsman hearings

Lesotho

The majority of issues raised by the Ombudsman appointed by the Lesotho Government to finalise compensation claims have been resolved.

Of houses reported to have cracks, 225 (65%) have been repaired. The Ombudsman has expressed satisfaction with the progress.

Berg Water Project

TCTA's project implementation is guided by sound socio-developmental principles. Despite the limited relocation involved on the project, fair compensation will be provided to affected communities.

The BWP affords TCTA unique opportunities to implement social responsibility and community enhancement programmes in the project area. The affected project area is defined as the Franschoek and Dwars River valleys.

Local employment

One of the most significant social-responsibility commitments of TCTA is our specified employment and procurement targets for the dam contract. TCTA has placed stringent targets measuring 75% local employment, 5% local procurement and 10% SMME procurement for the contract.

To ensure that the set targets are met, TCTA is implementing a rigorous monitoring programme, subject to external auditing, to measure the contractor's ability to meet the set targets. Should the contractor fail to reach the targets, a penalty system will be activated.

The setting of the employment and procurement targets was founded on a vision, the "Franschhoek First Policy" (FFP), shared by the affected community and TCTA. The premises of the policy are:

- The maximisation of employment opportunities for local communities.
- The minimisation of imported labour.
- The maximisation of contracting, training and development opportunities for local businesses and SMMEs.

The FFP required three basic initiatives to ensure its implementation, namely:

- To conduct a Skills Register Survey in the project area.
- To compile an SMME database
- To establish an Employment Information Desk (EID).

The Skills Survey Register was compiled during late 2003 and recorded people who were resident in the project area before 11 September 2002. The survey was aimed at the identification of construction and related skills in particular. The outcome of the Skills Register Survey indicated that there were no significant skills shortfalls or immediate requirements for advance training in certain labour categories.

The establishment of the SMME database followed during early 2004 with a regional advertisement calling on SMMEs to register their core business capabilities with the TCTA. This register is not limited to SMMEs from the project area but rather aims at making a broader contribution to small business establishment and development throughout the Western Cape.

The above initiatives are integrated in a combined service provided by the EID, run by a specialist consultant on behalf of TCTA, to establish and maintain the service for the duration of construction. The EID will provide various support services such as maintenance and operation of project databases, identification of prospective employment and procurement candidates in consultation with the contractors, facilitation of training and skills-enhancement programmes and monitoring and reporting regarding project recruitment trends. Also, the EID will be responsible for designing and implementing an Exit Strategy whereby it will be handed over to the community at project completion.

Skills enhancement

The project timeframe for dam construction and related infrastructure poses an excellent opportunity for TCTA and its contractors to make significant contributions towards raising skills levels through formal and informal training of the local skills pool. TCTA's tender specifications to its contractor require implementation of training programmes for the duration of the project aimed at all skills levels.

Heritage

The Berg River Dam (BRD) will inundate about 29 graves in the Driefontein graveyard. The graves date to the late 19th and early 20th centuries and belong to La Motte Plantation workers who lived on the farm Driefontein. In terms of the National Heritage Resources Act, 25 of 1999, a Record of Decision was obtained in September 2003 instructing an application to SAHRA to undertake the exhumation and reburial of the graves. Through a process of public consultation TCTA identified living descendants and afforded them the opportunity to participate in the process. The excavation of the identified Driefontein and Skuifraam ruins will also be part of the process.

Working for Water

The upstream impact of the BWP on the natural environment will be minimal, due to the disturbance previously created by a state forest development, but dead alien trees falling into the river pose a potential problem of clogging the dam's spillway. In an attempt to enhance the positive impact and sustainability of Government programmes such as Working for Water, TCTA has entered into a five-year funding agreement with DWAF which, through Working for Water, will be responsible for clearing the alien vegetation and subsequent maintenance operations in the project area. People from the project area will be employed during the implementation of the agreement. The value of this contract will amount to R21,8 million (estimated).

Consultant

TCTA is in the process of appointing a specialist Social Consultant to support the implementation of the Environmental Management Plan's social planning strategies. The consultant's tasks are to develop and implement a social monitoring system; design and implement mitigation strategies, develop a project exit strategy, facilitate and develop a sustainable utilisation plan for the areas around the BRD and to undertake communications support functions to the TCTA's Public Participation Process. For these tasks, the consultant is expected to maintain a full-time presence in the project area for the duration of the assignment.

ENVIRONMENTAL ASPECTS

The environmental aspects of the projects depend largely on the social aspects and are covered separately under:

- LHWP, where activities in both Lesotho and South Africa are covered; and
- BWP.

Lesotho Highlands Water Project

Although construction of Phase 1 of the LHWP was completed during the year under review, the environmental management of the project continued unabated.

River Management Plan

South Africa

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 as well as the need for any further contingency measures.

Instream Flow Requirements

Lesotho

Instream flow requirements refer to the volume of water required to ensure the health of downstream communities and aquatic systems.

Mapping of downstream communities has been completed and the LHWC has approved the compensation disbursement brief. As the communities register legal entities to receive the funds, the compensation is disbursed. By the end of the review period, 23 (out of



54) communities had completed the registration process and were ready to receive compensation to the value of R23 million.

Fisheries

Lesotho

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 June 2004. Conditional approval has been given by the LHDA Board.

Biodiversity Trust

Lesotho

The trust has been established and members have been appointed. South Africa is represented by Professor Maitland Seaman, Dr Cornelius Ruiters and Mr Phillip Opperman, and Lesotho by Chief Justice Lehohla, Dr Dan Phororo and Dr Thikhoi Jonathan. The LHDA is represented by the Chief Executive, Mr Junior 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

Lesotho

An investment partner for the Ts'ehlanyane Nature Reserve has started negotiations, while the African Development Bank has approved the relocation 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 to write legislation on

protected areas and other eco-tourism matters to enable the transfer of assets to a government agency.

Berg Water Project

Following a 14-year process that led to the decision to implement the BWP, TCTA was designated to implement and fund the entire project. While the tight timeframes for implementation are challenging, every effort has been made to comply with the Department of Environmental Affairs and Tourism (DEAT), DWAF and World Commission on Dams (WCD) guidelines in obtaining public approval.

A Western Cape-based environmental consultancy has been appointed under management of TCTA to develop and obtain approval for an Environmental Management Plan (EMP) that dictates the physical position and type of project infrastructure, as well as the management and mitigation of impacts. To this end, an Environmental Monitoring Committee (EMC) has been created to represent the interests of stakeholders, affected communities and interested parties regarding the project's socio-environmental impacts.

Implementation of the BWP is geared towards the maintenance and enhancement of the natural environment, social and economic resources in the project area. This is achieved through:

- The integration of natural, social and economic environmental considerations into decision-making;
- The sustainable use of natural and social resources; and
- Avoiding, minimising, and management of adverse impacts on the natural environment, social and economic resources in the project area.



This sustainability commitment is primarily achieved through the implementation of the BWP Environmental Management Plan.

Environmental Management

During the year the BWP Environmental Management Plan was finalised and agreed with BWP Environmental Monitoring Committee, which represents a wide range of interested and affected parties. Following the finalisation of the EMP, DEAT approved it on 3 October 2004.

The EMP lays out strategies for the management of impacts either directly within contracts to be awarded for the implementation of the BWP, or through the BWP social-responsibility programme.

Broadly defined, the EMP contains the following:

- TCTA Environmental Policy statement
- Description of the background to the project
- A Socio-Economic Strategy that includes the following:
 - ▶ Public Participation Strategy
 - ▶ Compensation And Mitigation Strategy
 - ▶ Community institutional and economic enhancement
- Employment Strategy that includes:
 - ▶ Recruitment Strategy
 - ▶ Skills Audit
 - ▶ Recruitment Manual
 - ▶ Employment information desk
 - ▶ Training and Skills Transfer Strategy
- Procurement Strategy
- Housing and Infrastructure Strategy

- Education
- A Health Strategy that covers:
 - ▶ Occupational health and safety
 - ▶ Community health and welfare
- Traffic Safety Strategy
- Archaeological and Heritage Strategy
- Safety and security
- Social monitoring and evaluation
- Dam safety and emergency preparedness
- Exit Strategy
- Environmental Design Guidelines
- Guidelines For Environmental Specifications
- River Monitoring Programme
- Auditing Programme

The implementation of the EMP is now under way, and its various components will be implemented throughout the life cycle of the BWP.

Environmental Authorisations

During the year TCTA embarked on a process to obtain further environmental authorisations required for implementing some aspects of the BWP. Authorisation for the main access road to the dam site was obtained on 7 October 2003, and authorisation for the housing at La Motte Village is imminent.

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 of the water-transfer component of the LHWP.

When the delivery of water started in 1998, the implementation function on Phase 1 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 reported separately on page 69.

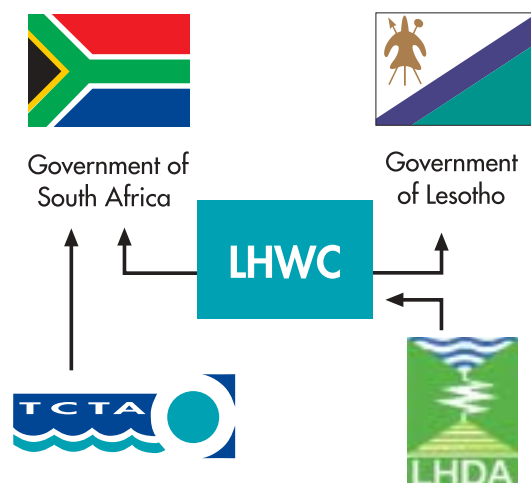
THE NEED FOR THE LHWP

The LHWP is a world-class infrastructure project to divert water from 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 of the two countries, implemented by TCTA in South Africa and by the LHDA within the borders of Lesotho, in accordance with the Treaty. The role of the Lesotho Highlands Water Commission (LHWC) is defined in Protocol VI to the Treaty. Although the construction of project structures inside South Africa was completed in 1997, ongoing construction in Lesotho by the LHDA is reported here, as TCTA is responsible for managing the funding and risk for the full water-transfer cost on behalf of South Africa.

GOVERNANCE

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



Lesotho Highlands Water Project (continued)

PROJECT UPDATE

The LHWP is implemented under a Treaty between the Governments of the Republic of South Africa and the Kingdom of Lesotho signed in 1986. Under the Treaty South Africa agreed to pay for the capital cost of the Project water transfer components and a royalty for all water delivered from Lesotho for the duration of the Treaty, which is 50 years.

The LHWP was conceived to principally export water from Lesotho to South Africa and at the same time generate electricity for Lesotho. Through a series of reservoir and tunnels, which are diverted from the natural south westerly flowing rivers emanating in the highlands of Lesotho and under gravity released into the Vaal River catchment area, water is supplied to the industrial heartland of the Gauteng Province. Phase 1 is scheduled to deliver 27m³ of water per second.

Implementation of Phase 1A commenced in 1987 and was completed in January 1998, when water delivery to South Africa commenced. Hydropower generation in Lesotho commenced in January 1999. Construction of Phase 1B components commenced in March 1998 and this phase was commissioned in October 2003.

WHAT IS THE LHWP?

- The Lesotho Highlands Water Project (LHWP) supplements the water supply in the Vaal River system and generates hydro electricity to meet Lesotho's needs.
- Water, stored in dams, is transferred by gravitational flow via tunnels to enter the natural watercourse of the Ash River in the Eastern State.

Phase 1A

Infrastructure

- 2 border crossings
- 1 railhead or cement supply
- 172 km near access roads over mountains + 170 km at upgraded roads
- 420m long bridge, 86m above valley floor
- 3 clinics and one trauma unit at an existing hospital
- 334km power lines
- More than 200 houses in 5 construction villages
- Microwave telecommunications system

Main Contracts

Katse Dam

- Crest length = 716m
- 185m high double curvature concrete arch
- 1 950 million-m³ reservoir capacity
- Yield: 18m³/s
- 39 km² surface area.

Intake Tower

- 99m high, standing 77m deep in the water
- 16km upstream in Katse reservoir
- 88m³/s intake capacity from four levels

Transfer Tunnel

- 45km long excavated concrete-lined tunnel
- 4,35m internal diameter

Hydropower station

- Three 24MW Francis turbines in underground cavern
- Transfer tunnel serves as longest headrace in the world

Muela Dam

- 55m high double curvature concrete arch
- 6 million-m³ capacity
- Intake for Delivery Tunnels

Delivery Tunnel South

- 15km long, 5.2 meter diameter
- Contains flow-measuring devices for royalty payments

Delivery Tunnel North

- 22km long, excavated segmentally lined tunnel
- 4.6 metre internal diameter
- Lined with precast concrete segments

Ash River Outfall

- Concrete outlet structure to channel and dissipate water energy for release in natural river channel.

Completed – water delivery started in January 1998

Hydropower generation – January 1999

Phase 1B

Commissioned in October 2003

Infrastructure

- 72 km access roads over 3 mountain passes + 65 km of feeder roads
- More than 100 construction houses
- 75km power lines

Mohale Dam

- 145 m high concrete faced rockfill dam
- Crest length = 640 m
- Yield = 7m³/s
- 950 million cubic metre reservoir capacity
- Rockfill volume 7.3 million m³



Mohale Tunnel

- 31 km pre-cast excavated segment-lined tunnel
- Diameter 4.5 m
- Links Mohale reservoir to Katse reservoir

Matsoku Weir

- 20m high weir concrete gravity
- 180m crest length
- Concrete volume 21 000m³
- Yield 2 m³/s

Construction March 1998 – March 2001

Matsoku Tunnel

- 5.6km drill and blast excavated unlined tunnel
- Diameter 3.5m
- Links Matsoku weir to Katse reservoir

Ash River

A river management plan has been implemented to monitor the status of the river against predetermined expectations, which will dictate any future action that may be required to stabilise further erosion.

OPERATIONS AND MAINTENANCE

Mandate

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.

Operating Review

Below is a statement of income and expenditure relating to the operations and maintenance of the works in South Africa:

	2004 R'000	2003 R'000
Revenue from water sales	434	377
Operating costs	434	377

Berg Water Project





Ref. 4/01
4/08-7006WS

MINISTRY OF WATER AFFAIRS AND FORESTRY
REPUBLIC OF SOUTH AFRICA
Private Bag 2012, Pretoria 0001, Tel: 012 312 3211, Fax: 012 312 3204
Private Bag 2012, Strandfontein 7401, Tel: 021 214 1000, Fax: 021 214 1001

M T Fowler
Chairperson
Trans-Caledon Tunnel Authority
PO Box 10335
CENTURION
0040

05 MAR 2002

Dear Mr Fowler

DIRECTIVE IN TERMS OF THE NATIONAL WATER ACT, 1996 (ACT 36 OF 1996): 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 revenues 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 133(2) of the National Water Act, 1996 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 living, 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.
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 Review 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, financing which can be transferred to the local community, tourism and recreation should be addressed.

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

Wet water park and clean • Wet forests rich and green!



Reference number

MINISTRY OF WATER AFFAIRS AND FORESTRY
REPUBLIC OF SOUTH AFRICA
Private Bag 2012, Pretoria 0001, Tel: 012 312 3211, Fax: 012 312 3204
Private Bag 2012, Strandfontein 7401, Tel: 021 214 1000, Fax: 021 214 1001

Chairperson
Trans-Caledon Tunnel Authority
P O Box 10335
CENTURION
0040

05 MAR 2002

Dear Sir

DIRECTIVE AND AUTHORIZATION IN TERMS OF THE NATIONAL WATER ACT, 1996 (ACT NO 36 OF 1996): BERG WATER PROJECT

Further to my directive with references 4/01 and 4/08-7006WS 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 109(2) of the said National Water Act of 1996 to finance and implement the Berg Water Project.

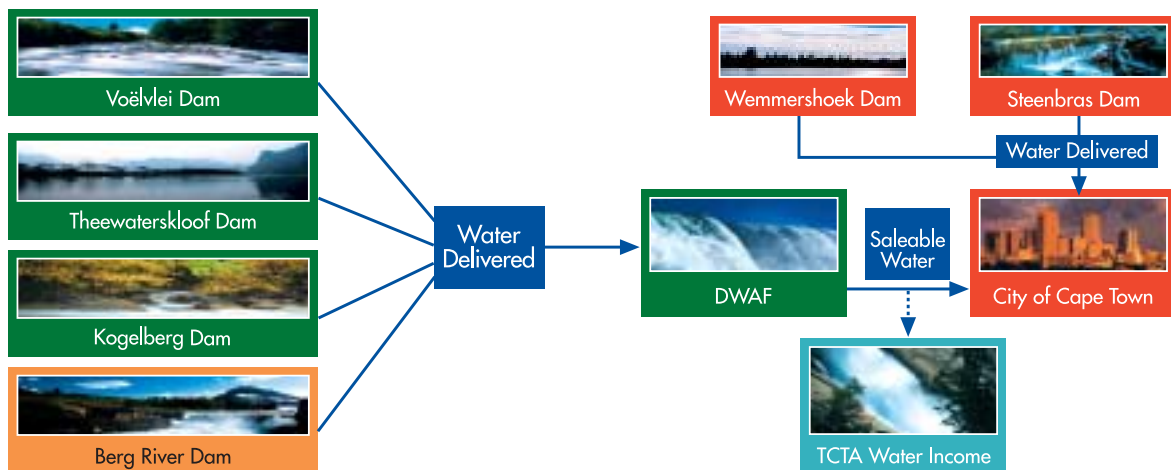
In terms of section 84(1) of the said National Water Act, 1996, I further authorize the TCTA to appropriate property required to implement the Berg Water Project.

With kind regards

RONNIE KASRILS, MP
MINISTER OF WATER AFFAIRS AND FORESTRY

Wet water park and clean • Wet forests rich and green!

Berg Water Project (continued)



MANDATE

The Department of Water Affairs & Forestry (DWAF) has been involved in a 14-year process that led to the decision to implement the Berg Water Project (BWP).

It started with the Western Cape Systems Analysis (WCSA) in 1989, to determine the future needs and water resources available in the region, and was subjected to a rigorous public-participation process and debate, after which a Record of Decision (ROD) was issued in 1999 by the Department of Environmental Affairs and Tourism (DEAT).

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

On 6 May 2002, the Minister of Water Affairs & Forestry 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 CCT and for agricultural water usage supplied from the Rivieronderend-Berg River Government Water Scheme. 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 (WCWS), including the addition of the Berg River Dam (BRD), are depicted in the diagram below. The BWP will increase the yield of the WCWS by 81 million cubic metres or 18% to 523 million cubic metres a year by 2007.

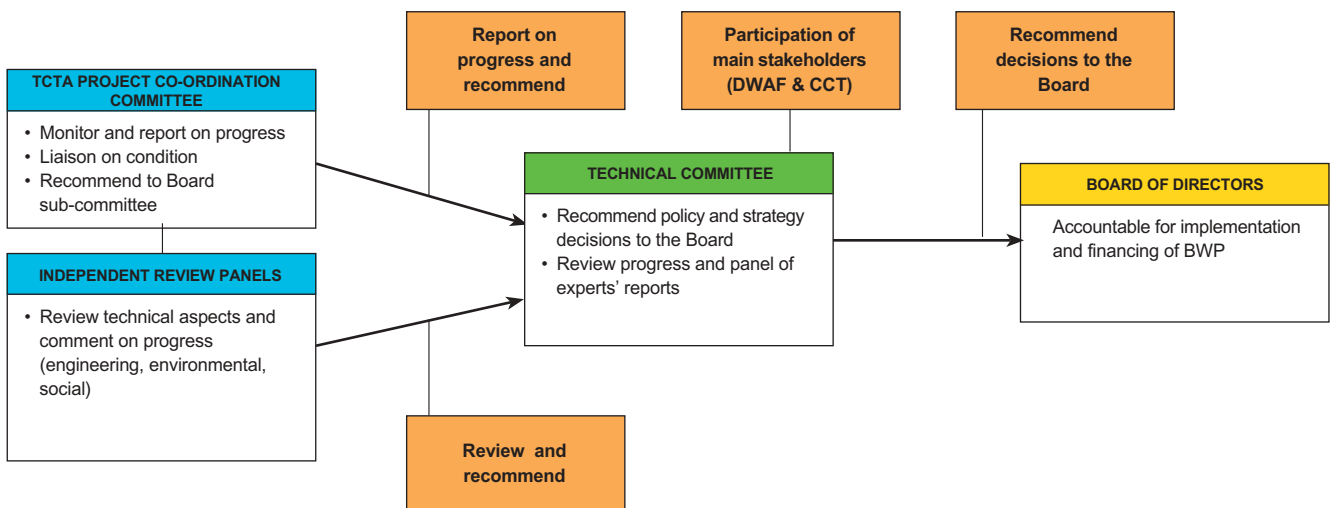


DECISION-MAKING PARTICIPATION

The Technical Committee accommodates the participation of the main stakeholders, such as the CCT and DWAF, in the implementation of the project. An independent panel reviews all technical implementation aspects of the project and make recommendations to the committee.

GOVERNANCE

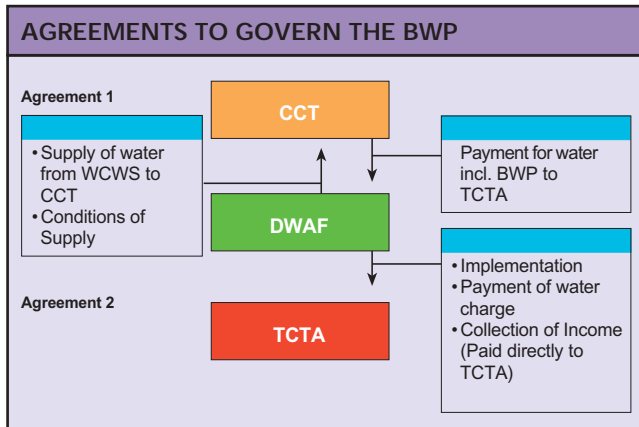
TCTA's Board is ultimately responsible to Cabinet and the Minister of Water Affairs & Forestry for the implementation of the BWP.



Berg Water Project (continued)

The BWP is further governed by two agreements, namely an Implementation Agreement between DWAF/TCTA and a Raw Water Supply Agreement between DWAF/CCT. Both agreements were signed on 15 April 2003.

- Gross storage capacity 126,4 million m³
- Net storage capacity 124,4 million m³
- Maximum dam height 60m (70m including foundation)
- Length of dam wall 990m
- Spillway Side channel
- Volume rockfill 2,5 million m³
- Dasbos Inlet
- Dasbos pipeline 2,5 km
- Pump station 3 m³/second
- 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
- Bypass channel
- Balancing dam (surface area 4ha)
- Pump station (4 m³/second)
- Power line
- Pipeline (10km)

PROJECT PROFILE

The BWP comprises the Berg River Dam and a Supplement Scheme. The principal features of the project components are:

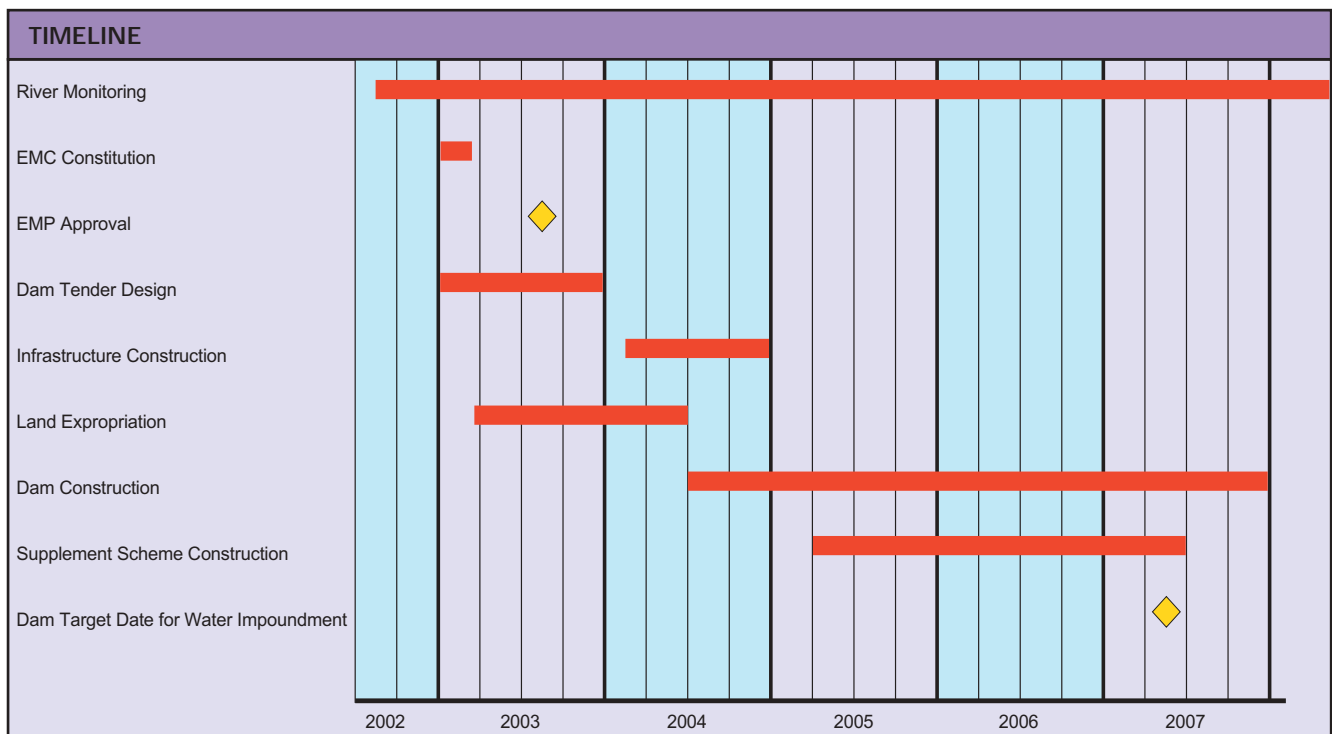
Dam

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

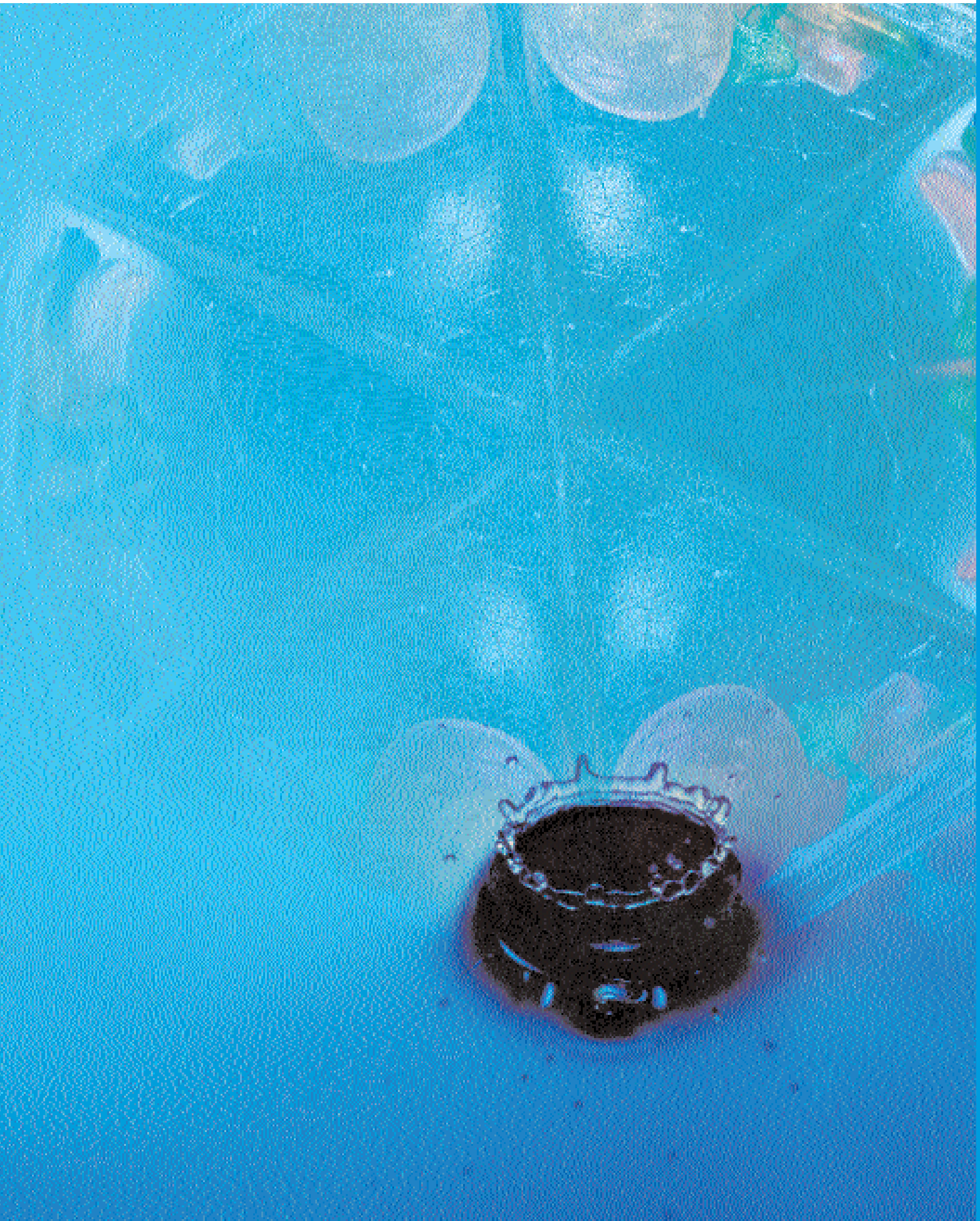
- Full supply level (FSL) 250m above sea level
- Surface Area 488ha
- Type Concrete-faced rockfill dam

Infrastructure

- Construction housing
- Contractors' accommodation (80 units)
- Additional community infrastructure (if required)
- Operational housing
- Dam operations housing (four units)



Umgeni Water Treasury



Umgeni Water Treasury (continued)



Ref: 45/4

MINISTRY: WATER AFFAIRS AND FORESTRY
REPUBLIC OF SOUTH AFRICA
Private Bag 2012, Pretoria, 2001. Tel: (012) 356 9124. Fax: (012) 356 9125
Private Bag 2002, Cape Town, 8000. Tel: (021) 460 1000. Fax: (021) 460 1001

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

05 MAR 2003

Dear Sir

DIRECTIVE IN TERMS OF THE NATIONAL WATER ACT, 1998 (ACT NO 36 OF 1998): UMGENI WATER

Further to my directive with reference 45/4 dated 4 July 2001, I hereby direct that the Trans-Caledon Tunnel Authority (TCTA) be authorised, with effect from 4 July 2001, in terms of section 100(2) of the said National Water Act of 1998 to perform the treasury management function of Umgeni Water and to assist Umgeni Water in developing management capacity to perform this role in future.

With kind regards

RONNIE KASRILS, MP
MINISTER OF WATER AFFAIRS AND FORESTRY

The water runs and cleans • The forests fill and green



Ref: 45/4

MINISTRY: WATER AFFAIRS AND FORESTRY
REPUBLIC OF SOUTH AFRICA
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Chairperson
Trans-Caledon Tunnel Authority
P O Box 10335
CENTURION
0046

14 JUL 2001

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 100(2)(b) of the National Water Act, 1998 that TCTA perform 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

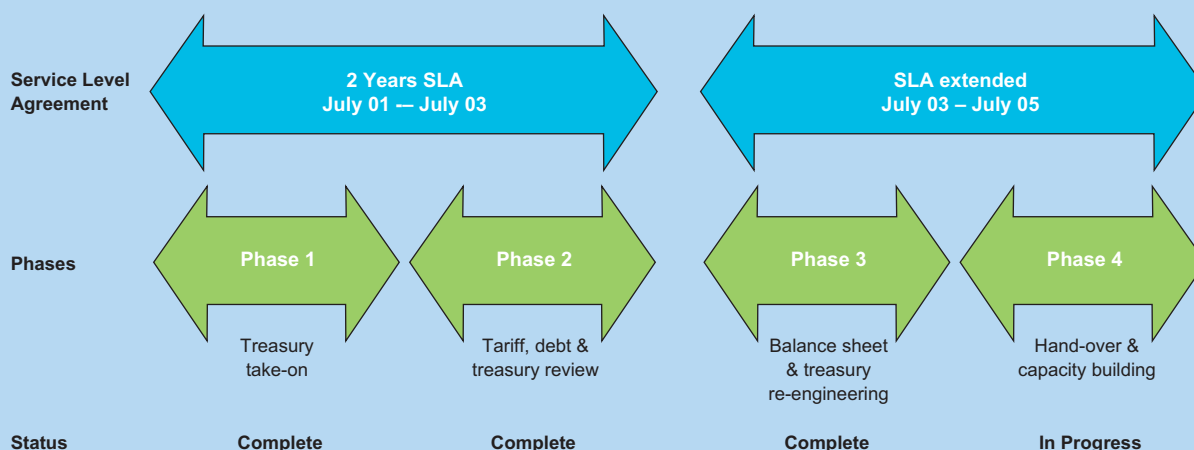
RONNIE KASRILS, MP
Minister of Water Affairs and Forestry

The water runs and cleans • The forests fill and green

UMGENI WATER TREASURY MANAGEMENT SERVICES

On 4 July 2001, the Minister of Water Affairs & Forestry directed TCTA to fulfil the treasury management services of Umgeni Water. The relationship between TCTA and Umgeni Water was formalised through

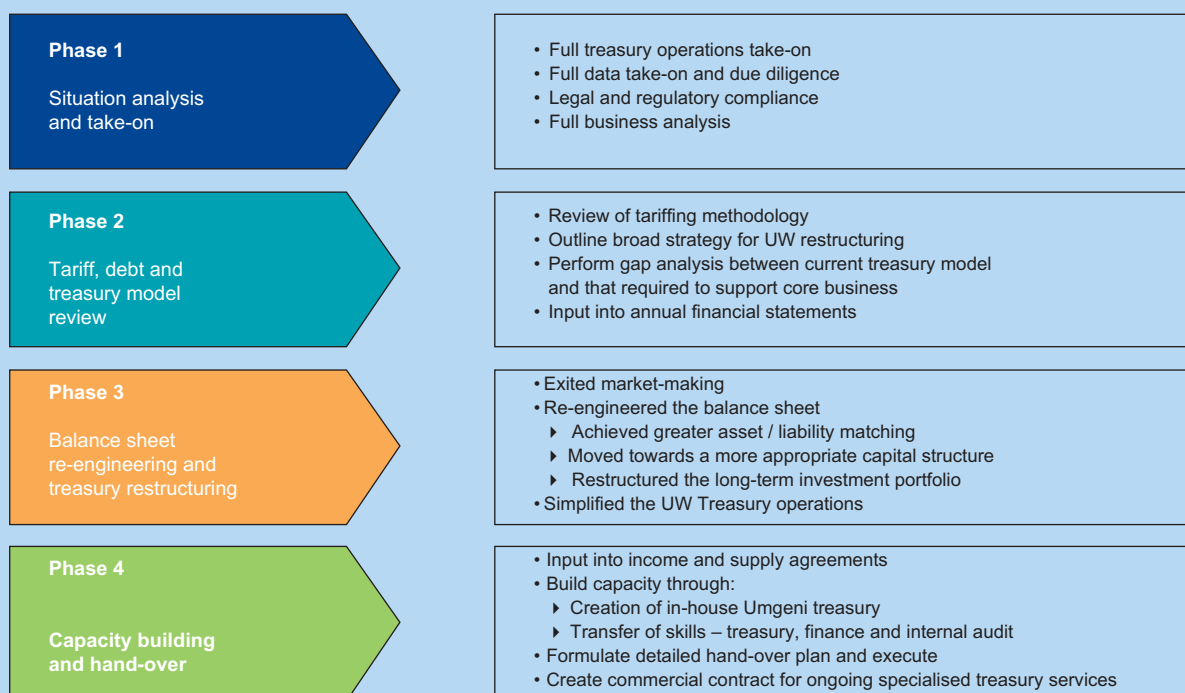
the signing of a two-year service level agreement (SLA) on 11 July 2001. During July 2003 this SLA was extended for a further two years.



Having completed Phase 1 and 2 of the original two-year SLA, TCTA achieved a significant milestone during the financial period under review by successfully re-engineering the balance-sheet and treasury operations of Umgeni Water in terms of Phase 3. TCTA and Umgeni Water are now engaged in Phase Four, where the focus is on building capacity and handing back treasury operations to Umgeni Water.

The re-engineering of Umgeni Water's balance sheet and the simplification of treasury operations means that the TCTA / Umgeni Water relationship can now move from an intervention role to a role governed by a commercial contract where TCTA's primary purpose will be to provide strategic oversight.

The four phases and the corresponding achievements are below:



Umgeni Water Treasury (continued)

In terms of Phase 3, the focus of this financial period, primary and secondary objectives from a balance sheet re-engineering perspective

were identified. These objectives and the level of corresponding achievement are summarised below.

		BENEFITS	ACHIEVED
PRIMARY OBJECTIVE	Exit market-making	<ul style="list-style-type: none"> • A simplified treasury structure where actual funding meets the business requirements of a bulk raw water supplier. • A reduction in the contingent cash flow and interest-rate risk associated with market-making activities. • Unlocking the financial value of assets held to support market-making in order to either redeem debt or apply towards a redemption portfolio. 	<ul style="list-style-type: none"> • On 28 November 2003 Umgeni successfully exited market-making. • Treasury operations were simplified with the closure of the market-making portfolios. • The contingent cash flow risk associated with market-making was eliminated. • Financial assets held for market-making became available for redemption portfolios.
	Optimal capital structure (Fixed / Floating)	<ul style="list-style-type: none"> • Desensitises both the income statement and the tariff to changes in interest and inflation rates by moving towards an optimal capital structure. The optimal capital structure was determined to be 70% fixed, 30% floating. 	<ul style="list-style-type: none"> • The capital structure was re-aligned from 85% fixed, 15% floating to 77% fixed and 23% floating.
SECONDARY OBJECTIVE	Asset / liability matching	<ul style="list-style-type: none"> • Restructure liabilities to match the future income stream. That is, achieve greater asset / liability matching and minimise refinancing and reinvestment risk. • Match financial assets held in the long-term investment portfolio (LTI) to the maturity date of financial liabilities. 	<ul style="list-style-type: none"> • Liabilities were more closely matched to assets through the refinancing of short-term debt with DBSA's long-term amortising loan of R829 million. • The increase in asset / liability matching has resulted in decreased refinancing and reinvestment risk.



[TCTA] is progressive, inspirational,
dynamic and evolving.

[Our people] are: energetic, vibrant and **bold.**

We guarantee excellent performance
underpinned by undeviating standards
of quality and responsibility.

[We are a new word for water]



THE 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 South African Statements of Generally Accepted Accounting Practice (GAAP).



Leslie Maasdorp
Chairperson

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 1 June 2004 and are signed on its behalf by the Chairperson and Chief Executive Officer.



Martie Janse van Rensburg
Chief Executive Officer

HEALTH, SAFETY AND ENVIRONMENTAL POLICY

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.

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 & RISK COMMITTEE'S REPORT TO STAKEHOLDERS AND OTHER USERS OF THE FINANCIAL STATEMENTS

The Audit & 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 & Risk Committee also ensures that appropriate accounting policies, controls and compliance procedures as well as ensure the implementation of enterprise-wide risk-management governance framework. The internal and independent auditors attend the Audit & Risk Committee's meetings and both have unrestricted access to its members.

The objectives of the Audit & 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 the mitigatory controls thereto.

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



Omar Latiff
Chairperson



REPORT BY INDEPENDENT AUDITORS

Report of the Independent Auditor to the Minister of Water Affairs & Forestry on TCTA

Introduction

We have audited the annual financial statements of TCTA for the year ended 31 March 2004 set out on pages 84 to 114. 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.
- 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 2004, and the results of its operations and cash flows for the year then ended, in accordance with South African Statements of Generally Accepted Accounting Practice applied on a basis consistent with that of the previous year, 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 2004 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

Johannesburg

1 June 2004



TCTA Annual Report 2004 Annual Financial Statements

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87	Segmental Balance Sheet
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INCOME STATEMENT

for the year ended 31 March 2004

	Notes	2004 R'million	2003 R'million
Revenue	2	1 541	1 332
Royalties paid	3	208	184
Operating expenses	4	81	103
Operating surplus		1 252	1 045
Finance cost	5	1 351	1 098
Net deficit for the year	6	99	53

SEGMENTAL INCOME STATEMENT

for the year ended 31 March 2004

		(1) LHWP 2004	(2) UW 2004	TOTAL 2004	TOTAL 2003
	Notes	R'million	R'million	R'million	R'million
Revenue	2	1 538	3	1 541	1 332
Royalties paid	3	208	–	208	184
Operating expenses	4	78	3	81	103
Operating surplus		1 252	–	1 252	1 045
Finance cost	5	1 351	–	1 351	1 098
Net deficit for the year	6	99	–	99	53

(1) LHWP – Lesotho Highlands Water Project
(2) UW – Umgeni Water treasury management services

BALANCE SHEET

as at 31 March 2004

	Notes	2004 R'million	2003 R'million
ASSETS			
Non-current assets		15 906	13 911
Property, plant and equipment	7	14 947	13 907
Long-term financial market investments	9	942	4
Receivables and prepayments	8	17	–
Current assets		788	691
Receivables and prepayments	8	446	341
Short-term financial market investments	9	335	350
Cash and cash equivalents		7	–
Total assets		16 694	14 602
EQUITY AND LIABILITIES			
Reserves and deficit		(2 173)	(2 138)
Non-distributable reserves		84	24
Cumulative deficit		(2 257)	(2 162)
Non-current liabilities			
Long-term financial market liabilities	9	16 187	15 082
Current liabilities		2 680	1 658
Payables	10	517	484
Short-term financial market liabilities	9	2 163	1 174
Total equity and liabilities		16 694	14 602

SEGMENTAL BALANCE SHEET

as at 31 March 2004

		LHWP	⁽¹⁾ BWP	TOTAL	TOTAL
	Notes	2004	2004	2004	2003
		R'million	R'million	R'million	R'million
ASSETS					
Non-current assets		15 872	34	15 906	13 911
Property, plant and equipment	7	14 913	34	14 947	13 907
Long-term financial market investments	9	942	–	942	4
Receivables and prepayments	8	17	–	17	–
Current assets		777	11	788	691
Receivables and prepayments	8	442	4	446	341
Short-term financial market investments	9	335	–	335	350
Cash and cash equivalents		–	7	7	–
Total assets		16 649	45	16 694	14 602
EQUITY AND LIABILITIES					
Reserves and deficit		(2 173)	–	(2 173)	(2 138)
Non-distributable reserves		84	–	84	24
Cumulative deficit		(2 257)	–	(2 257)	(2 162)
Non-current liabilities					
Long-term financial market liabilities	9	16 187	–	16 187	15 082
Current liabilities		2 635	45	2 680	1 658
Payables	10	511	6	517	484
Short-term financial market liabilities	9	2 124	39	2 163	1 174
Total equity and liabilities		16 649	45	16 694	14 602

⁽¹⁾ BWP – Berg Water Project

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2004

LHWP	Non-distributable			Cumulative deficit R'million
	Total R'million	Revaluation reserve R'million	Hedging reserve R'million	
Balance as at 31 March 2002	695	125	570	(2 113)
– Revaluation gains relating to hedges of future anticipated transactions	(691)	–	(691)	–
– Revaluation of depreciable portion of construction works in South Africa and enduring benefit	24	24	–	–
– Net deficit for the year	–	–	–	(53)
– Realisation of revaluation surplus	(4)	(4)	–	4
Balance as at 31 March 2003	24	145	(121)	(2 162)
– Revaluation gains relating to hedges of future anticipated transactions	(6)	–	(6)	–
– Revaluation losses relating to hedges of future anticipated transactions	76	–	76	–
– Revaluation of depreciable portion of construction works in South Africa and enduring benefit	(6)	(6)	–	–
– Net deficit for the year	–	–	–	(99)
– Realisation of revaluation surplus	(4)	(4)	–	4
Balance as at 31 March 2004	84	135	(51)	(2 257)

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.

CASH FLOW STATEMENT

for the year ended 31 March 2004

	Notes	2004 R'million	2003 R'million
CASH FLOW FROM PROJECT ACTIVITIES			
Cash receipts from customers		1 533	1 307
Cash paid to suppliers and employees		(300)	(358)
Cash generated from project activities	A	1 233	949
Interest received	C	40	71
Interest paid	B	(1 283)	(1 244)
		(10)	(224)
Capitalised to works in South Africa		(62)	(65)
Capitalised to enduring benefit		(892)	(970)
Purchase of treasury system		(5)	–
Proceeds on disposal of land and buildings		–	6
Protocol V refund of previously paid taxes		6	4
Net cash outflow from project activities		(963)	(1 249)
CASH FLOW FROM INVESTING ACTIVITIES			
Amounts (invested)/matured in redemption portfolio		(932)	1 656
Net cash (outflow)/inflow from investing activities		(932)	1 656
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from long-term borrowings		2 580	4 681
Repayments on long-term borrowings		(1 193)	(5 325)
Proceeds from short-term borrowings		1 007	892
Repayments on short-term borrowings		(492)	(655)
Net cash inflow/(outflow) from financing activities	D	1 902	(407)
Net increase in cash and cash equivalents		7	–
Cash and cash equivalents at beginning of year		–	–
Cash and cash equivalents at end of year	E	7	–

NOTES TO THE CASH FLOW STATEMENT

for the year ended 31 March 2004

	2004 R'million	2003 R'million
A. CASH GENERATED FROM PROJECT ACTIVITIES		
Net deficit for the year	(99)	(53)
Adjustments for non-cash flow items		
Depreciation	14	14
Realisation of non-distributable reserves	–	(39)
Net finance costs	1 237	1 313
Foreign exchange gains	(132)	(230)
Foreign exchange losses	246	15
Loss on disposal of property	–	9
Increase in receivables and prepayments	(36)	(31)
Increase/(decrease) in payables (excluding interest payable)	3	(49)
Cash generated from project activities	1 233	949
B. INTEREST PAID		
Amount not paid at beginning of the year	(431)	(459)
Expensed during the year adjusted for non-cash items	(1 288)	(1 216)
Amount expensed	(1 371)	(1 263)
Less: Loan discount amortised	43	42
Loss on buy-back of WS01	8	–
Non-cash interest on amortising loan	22	–
Capital adjustment to inflation-linked liability	10	5
Amount not paid at the end of the year	436	431
	(1 283)	(1 244)
C. INTEREST RECEIVED		
Amount due at beginning of the year	–	–
Income during the year adjusted for non-cash items	132	71
Amount received	134	71
Realisation of non-distributable reserves	(2)	–
Amount due at the end of the year	(92)	–
	40	71

NOTES TO THE CASH FLOW STATEMENT

for the year ended 31 March 2004

	2004 R'million	2003 R'million
D. RECONCILIATION OF CASH FLOW ON FINANCING ACTIVITIES		
Net movement in financial instruments*	1 165	1 871
Non-cash inflow due to AC112 and AC133	(213)	(617)
Profit on forward exchange cover rolls reflected in non-distributable reserves	–	(5)
Non-cash flow items in liabilities	18	–
Items not included in liabilities but reflected under financing activities	(7)	–
Amounts invested or matured reflected separately in cash flow statement	939	(1 656)
Net cash inflow/(outflow) from financing activities	1 902	(407)
E. CASH AND CASH EQUIVALENTS		
Cash and cash equivalents consist of cash on hand and balances with banks.	7	–

* For an analysis on net movement in financial instruments, refer to note 9

SEGMENTAL CASH FLOW STATEMENT

for the year ended 31 March 2004

		LHWP 2004 R'million	BWP 2004 R'million	TOTAL 2004 R'million	TOTAL 2003 R'million
	Notes				
CASH FLOW FROM PROJECT ACTIVITIES					
Cash receipts from customers		1 510	23	1 533	1 307
Cash paid to suppliers and employees		(278)	(22)	(300)	(358)
Cash generated from project activities	A	1 232	1	1 233	949
Interest received	C	40	–	40	71
Interest paid	B	(1 283)	–	(1 283)	(1 244)
		(11)	1	(10)	(224)
Capitalised to works in South Africa		(42)	(20)	(62)	(65)
Capitalised to enduring benefit		(892)	–	(892)	(970)
Addition of treasury system		(5)	–	(5)	
Disposal of land and buildings		–	–	–	6
Protocol V refund of previously paid taxes		6	–	6	4
Net cash outflow from project activities		(944)	(19)	(963)	(1 249)
CASH FLOW FROM INVESTING ACTIVITIES					
Amounts (invested)/matured in redemption portfolio		(934)	2	(932)	1 656
Net cash (outflow)/inflow from investing activities		(934)	2	(932)	1 656
CASH FLOW FROM FINANCING ACTIVITIES					
Proceeds from long-term borrowings		2 580	–	2 580	4 681
Repayments on long-term borrowings		(1 193)	–	(1 193)	(5 325)
Proceeds from short-term borrowings		983	24	1 007	892
Repayments on short-term borrowings		(492)	–	(492)	(655)
Net cash inflow/(outflow) from financing activities	D	1 878	24	1 902	(407)
Net increase in cash and cash equivalents		–	7	7	–
Cash and cash equivalents at beginning of period		–	–	–	–
Cash and cash equivalents at end of period	E	–	7	7	–

NOTES TO THE SEGMENTAL CASH FLOW STATEMENT

for the year ended 31 March 2004

	LHWP 2004 R'million	BWP 2004 R'million	TOTAL 2004 R'million	TOTAL 2003 R'million
A. CASH GENERATED FROM PROJECT ACTIVITIES				
Net deficit for the year	(99)	–	(99)	(53)
Adjustments for non-cash-flow items				
Depreciation	14	–	14	14
Realisation of non-distributable reserves	–	–	–	(39)
Net finance costs	1 237	–	1 237	1 313
Foreign exchange gains	(132)	–	(132)	(230)
Foreign exchange loss	246	–	246	15
Loss on disposal of property	–	–	–	9
Increase in receivables and prepayments	(33)	(3)	(36)	(31)
Increase/(decrease) in payables (excluding interest payable)	(1)	4	3	(49)
Cash generated from project activities	1 232	1	1 233	949
B. INTEREST PAID				
Amount not paid at beginning of the year	(431)	–	(431)	(459)
Expensed during the year adjusted for non-cash items	(1 288)	–	(1 288)	(1 216)
Amount expensed	(1 371)	–	(1 371)	(1 263)
Less: Loan discount amortised	43	–	43	42
Loss on WS01 buy-back	8	–	8	–
Non-cash interest on asset swaps	22	–	22	–
Capital adjustment to inflation-linked liability	10	–	10	5
Amount not paid at the end of the year	436	–	436	431
	(1 283)	–	(1 283)	(1 244)
C. INTEREST RECEIVED				
Amount due at beginning of the year	–	–	–	–
Income during the year adjusted for non-cash items	132	–	132	71
Amount received	134	–	134	71
Realisation of non-distributable reserves	(2)	–	(2)	–
Amount due at the end of the year	(92)	–	(92)	–
	40	–	40	71

NOTES TO THE SEGMENTAL CASH FLOW STATEMENT

for the year ended 31 March 2004

	LHWP 2004 R'million	BWP 2004 R'million	TOTAL 2004 R'million	TOTAL 2003 R'million
D. RECONCILIATION OF CASH FLOW ON FINANCING ACTIVITIES				
Net movement in financial instruments*	1 146	19	1 165	1 871
Non-cash inflow due to AC112 and AC133	(213)	–	(213)	(617)
Profits on forward exchange contract rolls reflected in non-distributable reserves	–	–	–	(5)
Non-cash-flow items in liabilities	18	–	18	–
Items not included in liabilities but reflected under financing activities	(7)	–	(7)	–
Amounts invested or matured reflected separately in cash flow statement	934	5	939	(1 656)
Net cash inflow/(outflow) from financing activities	1 878	24	1 902	(407)
E. CASH AND CASH EQUIVALENTS				
Cash and cash equivalents consist of cash on hand and balances with banks	–	7	7	–

* For an analysis on net movement in financial instruments, refer to note 9

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2004

1. ACCOUNTING POLICIES

Basis of preparation

The principal accounting policies comply with South African Statements of Generally Accepted Accounting Practice (GAAP).

The annual financial statements are prepared on the historical cost basis, except for financial instruments held in the strategic portfolio, foreign currency hedges and foreign loans, which are stated at fair value.

The following accounting policies are consistent, in all material respects, with those applied in the previous year:

1.1 Property, plant and equipment

Land and buildings

Land is stated at cost and is not depreciated. Buildings are stated at the lower of cost and net realisable value and are not depreciated.

Water delivery system

(i) Works in South Africa

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.

(ii) 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 (LHDA) 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 acquires the right to receive water for the duration of the project.

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.

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

(iii) Treatment

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.
- All income received during the construction period, except revenue from water levies, 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:

- 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.
- 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2004

1. ACCOUNTING POLICIES (Continued)

Furniture, vehicles, computer and office equipment

These assets are stated at cost less accumulated depreciation. 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%

1.2 Financial instruments

Definition

Financial instruments carried on the balance sheet include long-term and short-term financial market investments, receivables and prepayments, payables and long-term and short-term financial market liabilities.

Measurement

Financial instruments are initially measured at cost, which includes transaction costs, and are accounted for at trade date.

Subsequent to initial recognition these instruments are measured as set out below.

(i) Receivables and prepayments

Receivables and prepayments are stated at cost.

(ii) Payables

Payables are stated at amortised cost.

(iii) Foreign transactions

Transactions in foreign currencies are recorded at the exchange rates prevailing on the transaction date.

Long-term financial market liabilities

• Funding Portfolio

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

Locally registered bonds in issue are stated at amortised cost, applying the yield-to-maturity method.

Local loans are stated at amortised cost. At balance sheet date, foreign loans are restated at the rates of exchange ruling at financial year-end and gains or losses are recognised in the net surplus or deficit.

• Strategic Portfolio

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

Locally registered bonds held for trading purposes are carried at fair value, which is determined with reference to exchange-quoted prices at the close of business on the balance-sheet date. Resultant gains or losses on the subsequent measurement are included in the net surplus or deficit for the period in which they arise.

The positions of the strategic portfolio are disclosed under short-term financial assets and liabilities.

TCTA engages in repurchase transactions in water bonds, within limits, with the panel of market-makers to enhance the marketability of the bonds in issue. The repurchase transactions are recognised at transaction value.

• 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.

• Hedge Accounting

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.

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2004

1. ACCOUNTING POLICIES (Continued)

Derivative instruments

Derivative assets and liabilities are initially recorded at the day's prevailing exchange rates.

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 period in which they arise, except for available-for-sale financial assets, where the gains and losses are recognised directly in reserves until the financial asset is disposed of.

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 income.

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 net surplus or deficit for the period.

For cash-flow hedges affecting future transactions, the gains or losses recognised in equity are transferred to net surplus or deficit in the same period 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.

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.

Derecognition

Financial assets (or a portion thereof) are derecognised when TCTA realises the rights to benefits specified in the contract, the rights expire, or TCTA surrenders or otherwise loses control of the contractual rights that comprise the financial asset or a portion thereof.

Financial liabilities, or a portion thereof, are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

Foreign currency risk management

LHWP

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

TCTA is exposed to Euro, Pound Sterling, Japanese Yen and United States Dollar exchange-rate fluctuations. 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.

1.3 Revenue

LHWP

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

Umgeni Water

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

BWP

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2004

1. ACCOUNTING POLICIES *(Continued)*

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

The borrowings incurred by the LHDA in respect of the water delivery component of the project, for which South Africa is responsible, are termed cost-related payments in terms of Article 10 of the Treaty and are 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.

1.5 Capitalisation of borrowing costs of Berg Water Project

Costs 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.

	Notes	LHWP		UW	
		2004 R'million	2003 R'million	2004 R'million	2003 R'million
2. REVENUE					
Bulk raw water tariff	2.1	1 538	1 329	–	–
Rental income	2.2	–	1	–	–
Umgeni Water recoveries	2.3	–	–	3	2
		1 538	1 330	3	2

	2004 R'million	2003 R'million
LHWP	1 538	1 330
UW	3	2
	1 541	1 332

2.1 Bulk raw water tariff

Income is based on the part of the bulk raw water tariff due to TCTA at 116,1 cents per cubic metre (2003: 105,6 cents per cubic metre), based on 1 325 million cubic metres (2003: 1 258 million cubic metres) of water sales from the Vaal River System.

2.2 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.

2.3 Umgeni Water Recoveries

In terms of the Service Level Agreement with Umgeni Water, TCTA bills Umgeni Water on a monthly basis for the costs incurred in managing the treasury function.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2004

	2004 R'million	2003 R'million
3. ROYALTIES PAID		
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 687,0 million cubic metres (2003: 585,0 million cubic metres) of water delivered.		
Fixed royalties	109	110
Variable royalties	99	74
	208	184

	2004 R'million	2003 R'million
4. OPERATING EXPENSES		
LHWP		
The following items are included in operating expenses for LHWP:		
Depreciation:		
• Contract costs in South Africa and other assets	2	2
• Depreciable portion of the enduring benefit	12	12
Net loss on disposal of property	–	9
Lesotho Highlands Water Commission (LHWC) costs	9	9
LHDA operating costs for works in Lesotho ^(a)	28	29
Staff cost	17	12
Notes:		
• Included in operating expenses are the following:		
▶ External audit R375 000 (2003: R321 004)		
▶ Non-audit services R168 677 (2003: R95 782)		
▶ Berg Water Project recoveries R1 848 908 (2003: R939 917)		
Costs incurred by LHWP staff on the BWP are charged to the project as follows:		
■ Actual hours are billed at the actual staff rates; and		
■ A standard 25% recovery on the following costs:		
– Office overheads		
– Directors' remuneration		
– Audit fees		
– Non-audit service fees		
– Annual report costs		
– Training/Seminars/Conferences		
– LAN development		
– Rental of computer systems		
– Rental of lines		
– Strategic workshops		
^(a) The operating costs relating to Phase 1A 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.		

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2004

4. OPERATING EXPENSES (Continued)

Directors' remuneration:

Period: 01 April 2003 – 31 March 2004

Directors	Status	2004	2003
L Maasdorp	Chairperson	189 300	17 100
O Latiff	Vice-Chairperson, Chairperson of Audit & Risk Committee	158 700	23 100
S Lushaba	Member	–	18 900 Paid to employer
A Makwetla	Member, Chairperson Human Resources Committee	180 844	21 600
C Maynard	Member, Chairperson of Finance Committee	172 300	–
R Mbwana	Member, Chairperson of Technical Committee	175 900	19 300
B Molefe	Member	–	–
M Muller	Member	–	–
Total Non-Executive Directors	Note (1)	877 044	100 000
MJ Janse van Rensburg	Member Chief Executive Officer	2 182 430	1 734 253
Total Executive Directors	Note (2)	2 182 430	1 734 253

(1) Remuneration paid to Independent and Non-Executive Directors employed outside public service. Remuneration paid is based on the following:

- R12 400 monthly fee for the chairperson of the Board
- R10 800 monthly fee for other Board members;
- R4 200 attendance fee per meeting for the chairperson of the Board and chairpersons of the sub-committee meetings.
- 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 paid of R582 030 (2003: R430 303).

Business-related expenses are reimbursed at actual cost, within an agreed policy and no allowances are paid.

The CEO is a member of the Board for Johannesburg Water and a member of the Governing Committee of the Bond Exchange of South Africa (BESA). The CEO does not receive fees for these services in her individual capacity. Such fees are received directly by TCTA and amount to R13 752,66 from Johannesburg Water and R70 000 from BESA, for the year ended 31 March 2004.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2004

	2004 R'million	2003 R'million
5. FINANCE COSTS		
LHWP		
Interest income and premium amortised	(134)	(71)
Interest expense and discount amortised:	1 371	1 384
• Locally issued bonds	1 154	925
• Other local debt	207	256
• Foreign debt	10	203
Net foreign-exchange differences	114	(215)
Foreign-exchange gain	(132)	(230)
Foreign-exchange loss	246	15
	1 351	1 098
<p>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.</p> <p>TCTA funded at an average rate of 12,06% (2003: 12,5%).</p>		

6. NET DEFICIT FOR THE YEAR

As income is first used to cover operating expenditure, depreciation and royalties, the net deficit of R99 million (2003: R53 million) relates to the shortfall in covering interest costs. The project-financing approach adopted means that this deficit was anticipated. In tariff-setting, priority was given to setting a constant tariff in real terms, and the effect is that interest will not be fully covered by income for the first number of years of each phase.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2004

	Land & buildings R'million	Works in RSA R'million	Enduring benefit R'million	Other R'million	2004 Total R'million	2003 Total R'million
7. PROPERTY, PLANT AND EQUIPMENT						
LHWP						
Cost as previously stated	4	2 021	11 912	3	13 940	12 915
Accumulated depreciation	–	(7)	(37)	(3)	(47)	(33)
Carrying amount at the beginning of the year	4	2 014	11 875	–	13 893	12 882
During the year:						
Additions	–	42	991	8	1 041	1 019
Disposals	–	–	–	–	–	(20)
Reclassifications	–	(87)	87	–	–	–
Revaluation of depreciable portion	–	(1)	(5)	–	(6)	26
Depreciation	–	(2)	(11)	(2)	(15)	(14)
Carrying amount at the end of the year	4	1 966	12 937	6	14 913	13 893
Cost/depreciated replacement value	4	1 975	12 985	11	14 975	13 940
Accumulated depreciation	–	(9)	(48)	(5)	(62)	(47)
Carrying amount at the end of the year	4	1 966	12 937	6	14 913	13 893
A register of land and buildings is available for inspection at the TCTA's registered office.						
					Works capitalised 2004 R'million	Works capitalised 2003 R'million
BWP						
Carrying amount at the beginning of the year					14	–
Additions during the year					20	14
Carrying amount at the end of the year					34	14
					2004 R'million	2003 R'million
TOTAL						
LHWP					14 913	13 893
BWP					34	14
					14 947	13 907

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2004

7. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

7.1 Works in RSA

LHWP

The works in South Africa comprise the Delivery Tunnel North and appurtenances. Costs capitalised during the year include the finalisation of works on the upgrading of waterways that are affected by the delivery of water from the LHWP.

7.2 Works capitalised

BWP

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

7.3 Enduring benefit

LHWP

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.

In terms of the accounting policy, TCTA has undertaken a full technical revaluation of the enduring benefit during 2003. The results indicated that TCTA's annual revaluation based on Producer Price Index (PPI) was conservative and that no further adjustment was required to enduring benefit other than the annual PPI adjustment. At the end of the period a revaluation of the depreciable portion of the construction works in South Africa and the enduring benefit (Phase 1A) was calculated using year-on-year PPI.

Borrowing costs capitalised to the enduring benefit relating to the construction costs of Phase 1B during the period amount to R721 million (2003: R577 million). The capitalisation rate is based on the actual funding rates applicable to the actual borrowing to finance the capital costs. The average rate was 11% (2003: 10%).

	LHWP		BWP	
	2004 R'million	2003 R'million	2004 R'million	2003 R'million
7.4 Works in RSA/capitalised works				
The carrying amount consists of:				
Costs capitalised	2 207	2 252	60	14
Levies/Income received	(253)	(253)	(26)	–
Depreciation	(9)	(7)	–	–
Revaluation of depreciable portion	21	22	–	–
	1 966	2 014	34	14

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2004

	LHWP		BWP	
	2004 R'million	2003 R'million	2004 R'million	2003 R'million
8. RECEIVABLES AND PREPAYMENTS				
Current				
Water income receivables ⁽¹⁾	288	250	3	–
Prepayments	46	21	1	–
Other debtors	2	6	–	1
Interest receivable WS01 redemption	92	–	–	–
Government of Lesotho (GOL) ⁽²⁾	14	63 ⁽³⁾	–	–
	442	340	4	1
Non-current				
Government of Lesotho ⁽²⁾	17	–	–	–
	17	–	–	–
			2004	2003
			R'million	R'million
Total				
Current				
LHWP			442	340
BWP			4	1
			446	341
Non-Current				
LHWP			17	–
BWP			–	–
			17	–
<p>(1) Water income receivable for LHWP is 60 days and BWP is 30 days.</p> <p>(2) Amounts owing by GOL are as a result of cost-related reimbursement liability, in terms of Article 3 of Protocol IV, amounting to R23 million (R6 million classified as current receivable above and R17 million classified as non-current receivable – above) and the correction of an overstatement miscalculation of royalties amounting to R8 million.</p> <p>(3) The comparative for 2003 comprises R34 million (current) and R29 million (non-current) receivables.</p>				

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

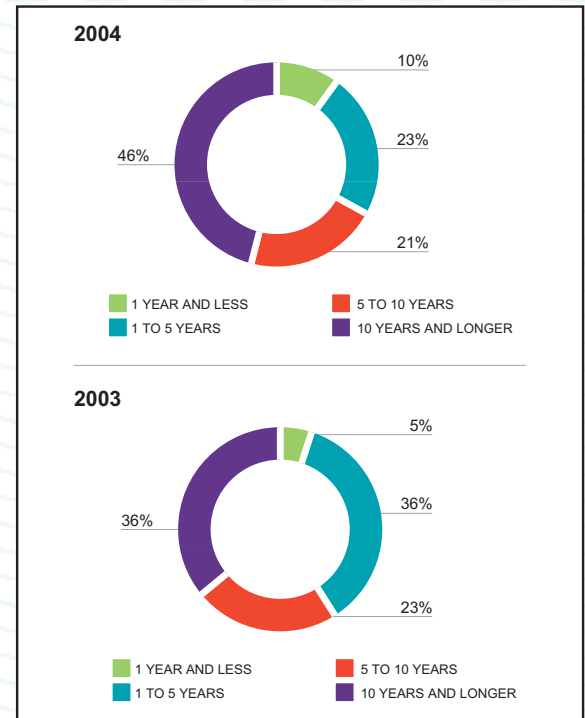
for the year ended 31 March 2004

	Short Term (One year & less) 2004 R'million	Short term (One year & less) 2003 R'million	(One to five years) R'million	Long-Term (five to 10 years) R'million
9. FINANCIAL INSTRUMENTS				
9.1 Financial market investments				
LHWP				
Foreign-currency hedges are held-to-maturity and are matched to underlying firm commitments				
Derivative asset	3	169	8	–
Other financial assets	–	–	934	–
Repos borrows	332	179	–	–
	335	348	942	–
BWP				
Other financial assets	–	2	–	–
	335	350	942	–
9.2 Financial market liabilities				
LHWP				
Derivative liability	111	75	118	60
LOCAL DEBT	1 905	941	4 405	3 255
Issued bonds	–	–	3 748	2 919
Other loans	1 828	760	657	336
Repo carries	77	181	–	–
FOREIGN DEBT				
Debt translated at spot rates	108	143	266	292
	2 124	1 159	4 789	3 607
BWP				
LOCAL DEBT	39	15	–	–
Total liabilities	2 163	1 174	4 789	3 607
Net financial market liabilities and investments	1 828	824	3 847	3 607
9.3 Split: TCTA and LHDA				
LHWP				
TCTA	1 955	922	4 352	3 141
LHDA	169	237	437	466
Total	2 124	1 159	4 789	3 607
BWP				
TCTA	39	15	–	–
Total	2 163	1 174	4 789	3 607
* Of the R14 161 million bonds in issue, with TCTA being the legal issuer, R3 728 million has been allocated to the LHDA to meet their funding requirements.				
A register of loans is available for inspection at TCTA's offices.				

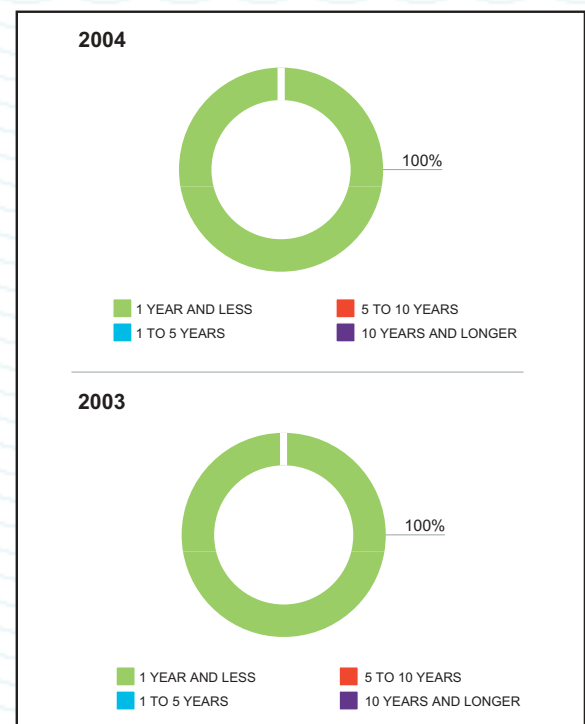
(10 years & longer)	Long Term 2004	Long Term 2003	Total 2004	Total 2003
R'million	R'million	R'million	R'million	R'million
–	8	4	11	173
–	934	0	934	–
–	–	0	332	179
–	942	4	1 277	352
–	–	–	–	2
–	942	4	1 277	354
–	178	133	289	208
7 669	15 329	13 959	17 234	14 900
7 494	14 161	12 477	14 161	12 477
175	1 168	1 482	2 996	2 242
–	–	–	77	181
122	680	990	788	1 133
7 791	16 187	15 082	18 311	16 241
–	–	–	39	15
7 791	16 187	15 082	18 350	16 256
7 791	15 245	15 078	17 073	15 902
7 652	15 145	14 100	17 100	15 022
139	1 042	982	1 211	1 219
7 791	16 187	15 082	18 311	16 241
–	–	–	39	15
7 791	16 187	15 082	18 350	16 256

Below are the graphs reflecting the different maturity periods for the net financial market liabilities and investments.

Maturity period of net financial market liabilities – LHWP



Maturity period of net financial market liabilities – BWP



NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2004

		2004 %	2003 %		
9. FINANCIAL INSTRUMENTS (Continued)					
9.4 Interest rates					
LHWP					
Loans bear effective interest at rates ranging from		7,2 to 19,1*	4 to 17,7		
TCTA funded at an average rate of		12,06	12,5		
Project funded at an average rate of		12,11	12,6		
* The interest rate applicable to one of the foreign loans, valued at spot at R70,7 million, is 5,66%. However, due to Forward Exchange Contract costs, the overall effective interest rate on this loan amounts to 19,1%.					
		Fixed rate 2004 %	Variable rate 2004 %	Fixed rate 2003 %	Variable rate 2003 %
EURO		2	1	3	3
USD		–	1	–	1
RAND		70	26	73	20
Total Liabilities		72	28	76	24
				2004 %	2003 %
BWP					
TCTA funded at an average rate of				11,22	13,9
9.5 Bonds					
LHWP					
TCTA is the legal issuer of the following LHWP local registered bonds:					
Loan No	Type	Redemption	Interest Rate %	Authorised Nominal/ Principal Value R'million	Nominal/ Capital Indexed Issued R'million
WS01	Nominal	01 December 2005	12,0	5 000	3 860
WS03	Nominal	15 September 2010	13,0	8 000	3 035
WS04	Nominal	30 May 2016	12,5	5 000	4 575
WS05	Inflation indexed	01 August 2018	5,0	2 500	1 768
WSP1	Nominal	28 May 2015	9,0	200	200
WSP2	Nominal	28 May 2017	9,0	200	200
WSP3	Nominal	28 May 2019	9,0	200	200
WSP4	Nominal	28 May 2020	9,0	200	200
WSP5	Nominal	28 May 2021	9,0	200	200

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2004

	2004 R'million Fair value	2004 R'million Nominal	2003 R'million Fair value	2003 R'million Nominal
9. FINANCIAL INSTRUMENTS (Continued)				
Value of bonds				
Authorised		21 500		20 500
Issued	16 508 ⁽¹⁾	14 238 ⁽²⁾	14 693 ⁽¹⁾	12 732 ⁽²⁾
Unrealised premium to be amortised over the life of the loan		455		216
Unrealised discount to be amortised over the life of the loan		(383)		(286)
Unrealised amortisation of CPI uplift for WS05		(148)		(185)
<p>(1) The fair value of the locally registered bonds issued is measured at the market price at financial year-end.</p> <p>(2) The amounts in issue may not exceed the consolidated capital market guarantee of R21 billion.</p>				
9.6 Guarantees				
LHWP				
<p>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.</p> <p>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.</p>				
	Amount guaranteed 2004 million	Amount utilised 2004 million	Amount guaranteed 2003 million	Amount utilised 2003 million
TCTA loans:				
EURO	101	50 ⁽³⁾	101	56 ⁽³⁾
RAND	26 100	16 255	26 100	14 336
Lesotho Highlands Development Authority loans:				
GBP	–	–	89	–
USD	51	19	120	25
EURO	94	76 ⁽⁴⁾	425	53 ⁽⁴⁾
RAND	770	239	712	289
<p>(3) Included in the Euro amount is the European Investment Bank facility which was drawn in rands, R339 million (2003: R363 million) and will be repaid in rands.</p> <p>(4) Included in the Euro amount is the European Investment Bank facility which was drawn in rands, R289 million (2003: R100 million) and will be repaid in rands.</p>				

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2004

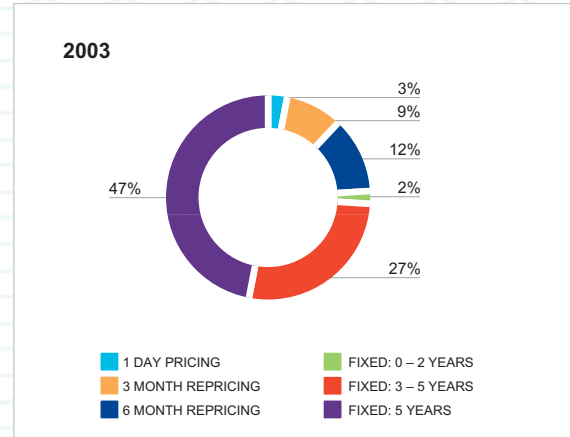
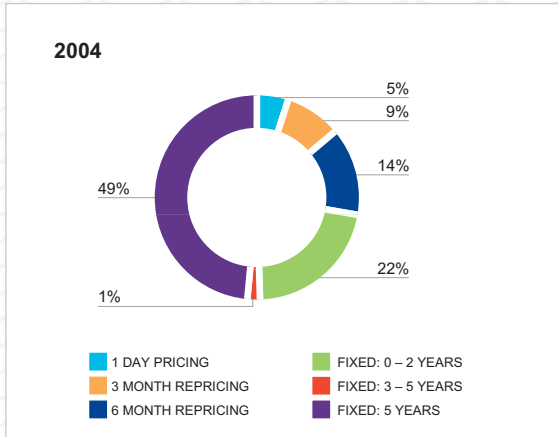
	2004 Contract values R'million	2004 Fair value R'million	2003 Contract values R'million	2003 Fair value R'million
9. FINANCIAL INSTRUMENTS <i>(Continued)</i>				
9.7 Derivative exposures				
LHWP	1 675	(277)	2 301	(36)
<p>The following information details derivative values, which are included in financial market assets and liabilities.</p> <p>Forward exchange contracts</p> <p>Derivatives are used to hedge interest-rate and currency exposures.</p> <p>Fair value is the current mark-to-market value of all the derivatives outstanding.</p> <p><i>Interest rate derivatives</i></p> <p>These financial instruments held to maturity and included in the funding portfolio are treated as follows:</p> <p>The gains and losses on the subsequent mark-to-market revaluation of interest-rate swaps and forward-rate agreements are accounted for in the hedging reserve and expensed when the underlying hedged transactions affect the Income Statement.</p> <p>Fair-value gains and losses on derivative financial instruments included in the strategic portfolio are recognised immediately in net surplus or deficit and are included in finance and interest charges.</p>				
9.8 Financial risk management				
<p>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.</p> <p>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 generated in any given period.</p> <p>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 the TCTA's funding and risk-management strategies and to maintain the optimal capital structure.</p>				
9.9 Liquidity risk management				
<p>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.</p> <p>Furthermore, the WS bonds are listed on the bond exchange and a panel of market-makers is used to increase liquidity in these bonds. During the year, the panel of market-makers increased from six to seven to further increase liquidity in these bonds.</p>				
9.10 Interest-rate risk management				
<p>Interest-rate risk is the risk of adverse interest-rate fluctuations impacting negatively on debt exposures, including the re-pricing 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 pro-actively.</p> <p>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 the duration of liabilities with that of free cash flow.</p>				

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for the year ended 31 March 2004

Interest Rate Exposure 2004/03

Interest rate exposure 2004 – LHWP



9.11 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 prudent.

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:

	2004 %	2003 %
LHWP		
Short-term rating		
Other	–	3
A1 ⁽¹⁾	23	1
A1+	75	82
RSA Government guaranteed	2	14
	100	100
⁽¹⁾ The increase in the exposure to A1-rated counterparties is due to the down-rating of one of the local banks from A1+ to A1 during the year under review.		
BWP		
Short-term rating		
A1+	100	100
	100	100

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2004

Foreign currency	Foreign amount million	Rand amount R'million	Fair value Rand R'million
9. FINANCIAL INSTRUMENTS <i>(Continued)</i>			
9.12 Foreign currency risk management			
LHWP			
<i>Forward exchange contracts – recognised transactions</i>			
Net foreign exchange contracts and cross-currency swaps are held to maturity and match specific underlying commitments recorded on the balance sheet at year-end.			
2004			
US Dollars	30	217	(23)
Euros	85	1 064	(204)
GBP	5	62	–
2003			
US Dollars	25	243	(24)
Euros	48	588	(53)
<i>Forward-exchange contracts – anticipated transactions</i>			
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 2011, and will be applied in the hedging of expected future loan capital and interest commitments due up to 2018.			
2004			
US Dollars	17	126	(14)
Japanese Yen	–	–	–
Euros	17	205	(37)
GBP	–	–	–
2003			
US Dollars	30	190	(84)
Japanese Yen	229	(27)	(14)
Euros	111	1 204	131
GBP	9	103	8
9.14 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 ⁽¹⁾ recommendation, the COSO ⁽²⁾ framework and the Charter of Best Practice in Treasury Management have been evaluated and implemented where deemed appropriate.			
⁽¹⁾ Group of 30 leading international banks.			
⁽²⁾ Committee of Sponsoring Organisation of the Treadway Commission.			

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2004

	LHWP		BWP	
	2004 R'million	2003 R'million	2004 R'million	2003 R'million
10. PAYABLES				
Interest payable				
TCTA	340	317	–	–
LHDA	96	114	–	–
Other creditors	44	24	6	2
Royalties (see note 3)	31	27	–	–
	511	482	6	2
			2004 R'million	2003 R'million
TOTAL				
LHWP			511	482
BWP			6	2
			517	484
			CAPITAL EXPENDITURE WORKS IN SOUTH AFRICA	ENDURING BENEFIT
			Capital expenditure contracted by TCTA in respect of LHWP and BWP	Commitments contracted by the LHDA in respect of water delivery costs (excluding contract price adjustments)
			2004 R'million	2003 R'million
11. COMMITMENTS				
	949	720	439	510
Expenditure will be financed from borrowings and is expected to be incurred as follows:				
LHWP				
2004 – 2005	–	–	187	275
2005 – 2006	–	–	252 ⁽¹⁾	235
	–	–	439	510
BWP				
2004 – 2005	427	312	–	–
2005 – 2006	522	408	–	–
Total	949	720	–	–
(¹) Relates to the present value of future compensations on Phase 1A and Phase 1B.				

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	2004 R'000	2003 R'000
12. OPERATIONS AND MAINTENANCE		
<p>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 84. In terms of Protocol VI to the Treaty, signed on 4 June 1999, these amounts are separately identified and reported on:</p>		
Revenue	434	377
Operating Costs	434	377
	–	–
13. RETIREMENT AND MEDICAL AID BENEFITS		
<p>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.</p>		
14. SEGMENTAL REPORTING		
<p>TCTA has identified its segments based on the projects mandated to it, as well as the specialised services directed to it by the Minister of Water Affairs & Forestry. These three segments are currently LHWP, BWP and UW. Refer to segmental Income Statement, Balance Sheet and Cash Flow Statement for detailed information.</p>		

Bond Abbreviations

STOCK CODE	ISSUER	MATURITY DATE
R189	Republic of SA	31 / 03 / 2013
R197	Republic of SA	07 / 12 / 2023
UG55	Umgeni Water	30 / 09 / 2005
UG65	Umgeni Water	01 / 06 / 2010
WS01	TCTA	01 / 12 / 2005
WS02	TCTA	15 / 04 / 2002
WS03	TCTA	15 / 09 / 2010
WS04	TCTA	30 / 05 / 2016
WS05	TCTA	01 / 08 / 2018
WSP1	TCTA	28 / 05 / 2015
WSP2	TCTA	28 / 05 / 2017
WSP3	TCTA	28 / 05 / 2019
WSP4	TCTA	28 / 05 / 2020
WSP5	TCTA	28 / 05 / 2021

Acknowledgements

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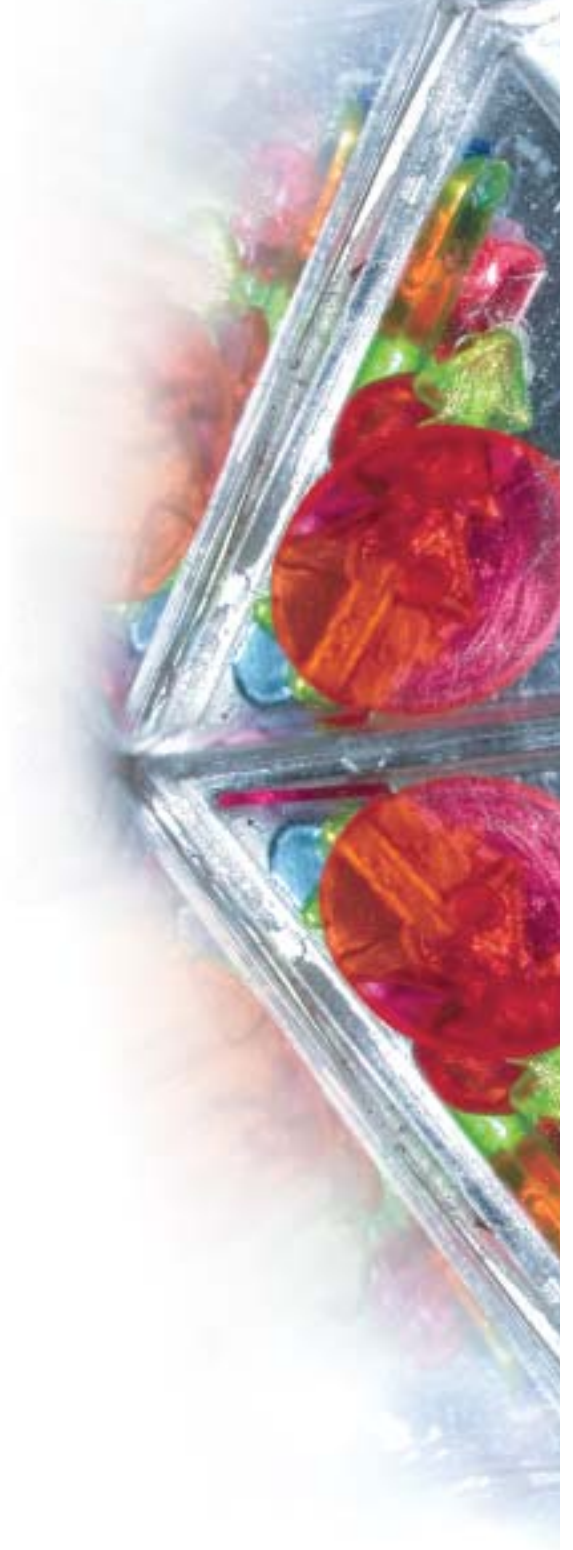
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