

Annual Report 31 March 2006
&
Berg Water Project Exit
Strategy

Portfolio Committee
19 March 2007

TCTA the Organisation

■ *Who is TCTA?*

- Established in 1986 to manage the funding and financial risk management of the Lesotho Highlands Water Project
- PFMA ~ Schedule 2 Public Entity
- Report via Minister of Water Affairs and Forestry to Cabinet and Parliament

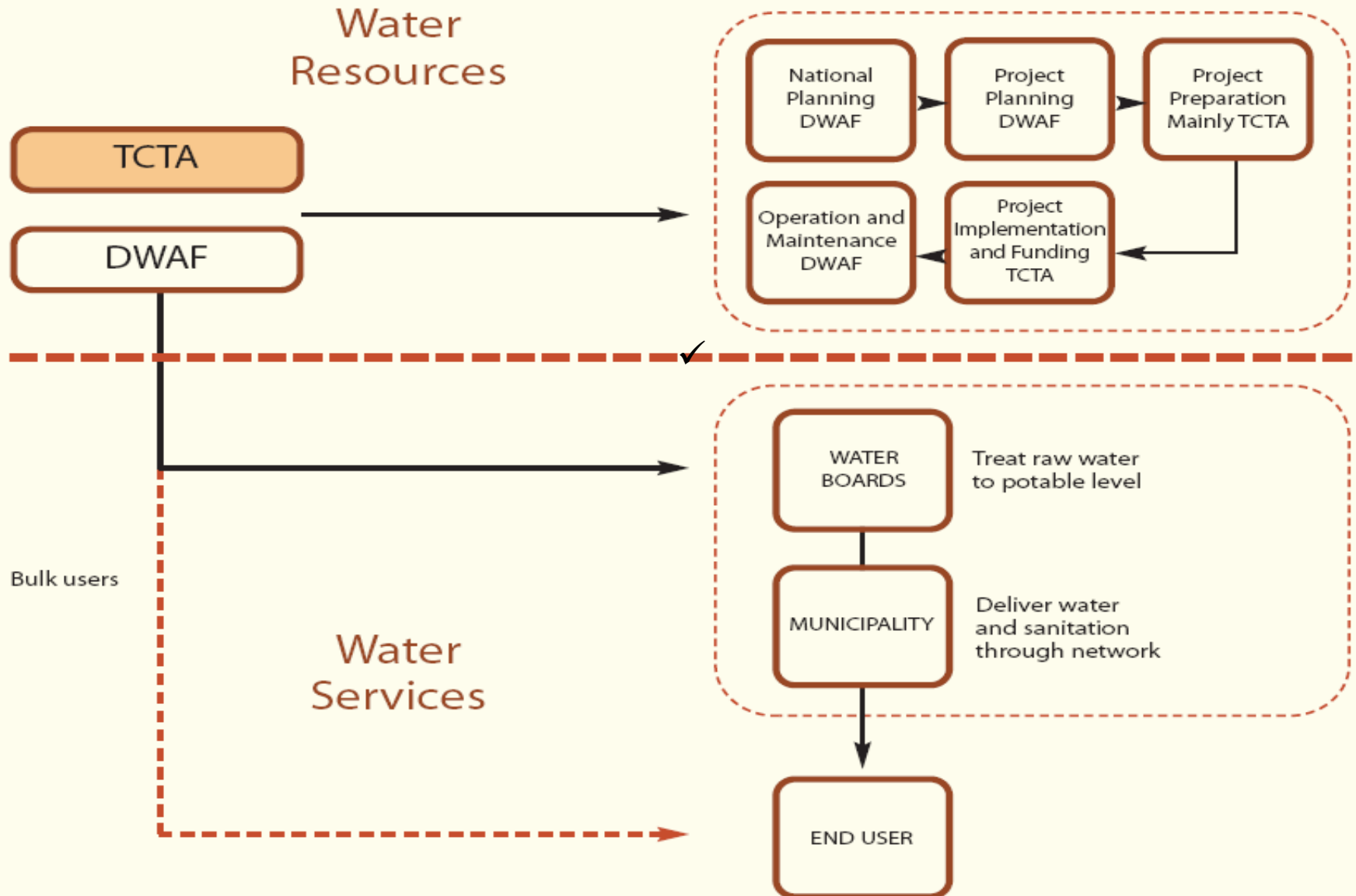
■ *What do we do?*

- Design
- Construction
- Funding and debt management
- Income and risk management
- Natural environment and social impact management

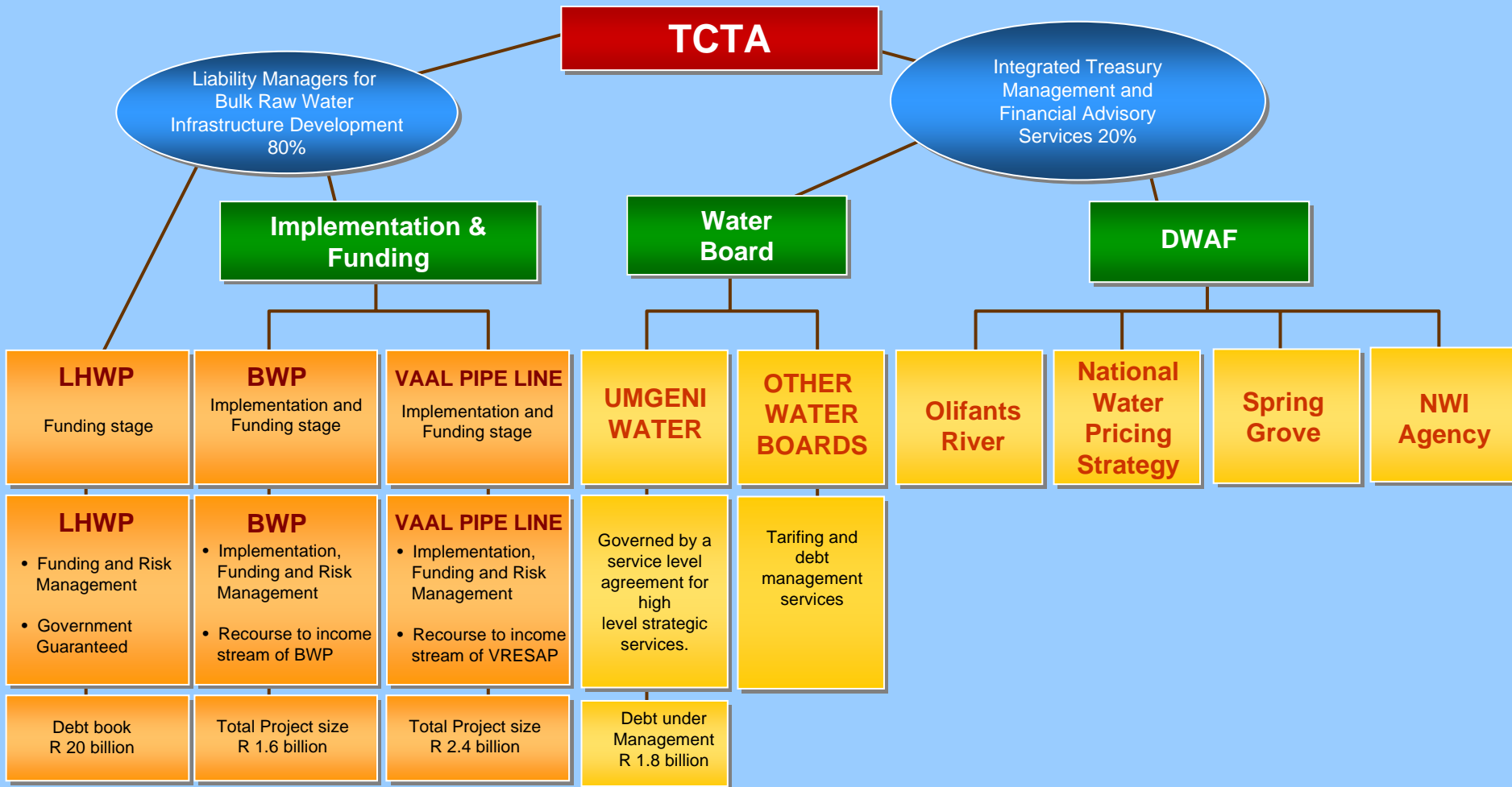
MISSION STATEMENT

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

Water Supply Chain



Mandated Responsibilities



Alignment with Government

- Delivery on government's agenda
 - TCTA= infrastructure development
 - Free up tax payers money for social aims
- Alignment with ASGISA
 - With DWAF in infrastructure development
 - Springboard for economic development, water services delivery and job creation
 - Scarce skills deployment and development
- Development methodology alignment with government
 - Involvement of private sector
 - Institutional agreements to achieve appropriate risk allocation, transparency and co-operative governance
 - Tariffs set in a transparent, predictable and sustainable manner
 - Clear socio economic objectives (labour, procurement, training)
 - Link into existing programmes for advance infrastructure and mitigation programmes

Sustainability Principles

- Fundamental to **all aspects** of TCTA's business
- Economic performance is ability to meet and deliver on the requirements of the projects within time & budget
- Full commitment to complying with national environmental legislation, while producing quality standards
- A socio-economic strategy, tailored to the needs of the community – contained in the EMP of each project
- Attraction and retention of high calibre staff, capable of sustaining high performance levels.

Annual Report 31 March 2006

- Report submitted to Parliament in August 2006
- Presentation to Portfolio Committee on 18 October 2006
- Formally tabled and considered in Parliament on 16 November 2006
- See back section of handout document for detailed information covering this report.

Key statistics update: January 2007

- Berg Water Project : on time and in budget
- Vaal Pipeline : delay in water delivery due to unforeseen geotechnical conditions (7 months); within budget
- 97 % Procurement spend : R 1 022 million (BBBEE)
- Procurement through contactors: R 380 million
- Jobs created through projects: 2 900 per month
- Representivety: 60% Black 60%Female

Berg Water Project : Exit Strategy

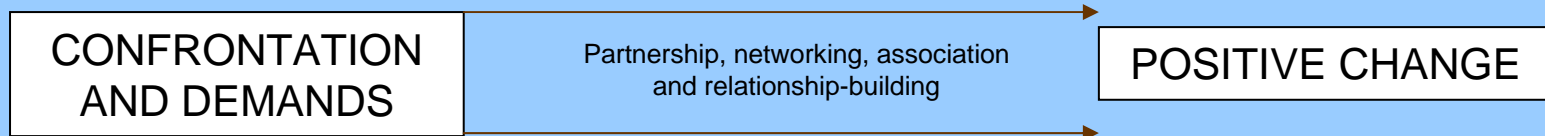
- Appreciative Inquiry
- Health and well-being
- Promote Franschhoek First Policy
- Training
- Learnerships
- Employment Information Desk
- Facilitating work opportunities for local workers
- Handover of construction housing
- Sustainable Utilization Plan
- Knowledge Management

PMG note: graphics not included, please email info@pmg.org.za

Appreciative Inquiry

To move away from focusing on problems and what's wrong to focusing on appreciating and valuing the best in people and the community in which they live to create a positive future.

Communities imagine, design, and enact a visionary future through reflection on the best of their past experience



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BASIC ASSUMPTIONS OF APPRECIATIVE INQUIRY

1. In every community organization, or group, there is something positive that is working and can be built upon.
2. The collective creation of a desired future is most powerful when it is based on the best of what already exists.
3. Looking for what works well and doing more of it is more motivating and effective than looking for what does not work and doing less of it.
4. Communities are capable of becoming more than they are, and they can learn how to guide their own future.
5. The act of asking questions influences or changes the community in some way.
6. The language we use to describe reality helps to create that reality.
7. People have more confidence and comfort to journey into the future (the unknown) when they carry forward parts of the past (the known). In other words, continuity is as important as change.

Health and Well-Being Initiative

Initiatives to increase community health awareness; promote social change and social awareness of the impact of health and diseases with the result of empowering local communities to make informed lifestyle decisions that are supportive of a holistic health approach

Notes :

- The poor health status (i.e. high blood pressure) of local people has been a significant limiting factor in accessing jobs
- Due to the stress of poverty and unemployment
- 438 non-local (Franschhoek) skilled workers and professionals (82% of this persons are migrant workers)
- Social monitoring has revealed that social relationships between imported skilled labour and local residents could result in social health impacts
- To embed HIV and AIDS within a broader and integrated focus on a lifestyle that supports health and well-being

Promote Franschhoek First Policy

Encourage local businesses, municipalities and public agencies to build on the initiative created by the Berg Water Project to maximise local employment, training and procurement

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Training

- Provide community leadership training
- Awareness and information sessions on workers rights
- Business training for local SMME's

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Learnerships

- Provided training for unemployed local people in 2004 in housing construction skills
- 86 people successfully completed the skills training
- All of the graduates received employment afterwards, most on the dam
- After more than 2 years of work experience, we want to provide these workers with opportunities to enter into specialised trades

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Employment Information Desk (EID)

- Trained staff and comprehensive database on skills in the local valley
- EID resources can be used by the municipality or other developers to promote local development

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Facilitating further Employment

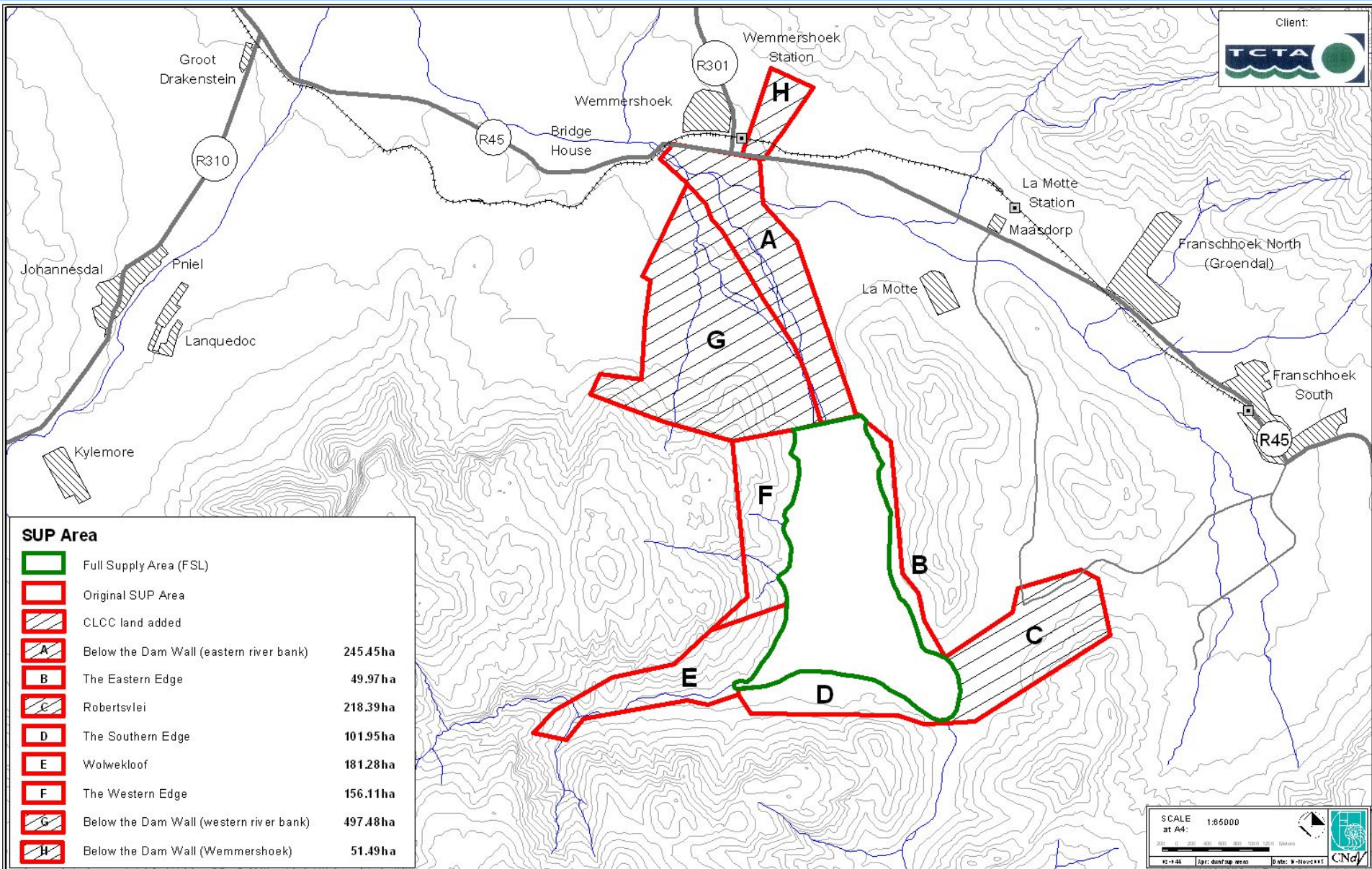
- One of the significant social impacts of construction projects is the creation of unsustainable jobs
- Objective is to facilitate further employment of local workers in the industry in the Western Cape and elsewhere

Transfer of Construction Housing

- Agreements up front with community and local government (proceeds to benefit of community in from of further development)
- The transfer of the construction village to the Stellenbosch Municipality is one of the significant benefits of the Berg Water Project for the local community

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Sustainable Utilization Plan



Sustainable Utilization Plan

Support and provide guidance on:

- Optimal land use of state land surrounding the dam
- Recreational and sporting use of the dam water body
- Opportunities for economic activities on the state land
- Institutional arrangements for land management

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EXIT STRATEGY: Knowledge Management

- Develop a systematic process of creating, gathering, organizing and managing lessons learnt
- Proactively share knowledge
- Develop guidance to improve industry practice

Two key areas where TCTA has gained important experience and wants to make a significant knowledge contribution are:

1. Training

2. Governance

Training:

Recognising that training and capacity building is a social process where relationships are key to learning, e.g. training is a progressive process.

Theory training, experiential learning, competency testing and recognition of prior learning are key elements for training.

Governance:

Capacity building is vital if local communities and interested and affected parties are to play a constructive role in project monitoring

Thank you

Malixole Gantsho (Chairperson)

Martie van Rensburg (Chief Executive Officer)

Questions **Evelyn Motsatsing (Head: Business Support)**

Nigel Rossouw (Environmental Manager)

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Water tariffs and solvency

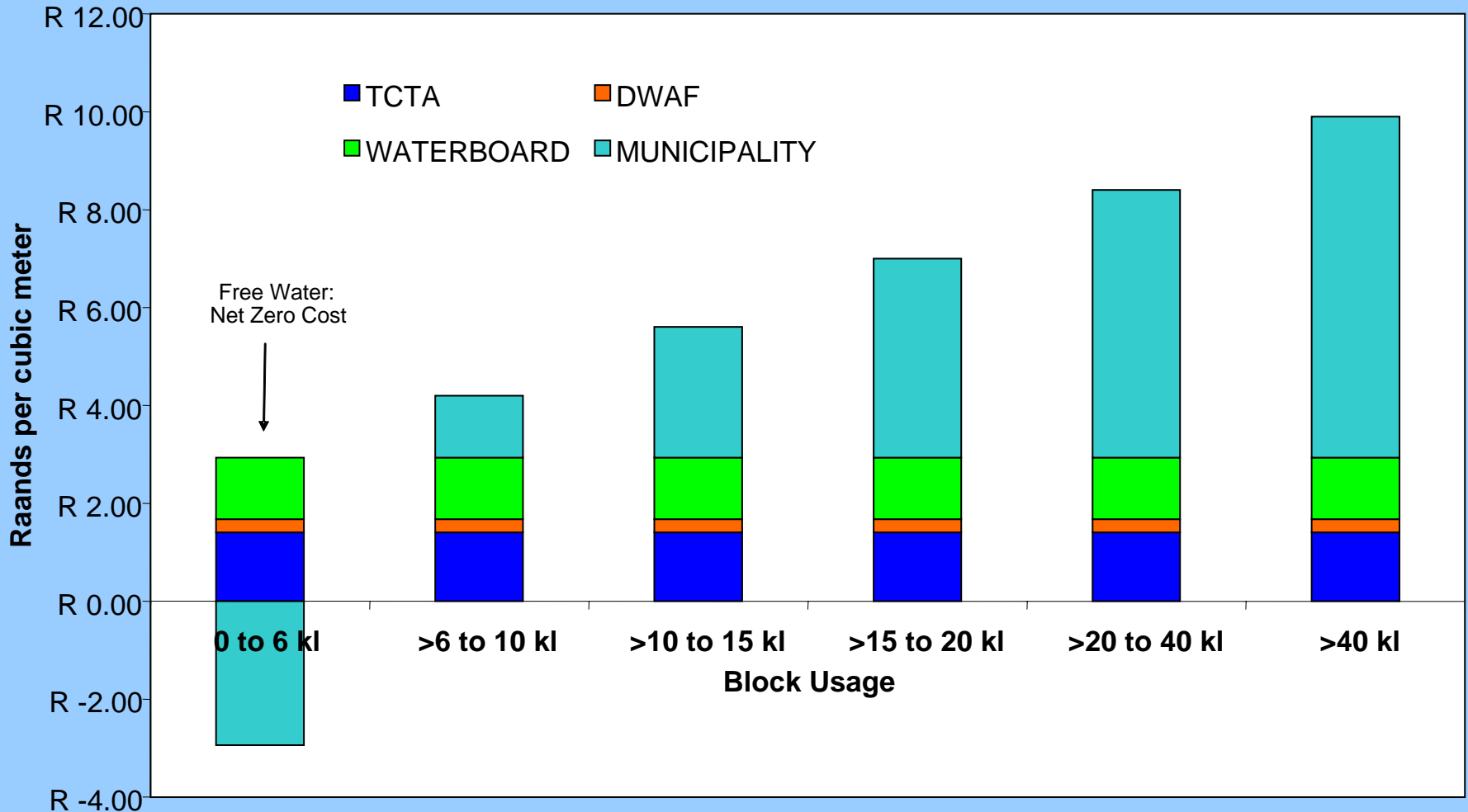
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Tariff Principles

- Tariff categories:
 - Capital Unit Charges (to repay debt)
 - Water Use Charges (statutory charges)
 - Operations and Maintenance Charges
- Full cost recovery from water sold to end-users
- Based on water sold out of system and not on water delivered into a system (supports demand management initiatives)
- Constant tariff in real terms which increases with:
 - CPIX annually
 - Triggers as per the Income Agreements
- Repayment of debt within reasonable period (eg 20 years)
 - Should not be longer than the economic useful life of the asset
 - Debt profile and acceptable growth and level of debt
 - Timing and cost of future augmentations schemes
 - Affordable structure to the end-user

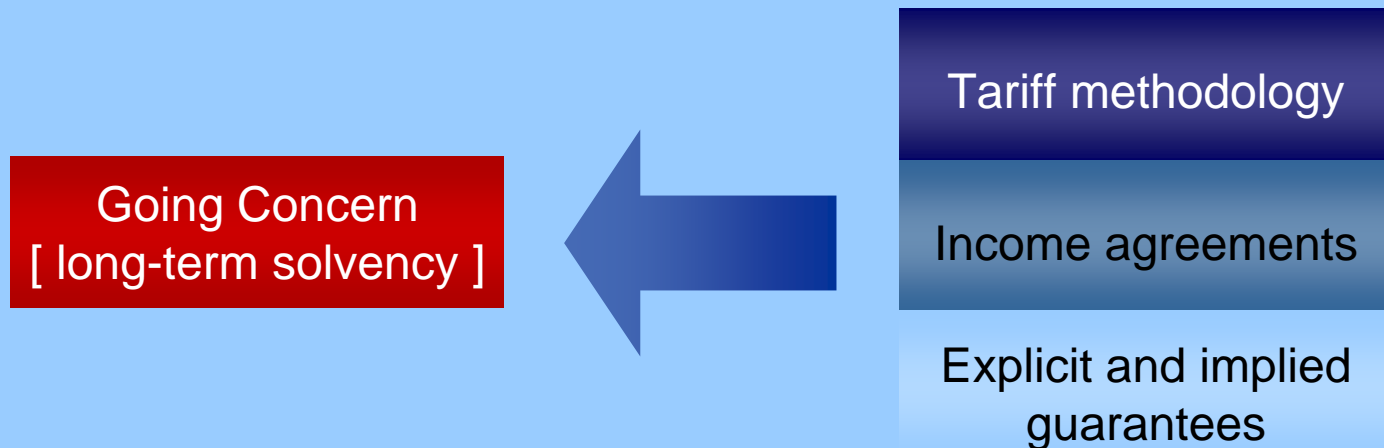
Tariff composition

TARIFF COMPOSITION FOR DOMESTIC USAGE 2006/07 Financial Year



TCTA – A Going Concern

- Review LHWP's, BWP's and VRESAP's long-term solvency in terms of ability to service and repay debt, after operational expenditure



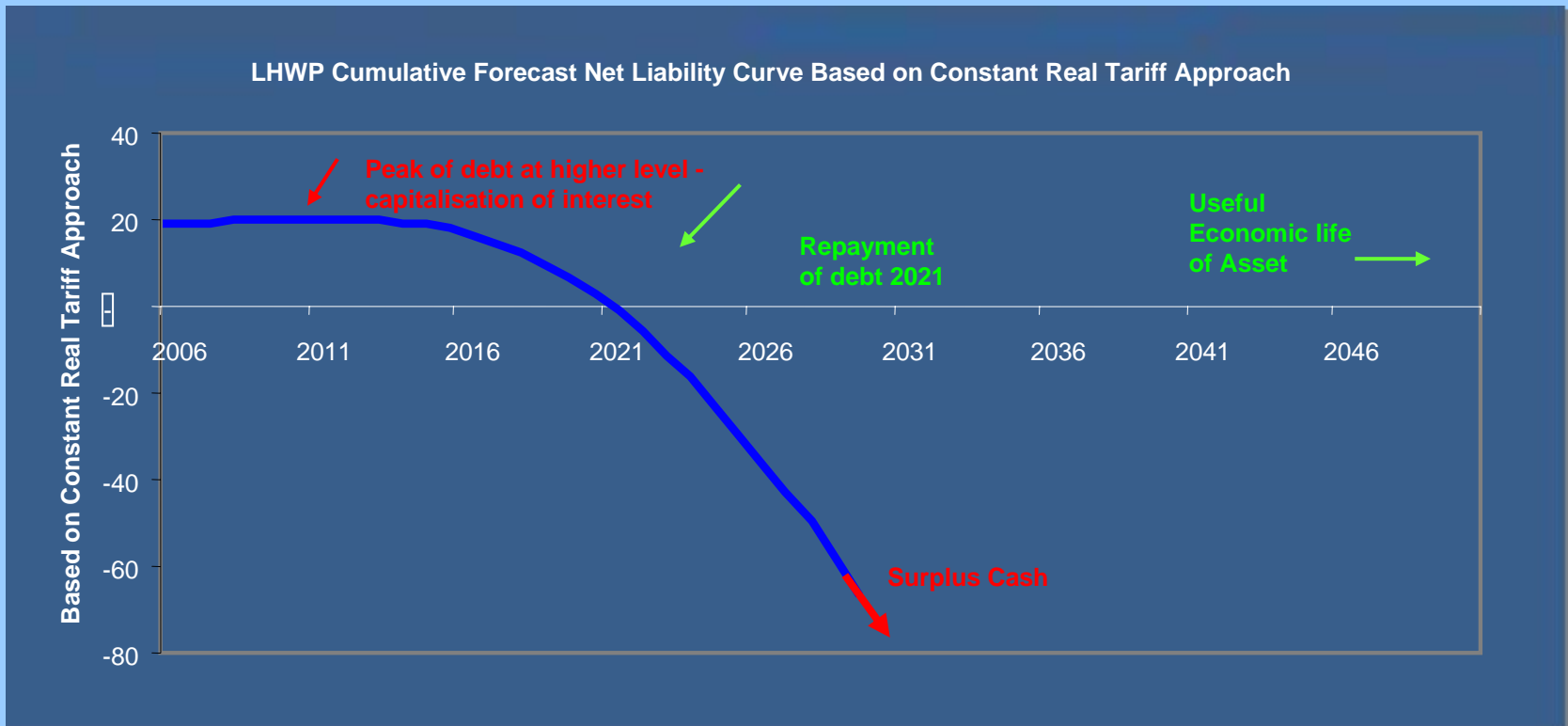
Tariff Methodology

Approaches to tariffing:

- ① No capitalisation of interest approach
- ② Constant real tariff approach
- ③ Smoothed, constant real tariff approach

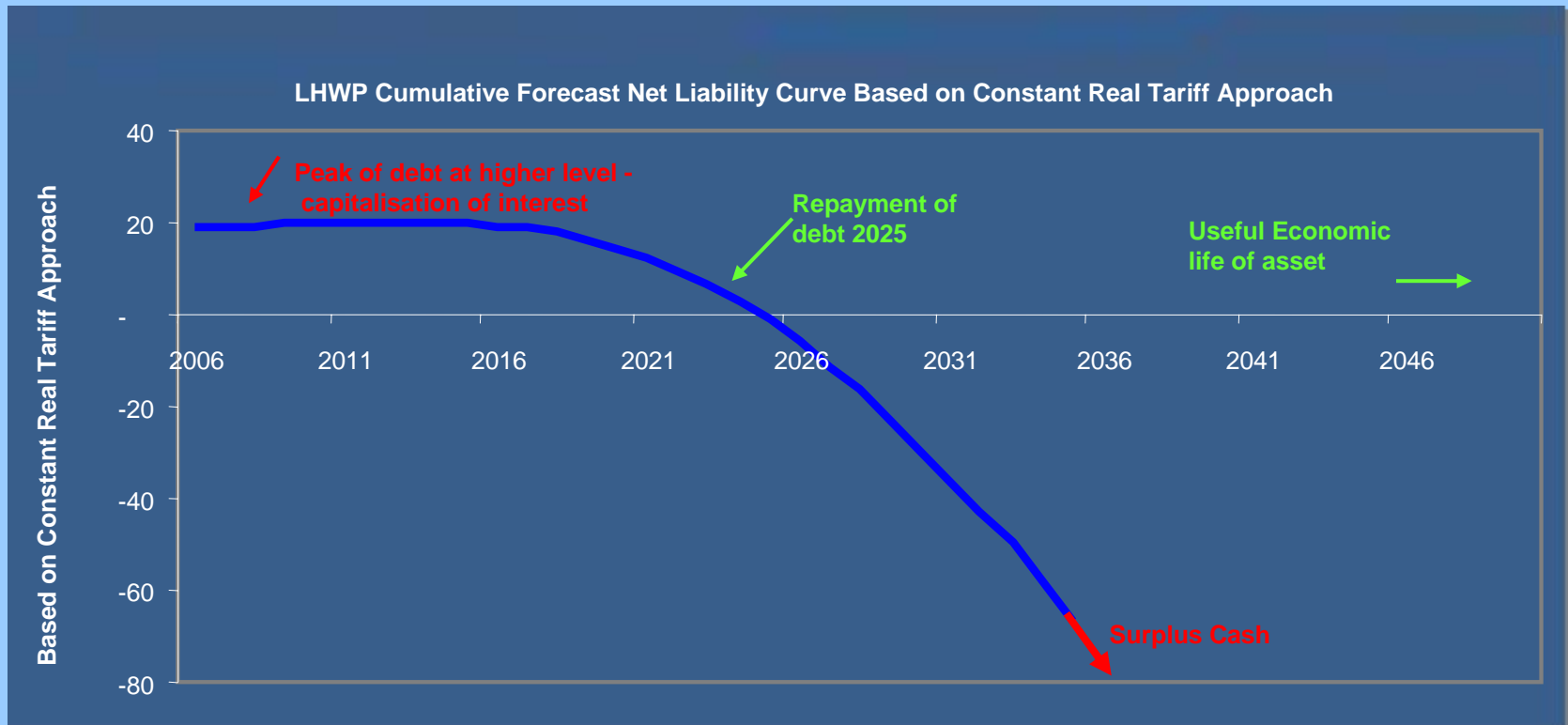
Tariff Methodology

1 No capitalisation of interest approach



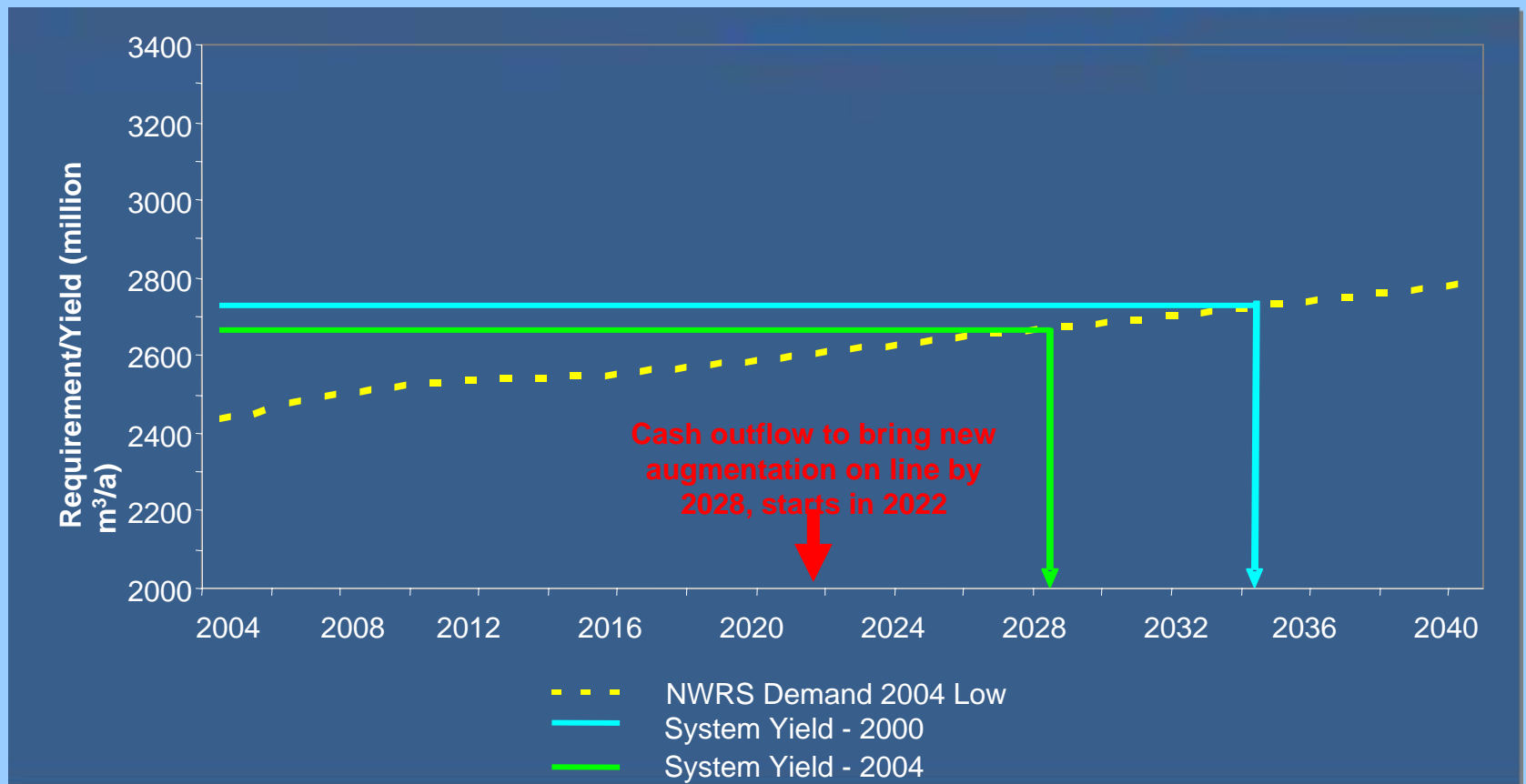
Tariff Methodology

② Constant real tariff approach



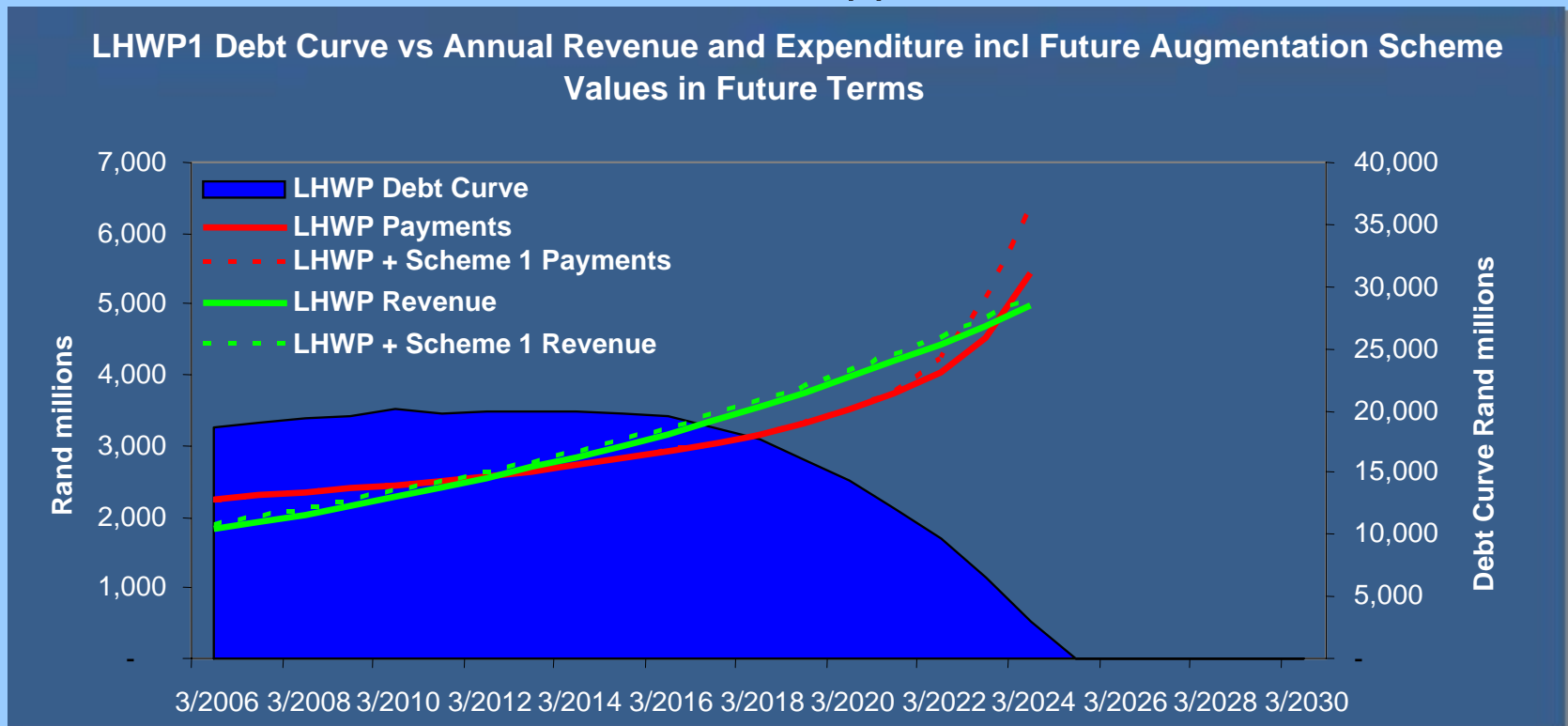
Tariff Methodology

- ③ Smoothed, constant real tariff approach
Pricing future augmentation into the constant real tariff –
illustrated through change in yield of the Vaal River System



Tariff Methodology

3 Smoothed, constant real tariff approach

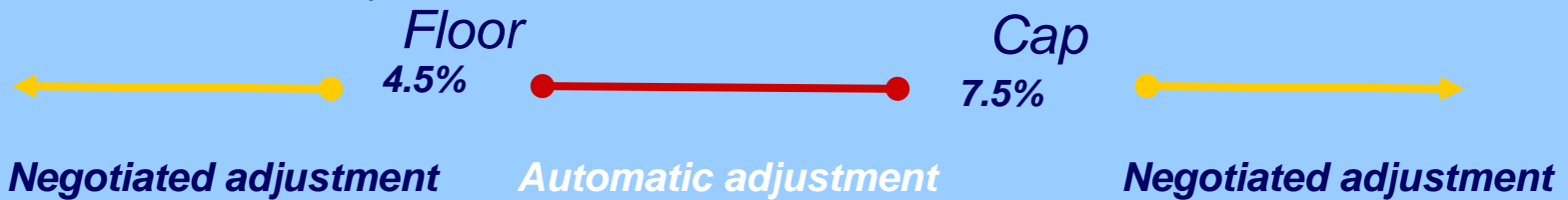


- Pricing future augmentation into the constant real tariff allows the timing of future augmentation to significantly offset the affects of changing demand and yield
- The result is increased certainty to revenue stream and hence increased certainty around solvency

Income Agreements

- **Automatic and negotiated adjustments**

- CPIX annually



- **Other tariff review triggers in the Income Agreement**

- Changes in water demand
- Changes in timing and cost of future augmentation schemes (dependant on system yield)
- Changes to operations and maintenance costs
- Change in input assumptions that increase/decrease final repayment date
- Changes in the final implementation costs at construction completion date



Explicit and Implied Guarantee's

- LHWP explicit government guarantee
- BWP implied government guarantee
- VRESAP implied government guarantee

Long-term commitments from government
Support long-term solvency

Conclusion

- Summary of findings:
 - The useful economic life of the projects far exceeds the debt repayment period
 - The free cash generated over the useful economic life far exceeds the peak project debt
 - The principal of incorporating future augmentation costs into the tariff calculation reduces cash flow volatility and increases certainty with regards to future solvency
 - The income agreements ensure that TCTA “walks the debt curve” based on income agreement triggers
 - Long-term government support, supports long-term solvency

Overall conclusion:

TCTA is highly solvent over the long-term with no risk of being unable to service and repay debt

TCTA is a going concern

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Highlights 2006

- Governance
 - New board from 1 July 2006
- Vaal Pipeline (VRESAP)
 - Institutional and financing agreements signed
 - EIA obtained and construction contracts awarded
- LHWP, BWP
 - Continued delivery on track within mandate and budget
- Advisory
 - Assistance to DWAF re Olifants (ORWDP II); Spring Grove
 - Water Boards and National Water pricing strategy

Operational performance

- IFRS reporting
 - Converted in 2005
- LHWP cost allocation
 - R 454 million owing by Government of Lesotho
 - Financial statements reflects R 142 million as bi national processes needs to commence
- Transformation
 - BE and BEE procurement R 731 million (96% of spend)
 - Diversity profile 67% Black; 60% female
 - Organisational design reviewed to accommodate growth (59-90)
 - Training and development to create empowering culture (5% of payroll)

Consolidated Income Statement for the year ended 31 March 2006

	2006 R'Million	Restated 2005 R'Million
Revenue	1 776	1 655
Other Income	226	229
Royalties paid	(251)	(228)
Operating expenses	(175)	(88)
Operating surplus	1 576	1 568
Finance cost	(2 164)	(2 206)
Net deficit for the year	(588)	(638)

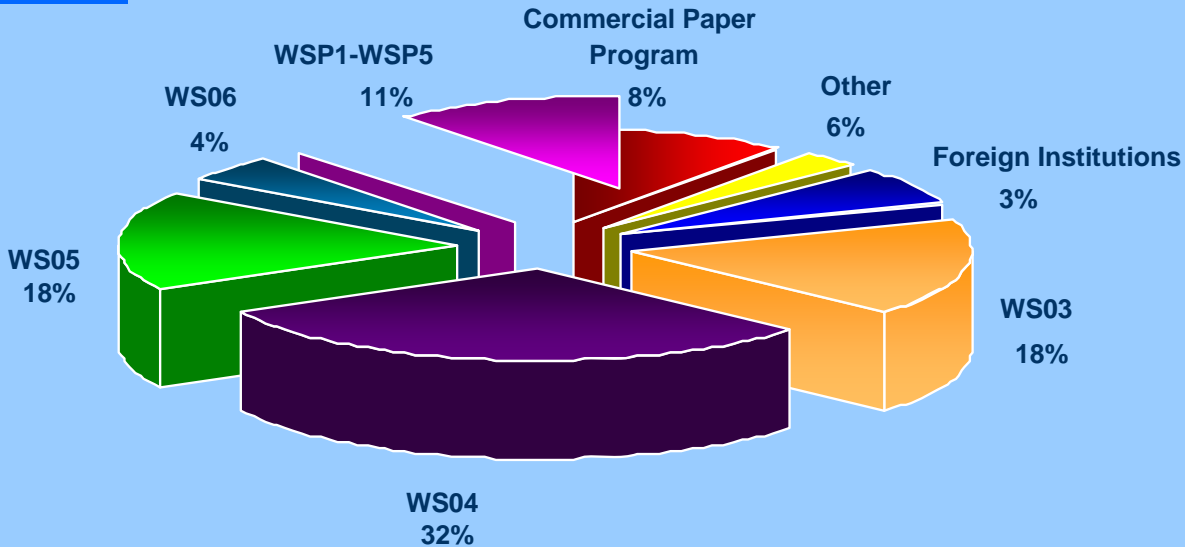
Balance Sheet as at 31 March 2006

	LHWP 2006 R'million	BWP 2006 R'million	VRESAP 2006 R'million	TOTAL 2006 R'million	Restated TOTAL 2005 R'million
ASSETS					
Non-current assets	15 401	491	144	16 036	15 732
Current assets	479	24	207	710	2 878
Total Assets	15 880	515	351	16 746	18 610
EQUITY AND LIABILITIES					
Reserves and deficit	(3 328)	(22)	(7)	(3 357)	(2 810)
Non current liabilities	16 864	330	-	17 194	14 475
Current liabilities	2 344	207	358	2 909	6 945
Total equity and liabilities	15 880	515	351	16 746	18 610

LHWP: Total Sources of Funding

As at 31 March'06
R 18.4 billion

Total funding for year
R 3.7 billion



Capital Market Bonds
Other funding

83 %
17 %

Fixed
Floating

67 %
33 %

Foreign
Local

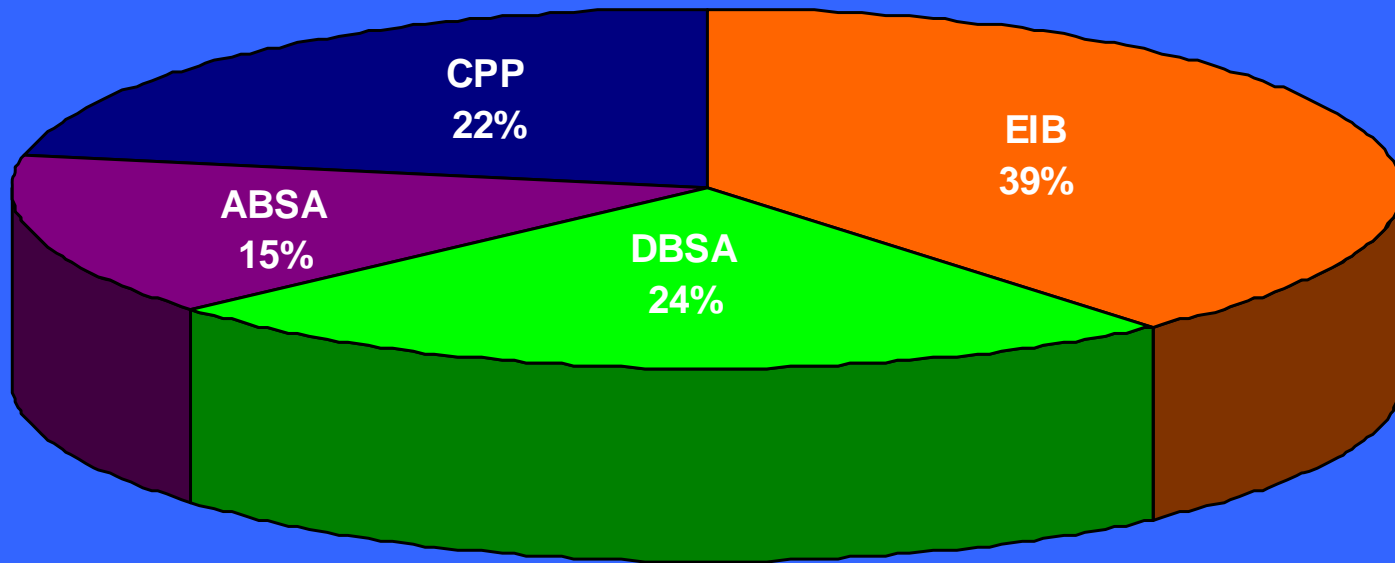
3 %
93 %

Avg funding rate
Benchmark rate

7.41%
7.53%

BWP Sources of Funding – R466 million

Funding for year
R 219 million

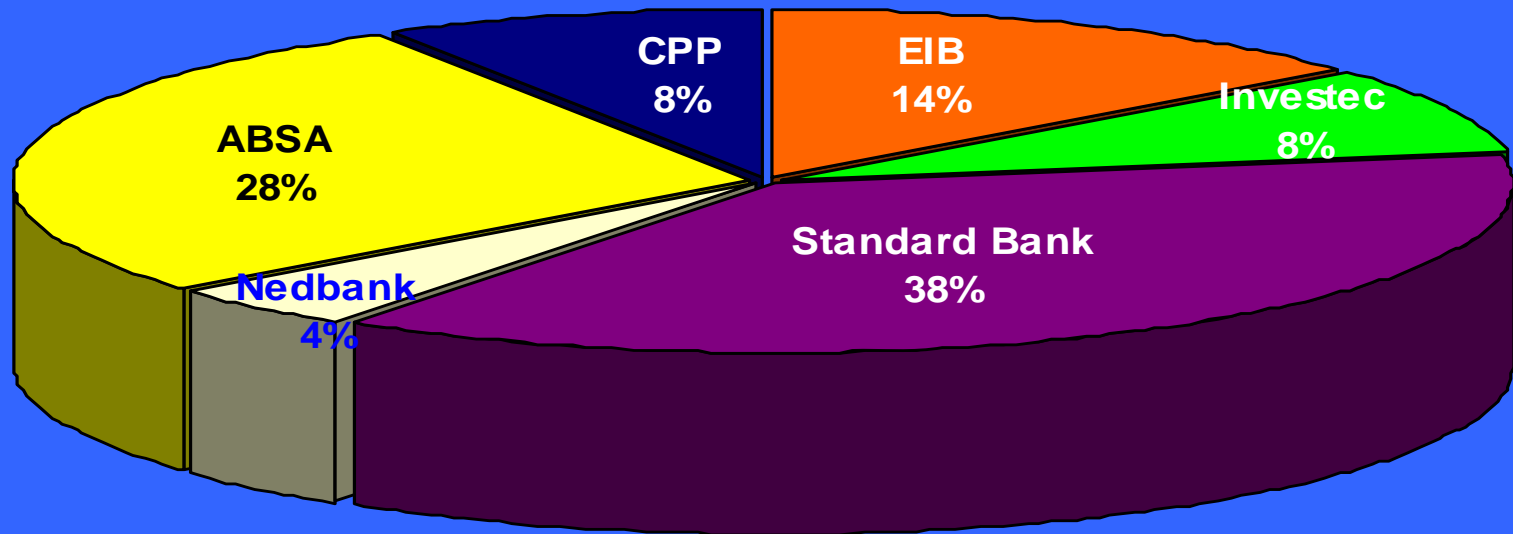


Total facilities R 2 050 million:

ABSA	R300m
CPP	R450m
EIB	R800m
DBSA	R500m

VRESAP Sources of Funding – R269 million

Total funding for year
R 269 million



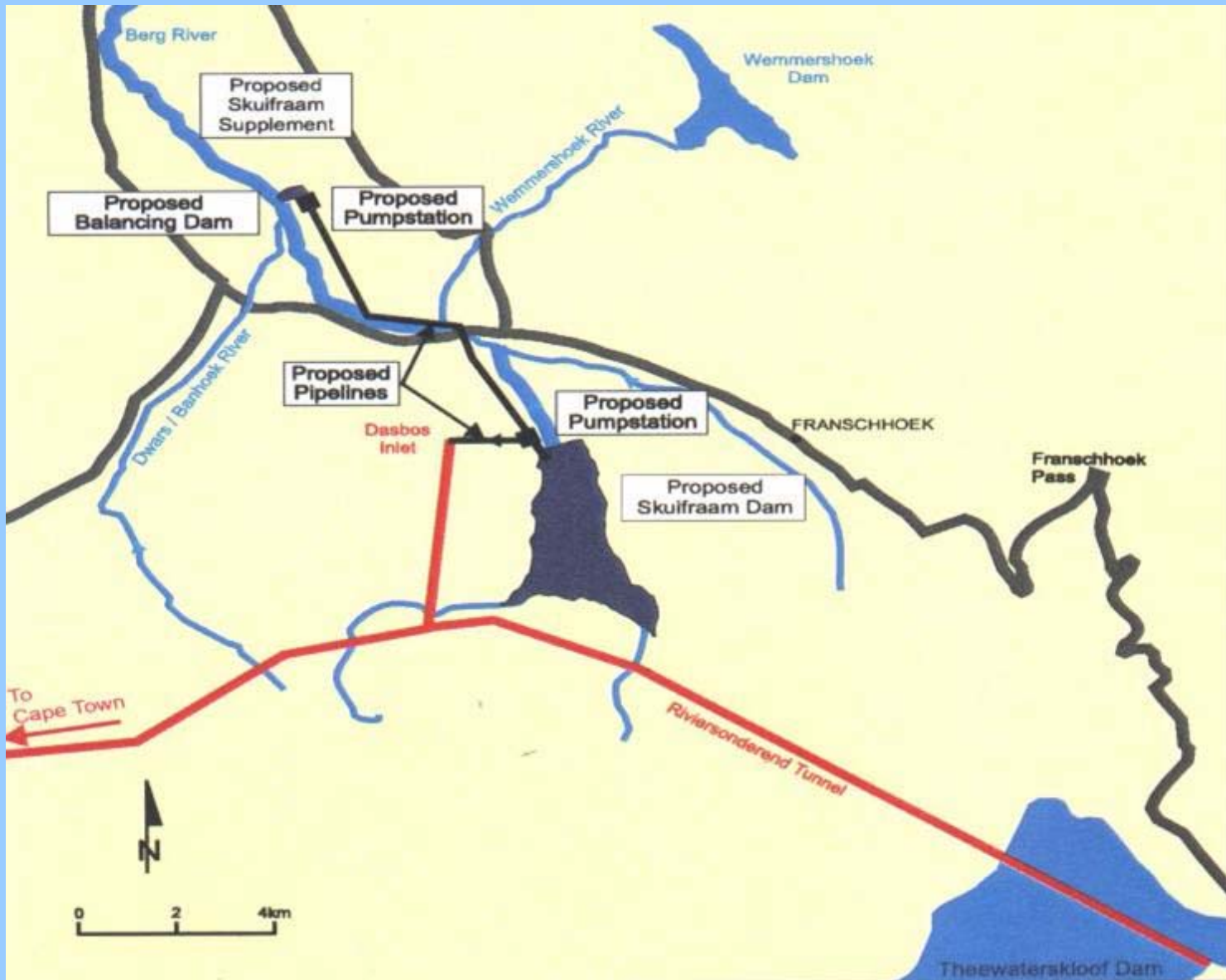
Total facilities: R 3 600 million

ABSA	R1 000m
CPP	R 300m
EIB	R 500m
Investec	R 300m
Standard Bank	R1 350m
Nedbank	R 150m

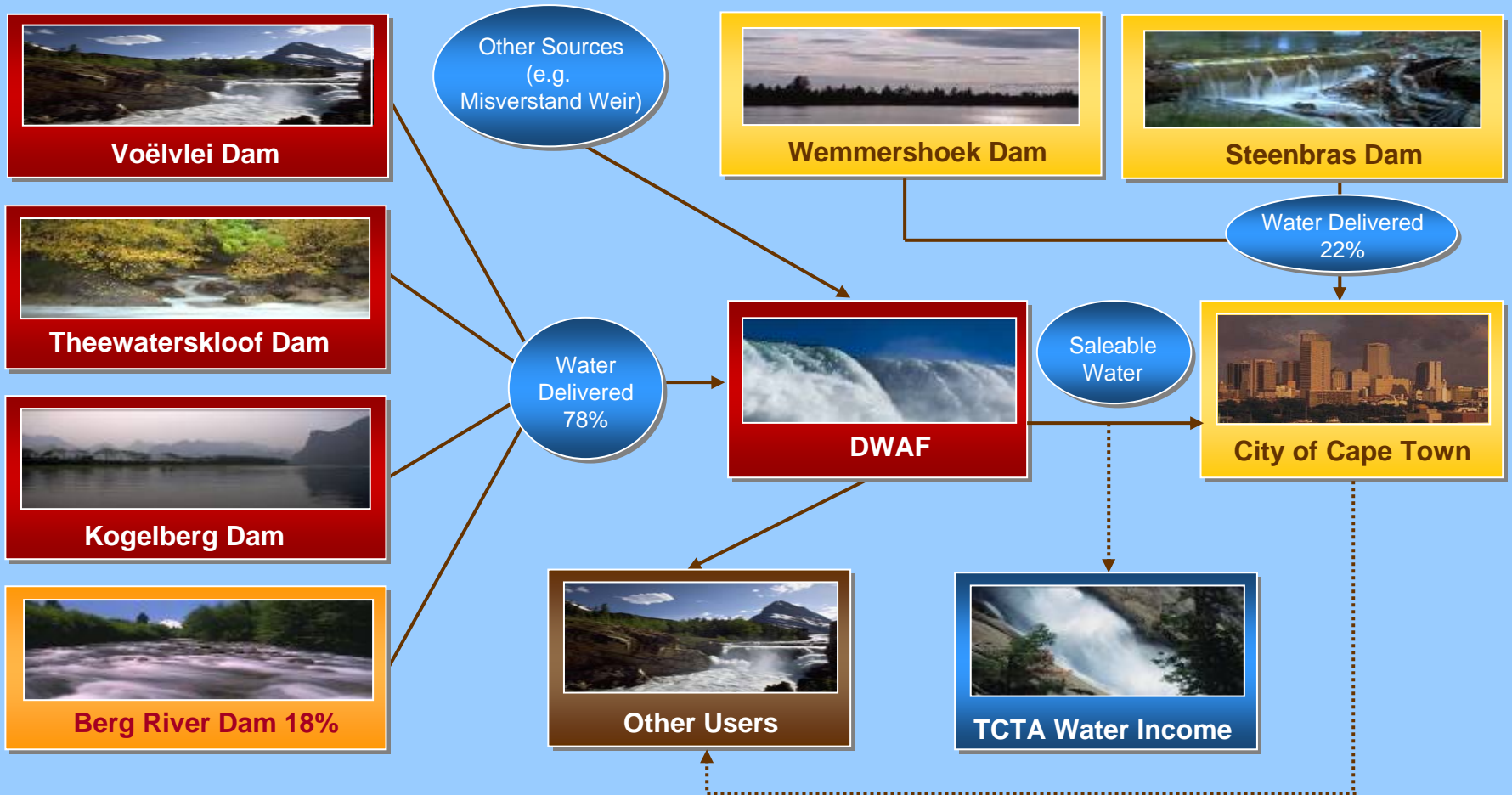
5 Year Funding Requirements per Project

Financial Year	LHWP	BWP	VRESAP	TOTAL (R'million)
2006/07	1 150	465	1 846	3 461
2007/08	1 275	214	972	2 461
2008/09	2 148	264	408	2 820
2009/10	2 002	(27)		1 975
2010/11	1 829	-	-	1 829
				12 546

Berg Water Project Status



Western Cape water system



Project Status: 31 March 2006

Project Component	% Complete	Start Date	Completion Date
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River monitoring	Ongoing	September 2002	
Access Roads	100 %	February 2004	January 2005
Construction Village	85 %	January 2005	May 2006
Dam Contract	50 %	June 2004	December 2007
Dam Impoundment		June 2007	
Supplement Scheme	15 %	July 2005	December 2007
Commencement of water supply		Summer 2007	

La Motte Village

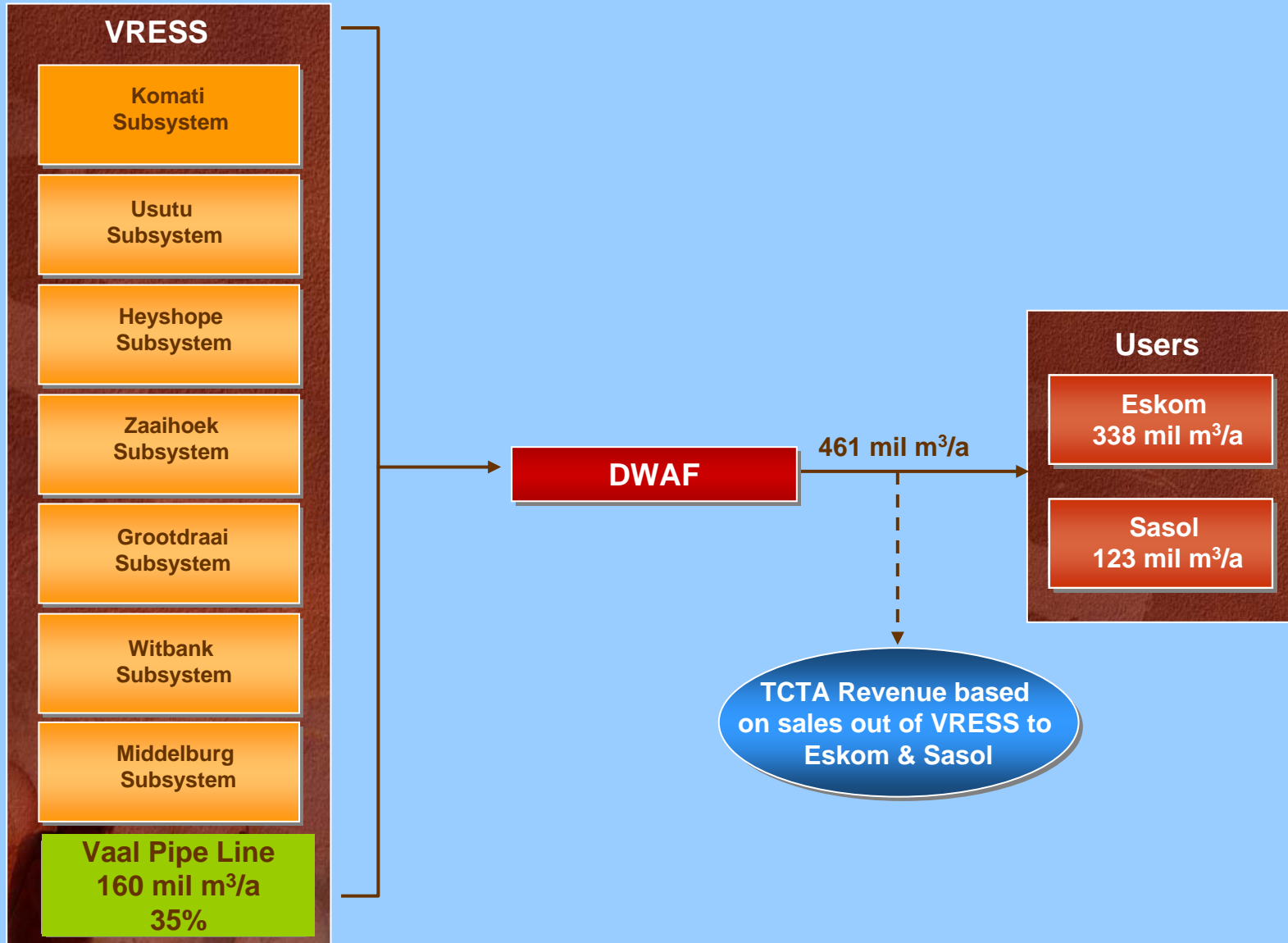


POWER/DONICO JV:	40 HOUSES
BIP 632 cc (FRANSCHHOEK):	20 HOUSES
BIP 611cc (DWARS RIVER):	20 HOUSES

Vaal Pipeline Project Status



The Vaal River Eastern Sub-System



Project Status: 31 March 2006

Project Component	% Complete	Start Date	Completion Date
<u>Pipeline contract</u>			
Contractor: MPC JV			
Contract amount : R1.39 billion		November 2005	October 2007
Manufacturing and delivery	2%		
▪ Pipeline construction	1%		
<u>Civil works & MEIPcontract</u>			
Contractor : COVEC-MC JV			
Contract amount : R 417,9 million		January 2006	October 2007
▪ Abstraction works	0%		
▪ Desilting works	0%		
▪ High-lift pump station	0%		
▪ Access road	0%		

Vaal Pipeline



← Pipe coating at the pipe manufacturing plant



Pipe laying →

Independent Pipe Inspection

- **Service provider: Pipetech**
- **Contract period: 17 months**
- **Contract value: R10.8 million**



Project Timeline

Item	Contract	Status	Timing
Construction:			
■ Pre-qualification of contractors	VO20	✓	May 05
	VO21	✓	June 05
■ Appointment of contractors	VO20	✓	Oct 05
	VO21	✓	Nov 05
■ Commence with construction	VO20	✓	Nov 05
	VO21	✓	Dec 05
■ Commence commissioning			May 08
■ Delivery of water			May08
Environmental:			
■ Environmental Impact Assessment Report to DEAT		✓	Jul 05
■ Record of Decision issued by DEAT		✓	Oct 05

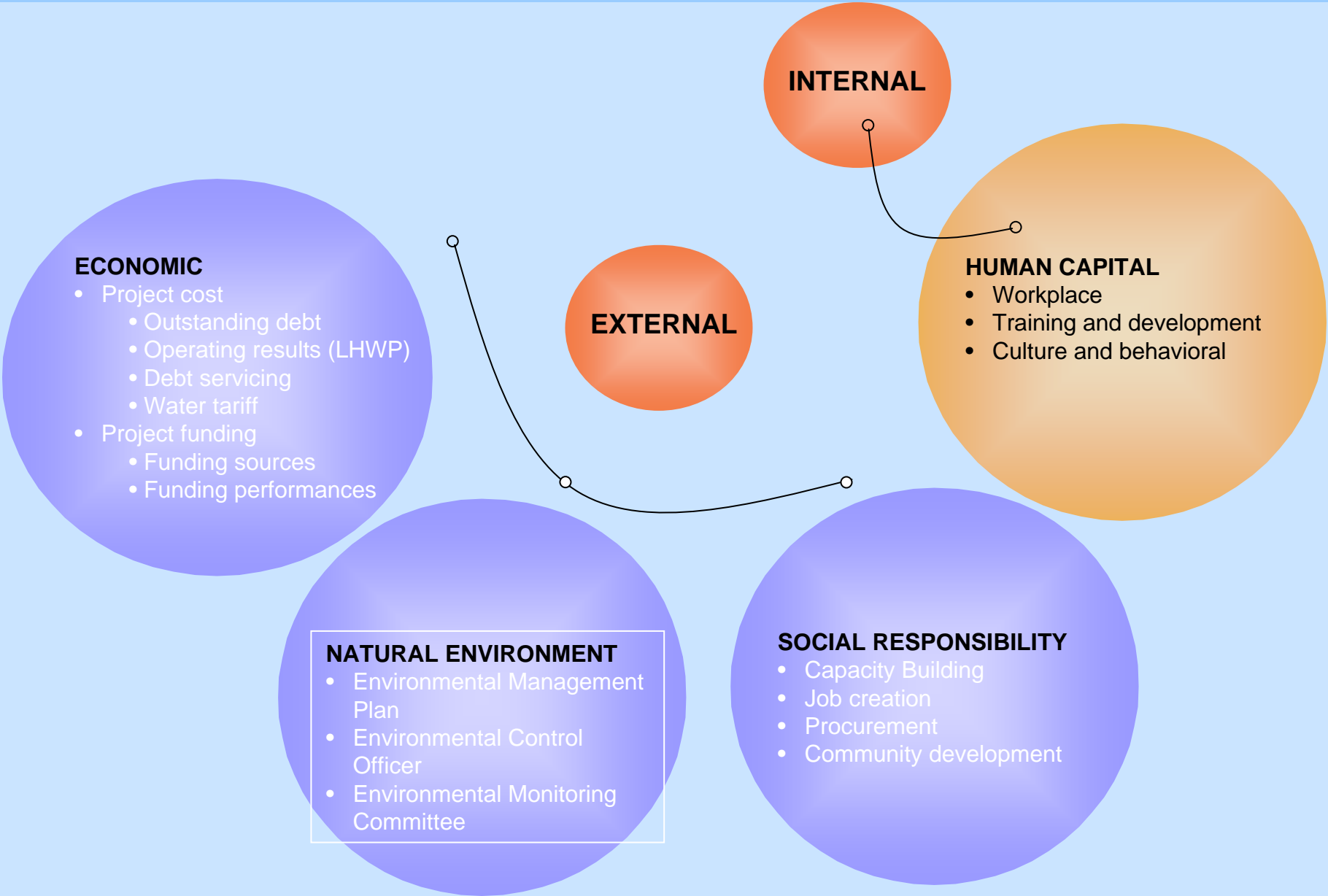
VO20: *Pipe-line installation and supply*

VO21: *Civil structures and mechanical, electrical, instrumentation piping works*

Project Timeline (cont.)

Item	Status	Timing
■ Funding:		
■ Credit rating agency appointed	✓	
■ Credit rating announcement		Oct 05
■ Bridging finance	✓	Aug – Oct 05
■ Long-term project funding		
* Discussions with potential funders	✓	Sep – Oct 05
* Funding evaluation	✓	Oct – Nov 05
* Funding finalised / Signing of agreements	✓	Nov – Dec 05
■ Commercial Paper Programme	✓	Sep – Oct 05
■ Revenue:		
■ First receipt of revenue		Oct 07

Sustainability Report



Sustainability Principles

- Fundamental to **all aspects** of TCTA's business
- Economic performance is ability to meet and deliver on the requirements of the projects within time & budget
- Full commitment to complying with national environmental legislation, while producing quality standards
- A socio-economic strategy, tailored to the needs of the community – contained in the EMP of each project
- Attraction and retention of high calibre staff, capable of sustaining high performance levels.

Social Empowerment

Job creation	BWP	VRESAP
Total person years (full equivalent)	1 480	Not converted yet
Local person years	828	
HDI	90%	
Numbers of local jobs on 31/03/06		289
▪ Contractors	811	
▪ Working for water	636	
Total jobs 31/03/06		611

Social Empowerment (2)

Training	BWP	VRESAP
Contractors:		
▪ Total person days	11 102	
▪ Local person days	9 908	Women in construction training (6 on mini MBS)
▪ Number of local people	5 890 (incl. 2 500 site safety related training)	469
TCTA:		
▪ Advance training in basic construction skills	87 graduates	

Social Empowerment (3)

BE and BEE procurement	BWP	VRESAP
Contractor spend:		
▪ BE and BEE	R109 million	R66 million
▪ Local enterprises	R13 million	R26 million
▪ SMME	R93 million	R89 million
	All targets set by TCTA exceeded	All targets set by TCTA exceeded
TCTA spend :	R262 (91%) million	R455 million (99%)

Procurement at organisational level

TCTA's direct procurement spend for the year was R782 million, of which R731 million is BEE spend.

- **Black companies**
7% (R52 million)
- **Black empowered companies**
87% (R679 million)
- **Black influenced companies**
1% (R6 million)

Human Capital

- **Workplace Environment**
 - Organisational Development and transformation
 - Human Resources alignment study
 - Employment Equity
 - Employee Wellness Programme

- **Training & Development - R1 million (260 days)**
 - Learning and Development programmes
 - Performance Management
 - Team Effectiveness Programmes
 - Employee Retention Strategies

- **Culture & Behaviour**
 - TCTA's formula for Success
 - Employer of Choice
 - DNA

TCTA diversity profile

Employment profile including co-sourcing, secondments and contractors as at March 2006
(90 staff)

By occupational category

Legislators, senior officials and managers	17%
Professionals	33%
Technicians and associate professionals	31%
Clerical and administrative	19%

By race and gender

Black female	29%
Black male	29%
White female	25%
White male	17%

Roadmap to Establish Agency

2005

2006

2007

2008

